BANCO BPM
GROUP

Consolidated 2020 Annual Report

Consolidated 2020
Annual Report

This document is a courtesy translation into English of the document in Italian approved by the Board of Directors. In case of any discrepancies or doubts between the English and the Italian versions of the Report, the Italian version prevails.

Banco BPM S.p.A.

Registered office: Piazza F. Meda, 4 - 20121 Milan, Italy
Administrative headquarters: Piazza Nogara, 2 - 37121 Verona, Italy
Fully paid up share capital as at 31 December 2020: Euro 7,100,000,000.00
Tax Code and Milan Companies' Register Enrolment No.: 09722490969
A company representing Banco BPM VAT Group, VAT no. 10537050964
Member of the Interbank Deposit Guarantee Fund and the National Guarantee Fund
Parent Company of Banco BPM Banking Group
Enrolled in the Bank of Italy Register of Banks and the Register of Banking Groups

OFFICERS, DIRECTORS[1] AND INDEPENDENT AUDITORS AS AT 31 DECEMBER 2020

Board of Directors

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

Board of Statutory Auditors

Chairman	Marcello Priori
Standing Auditors	Maurizio Lauri
	Wilmo Carlo Ferrari
	Alfonso Sonato
	Nadia Valenti
Alternate Auditors	Gabriele Camillo Erba

General Management

Joint General Manager	Domenico De Angelis
Joint General Manager	Salvatore Poloni

Manager responsible for preparing the Company's financial reports

Gianpietro Val

Independent Auditors

PricewaterhouseCoopers S.p.A.

[1] pursuant to the resolution of the Shareholders' Meeting held on 4 April 2020, the only Board Director able to delegate powers as at 31 December 2020 is the Chief Executive Officer. For further details on the composition and governance structure, refer to the Report on corporate governance and ownership structure pursuant to Art. 123-bis of Italian Legislative Decree no. 58/1998, published on the website www.gruppo.bancobpm.it, in the "Corporate Governance" section.

CONTENTS

NOTICE OF CALL OF ORDINARY SHAREHOLDERS' MEETING

Pursuant to articles 13 and 41 of the Articles of Association, the Ordinary and Extraordinary Shareholders' Meeting of Banco BPM S.p.A. shall be convened on single call on **Thursday, 15 April 2021, at 10:30 a.m. in Lodi, at Banco BPM, Via Polenghi Lombardo no. 13** to discuss and resolve on the following

AGENDA

Ordinary meeting

1) Approval of the financial statements as at 31 December 2020 of Banco BPM S.p.A., accompanied by the reports of the Board of Directors, the Board of Statutory Auditors and the Independent Auditors. Presentation of the consolidated financial statements of the Banco BPM Group.
2) Proposals regarding the result for the year 2020, in accordance with that set out in detail in the Directors' Report. Relevant and consequent resolutions.
3) Report on the remuneration policy and on compensation paid of the Banco BPM Group 2021 (section I and section II).
   3.1 Approval of the remuneration policy (section I) pursuant to legislative provisions in force. Relevant and consequent resolutions.
   3.2 Approval of the report on compensation paid in 2020 (section II) pursuant to legislative provisions in force. Relevant and consequent resolutions.
4) Approval, within the remuneration policy, of the criteria for calculating any amounts to be granted in the event of early termination of employment or early departure from office of all personnel, including the limits set on said amounts. Relevant and consequent resolutions.
5) Banco BPM S.p.A. Stock Award Plans:
   5.1 Approval of the short-term incentive plan (2021). Relevant and consequent resolutions.
   5.2 Approval of the long-term incentive plan (2021-2023). Relevant and consequent resolutions.
6) Request for authorisation to purchase and dispose of own shares for the Banco BPM S.p.A. stock award plans. Relevant and consequent resolutions.
7) Appointment of a Standing Auditor and an Alternate Auditor to the Board of Statutory Auditors. Relevant and consequent resolutions.

Extraordinary meeting

1) Proposed amendments to articles 11.3., 14.6., 20.1.5, 20.1.6., 23.2.1., 23.3.1., 24.4.1, 28.2. and 35.11. of the Banco BPM S.p.A. Articles of Association.

Please note that - considering the Covid-19 (coronavirus) epidemiological emergency - pursuant to what is set forth in article 106 "Rules concerning the shareholders' meetings of companies and entities" of Decree Law no. 18 of 17 March 2020 (so called "Cura Italia"), converted into Law no. 27 of 24 April

2020 and amended by Law no. 21 of 26 February 2021 which converted Decree Law no. 183 of 31 December 2020 into law, **participation in the Shareholders' Meeting and the voting right shall be exercised by those entitled exclusively through the proxy designated pursuant to article 135-undecies of Italian Legislative Decree no. 58 of 24 February 1998** as subsequently amended ("TUF") according to what is specified below, therefore without the physical participation in the meeting of any other party entitled to vote.

Directors, statutory auditors, the meeting secretary, representatives of the Independent Auditors and the designated proxy shall take part in the meeting in compliance with the containment measures established by law, including, if applicable, using remote connection systems, in compliance with applicable legislative provisions in force.

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

PARTICIPATION IN THE SHAREHOLDERS' MEETING

All shareholders with voting rights, for whom within the third trading day prior to the date of the Shareholders' Meeting, i.e., **by 12 April 2021**, the Company has duly received the authorised intermediary's notification certifying that they are entitled to participate in the Shareholders' Meeting and to exercise their voting rights, are entitled to participate in the Shareholders' Meeting exclusively through the designated proxy (the "Designated Proxy"), according to what is set forth below.

In compliance with article 83-*sexies* of the TUF and article 42 of the Joint Order on post-trading issued by Consob and the Bank of Italy on 13/08/2018 ("Joint Order"), the authorised intermediary's notification to the Company shall be based on the records at the end of the accounting day of the seventh trading day prior to the date of the Shareholders' Meeting (**6 April 2021** – "record date").

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

The right to attend and vote at the meeting shall still be valid in the event that the notifications have reached the Company after the deadline of 12 April 2021, provided they are received before the opening of the meeting.

Shareholders - whose shares are already deposited in a custody and administration account with the Parent Company Banco BPM S.p.A. or with Banca Aletti & C. S.p.A., and as such have already been dematerialised - must in any case, under article 42 of the Joint Order, give specific instructions **by 12 April 2021** that the notification be issued, and obtain an immediate copy thereof, to be used as an admission ticket to the Shareholders' Meeting.

For Shareholders whose shares are deposited with other authorised intermediaries, note that, pursuant to the above-mentioned article 42 of the Joint Order, the notification instructions must still be submitted **no later than 12 April 2021**, making sure to obtain a copy of the notification.

ASSIGNMENT OF PROXY AND/OR SUB-PROXY TO THE DESIGNATED PROXY

Pursuant to article 106, paragraph 4 of the "Cura Italia" Decree, those entitled to vote who wish to participate in the Shareholders' Meeting will need to either:

(i) <u>grant proxy - free of charge (except for transmission expenses) - to Computershare S.p.A.</u> - Via Nizza 262/73, 10126, Turin - in its capacity as "Designated Proxy" pursuant to article 135-

undecies of the TUF, with voting instructions on all or some of the proposed resolutions on the items on the agenda.

In this regard, to facilitate sending the proxy and the voting instructions, in the section of the Banco BPM website dedicated to this Shareholders' Meeting, www.gruppo.bancobpm.it "Corporate Governance - Shareholders' Meeting", it will be possible to complete and transmit online via a guided procedure the dedicated form prepared by Computershare, **until 12:00 p.m. on 14 April 2021.**

Shareholders are advised to make use of the online procedure.

Instead of the online procedure, the form downloadable from the same website may also be used and transmitted by 13 April 2021 to the addresses and with the methods specified on such form.

The proxy to the Designated Proxy, with voting instructions, along with an ID - and if the delegating party is a legal entity, a document proving the powers for issuing the proxy - must be transmitted to Computershare S.p.A. at the certified email address bancobpm@pecserviziotitoli.it or via fax to no. 011/0923202, provided the delegating party, even if a legal entity, uses its own certified email account or, lacking this, its own ordinary email account.

The original proxy, voting instructions and a copy of the correlated documentation must be sent to Computershare S.p.A. (Ref. "Banco BPM S.p.A. Shareholders' Meeting Proxy"), Via Nizza 262/73, 10126, Turin.

The proxy shall be valid exclusively for the proposals for which voting instructions have been given. The proxy and the voting instructions be revoked by the above deadline;

(ii) be represented by Computershare S.p.A., Designated Proxy pursuant to article 135-novies of the TUF in derogation of article 135-undecies, paragraph 4 of the TUF, via proxy and/or sub-proxy, with voting instructions on all or some of the proposed resolutions concerning the items on the agenda, with the possibility to that end to use the proxy/sub-proxy form available on the Banco BPM website www.gruppo.bancobpm.it (Corporate Governance - Shareholders' Meeting section) and to send it to Computershare S.p.A., by the deadline specified on the form itself, at the certified email address bancobpm@pecserviziotitoli.it or via fax to no. 011/0923202, provided the delegating party, even if a legal entity, uses its own certified email account or, lacking this, its own ordinary email account.

The Designated Proxy will be available to provide clarifications or information at 011/0923200.

As participation in the Shareholders' Meeting and the exercise of voting rights by those entitled shall take place exclusively through the Designated Proxy, which must be provided with voting instructions on all or some of the proposed resolutions concerning the items on the agenda, and considering the deadline established for the submission by Shareholders of nominations for the role of member of the Board of Statutory Auditors, pursuant to Item 7 on the ordinary meeting agenda, as described below, as well as the deadline established for the submission of any individual resolution proposals referred to below, the proxy forms shall be made available, with the methods laid out above, starting on **1 April 2021**.

There is no electronic voting or voting by correspondence.

ADDITIONS TO THE AGENDA AND PRESENTATION OF NEW RESOLUTION PROPOSALS

Shareholders who even jointly represent no less than 1/40 of the share capital may ask, **by 25 March 2021** (within ten days of the publication of this notice calling the shareholders' meeting), to make additions to the list of items on the Meeting's agenda (with the exception of matters to be resolved by the Shareholders' Meeting, under the law, based on a proposal by the Board of Directors or based on a project or report submitted by the latter, other than those specified in article 125-*ter*, paragraph 1, TUF), specifying in the request the additional subject matters they propose, pursuant to art. 13.3 of the Articles of Association, or proposing additional resolutions on items already on the agenda, in compliance with article 126-*bis* of the TUF.

The written request must be sent to the Company by certified email to the certified email address soci@pec.bancobpmspa.it or by registered mail (Affari Societari di Gruppo, Piazza Filippo Meda, 4 - 20121 Milan).

The entitlement to exercise the right (including ownership of the minimum portion of the share capital specified above) is attested by filing a copy of the notification issued by the authorised intermediary under article 43 of the Joint Order.

Shareholders requesting the addition to the agenda or proposing new resolutions on subject matters already on the agenda shall prepare a report explaining the reasons for the proposed resolutions on new subject matters they are submitting for discussion or the reason for the additional resolution proposals on matters already on the agenda. The report shall be sent to the Board of Directors by the final deadline for the presentation of the request for additions, as described above. The Board of Directors shall make the report available to the public, together with any additional assessment, when it publishes the notice of the additions to the agenda or presents the new proposed resolutions, along the procedures prescribed by current regulations.

Any additions to the agenda or the proposal of additional resolutions on items already on the agenda shall be disclosed using the same procedure prescribed for the publication of the notice calling the meeting, at least fifteen days prior to the date scheduled for the Shareholders' Meeting (31 March 2021).

SUBMISSION OF INDIVIDUAL RESOLUTION PROPOSALS

As participation in the Shareholders' Meeting is permitted exclusively through the Designated Proxy, the shareholders entitled, even if not holding the portion of the share capital specified in the previous paragraph, which intend to make individual resolution proposals on the items on the agenda, must submit them by 31 March 2021 via electronic communication to the certified email address soci@pec.bancobpmspa.it.

Each resolution proposal must specify the agenda topic to which it refers and indicate the specific proposed resolution. Entitlement to make proposals must be certified by the communication set forth in article 83-sexies of the TUF provided by the intermediary for participation in the Shareholders' Meeting and exercising the voting right, along with a copy of a valid ID (for natural persons) or the documentation attesting to the relative powers (for legal entities).

Such proposals, when pertinent to items on the agenda, shall be published by 1 April 2021 on the Company's website in order to allow those entitled to vote to knowledgeably express themselves also taking into account such new proposals and enable the Designated Proxy to receive any voting instructions on them.

RIGHT TO ASK QUESTIONS ON ITEMS ON THE AGENDA

Shareholders with voting rights may ask questions on items on the agenda only before the Shareholders' Meeting, by sending them no later than the end of the seventh trading day prior to the date of the Shareholders' Meeting on single call (i.e., by 6 April 2021) by certified email to the address soci@pec.bancobpmspa.it.

The applicants must deliver to the Company – through their intermediaries – the notifications certifying their entitlement to exercise this right; in the event that they have instructed their intermediaries to issue the notification to attend the Shareholders' Meeting, it will be sufficient to specify the notification reference numbers or at least the name of the intermediary in the application.

Questions received prior to the Shareholders' Meeting shall be answered, at the latest, at least two trading days prior to the date of the Shareholders' Meeting, via publication on the Company's website.

The Company may provide a comprehensive answer to questions covering the same content. No response will be provided if the information requested is already available in "FAQ" format in the dedicated section of the Company's website or if the response has already been published in the same section.

APPOINTMENT OF MEMBERS OF THE BOARD OF STATUTORY AUDITORS

With reference to the resolution concerning the appointment of members of the Board of Statutory Auditors set forth in Item 7 of the Ordinary Shareholders' Meeting agenda, please note that a Standing Auditor and an Alternative Auditor shall be appointed by resolution of the Shareholders' Meeting passed by the relative majority with no list restriction, pursuant to article 35.12 of Banco BPM Articles of Association, all in compliance with provisions of law and regulations in force, including legislative provisions on gender balance, pursuant to which for six consecutive terms of office at least two-fifths of the Standing Auditors elected must belong to the least represented gender. In this regard please note that in the specific situation, this rule requires both candidates to be female.

As described in more detail in the relative Explanatory Report which shall be made available to the public according to what is described below and to which reference is hereby made, Shareholders with a shareholding representing at least 1% (one percent) of the Bank's share capital at the date of submission of the nomination are invited to submit nominations, accompanied by the supporting documentation, by sending them to Banco BPM in due time, and in any event by 31 March 2021.

In this regard and without prejudice to what is set forth in the Explanatory Report on Item 7 of the Ordinary Shareholders' Meeting agenda, the Shareholders are invited to submit the following supporting documentation: *(i)* identification of the Shareholder(s) submitting the nomination with an indication of the shareholding held in the share capital of the Bank, along with a notification from the custodian intermediary attesting to such shareholding; *(ii)* declaration of the candidate accepting the office and attesting, under her own responsibility, that she meets the requirements of suitability set forth by legislation and regulations in force for the Statutory Auditors of listed banks; *(iii)* exhaustive information concerning the personal and professional characteristics of the candidates (e.g., CV), with an indication of the management and control offices held in other companies (also for the purposes of the disclosure pursuant to article 2400, paragraph 4 of the Italian Civil Code, and keeping in mind the limit on the accumulation of offices established by legislation and regulations in force).

For the purposes of the foregoing, Banco BPM shall make available on its website (www.gruppo.bancobpm.it, *"Corporate Governance"* section) the documentation and/or forms required for the submission of Statutory Auditor nominations, with legal methods and in due time to enable Shareholders to submit their nominations.

The above-mentioned documentation must be submitted by [(i) sending it via registered mail to the Segreteria Affari Societari of Banco BPM in Milan, at Piazza Filippo Meda, 4, 20121; or (ii)] electronic communication to the certified email address segreteria@pec.bancobpmspa.it.

The Company shall make the proposals submitted by Shareholders available to the public with the methods set forth by applicable regulations.

SHARE CAPITAL INFORMATION

The share capital subscribed and paid in by the Company at the date of this notice totals Euro 7,100,000,000.00 subdivided into no. 1,515,182,126 shares with no nominal value. At the date of this notice, the Company holds 6,125,659 own shares.

DOCUMENTATION

The Directors' explanatory reports on each of the items on the agenda, including resolution proposals, together with all the other documentation to be published before the Shareholders' Meeting, shall be made available to the public at the registered office of Banco BPM S.p.A. and at Borsa Italiana S.p.A., and also published on the Bank's website (www.gruppo.bancobpm.it, "*Corporate Governance – Shareholders' Meeting*" section), as well as on the website of the authorised central storage mechanism www.emarketstorage.com, in compliance with the terms and procedures under the law.

Shareholders are entitled to receive a copy of the documentation once it has been duly filed by sending a request to Banco BPM S.p.A. at the certified email address soci@pec.bancobpmspa.it.

The Bank has also prepared (i) the Corporate governance and shareholding structure report pursuant to article 123-*bis* of Italian Legislative Decree no. 58/1998; (ii) the Consolidated non-financial statement in compliance with Italian Legislative Decree no. 254/2016 and Consob Resolution no. 20267 of 18 January 2018. The documents shall be made available to the public at the registered office of Banco BPM S.p.A. and at Borsa Italiana S.p.A., and also published on the Bank's website (www.gruppo.bancobpm.it, "*Corporate Governance*" section), as well as on the website of the authorised central storage mechanism www.emarketstorage.com, in compliance with the terms and procedures under the law.

This notice to convene – prepared inter alia pursuant to article 84 of Consob Regulation no. 11971/99 and following amendments (Issuers Regulation) – shall be published in compliance with articles 125-bis of the TUF and 13.4 of the Articles of Association, in the daily newspapers "***Il Sole 24 Ore***" and ***"MF"***, as well as with the other methods described above.

To receive additional information on the procedure to attend the Shareholders' Meeting, please contact Banco BPM S.p.A. (Affari Societari di Gruppo, Piazza Filippo Meda no. 4 – 20121 Milan) by calling the toll-free number 800.013.090 dedicated to shareholders, during working days from 9 a.m. to 5 p.m. or by sending a request to the certified email address soci@pec.bancobpmspa.it.

In compliance with Privacy regulations (EU Regulation 2016/679 of the European Parliament and of the Council of 27 April 2016), the Data Controller is Banco BPM S.p.A.. For full disclosure on data processing with respect to the exercise of rights related to the Shareholders' Meeting, please visit the website www.gruppo.bancobpm.it, "*Corporate Governance* – Shareholders' Meeting" section.

Lastly, the Bank reserves the right to add to and/or amend the content of this notice if necessary as a result of the evolution of the current Covid-19 emergency situation.

Milan-Verona, 9 March 2021

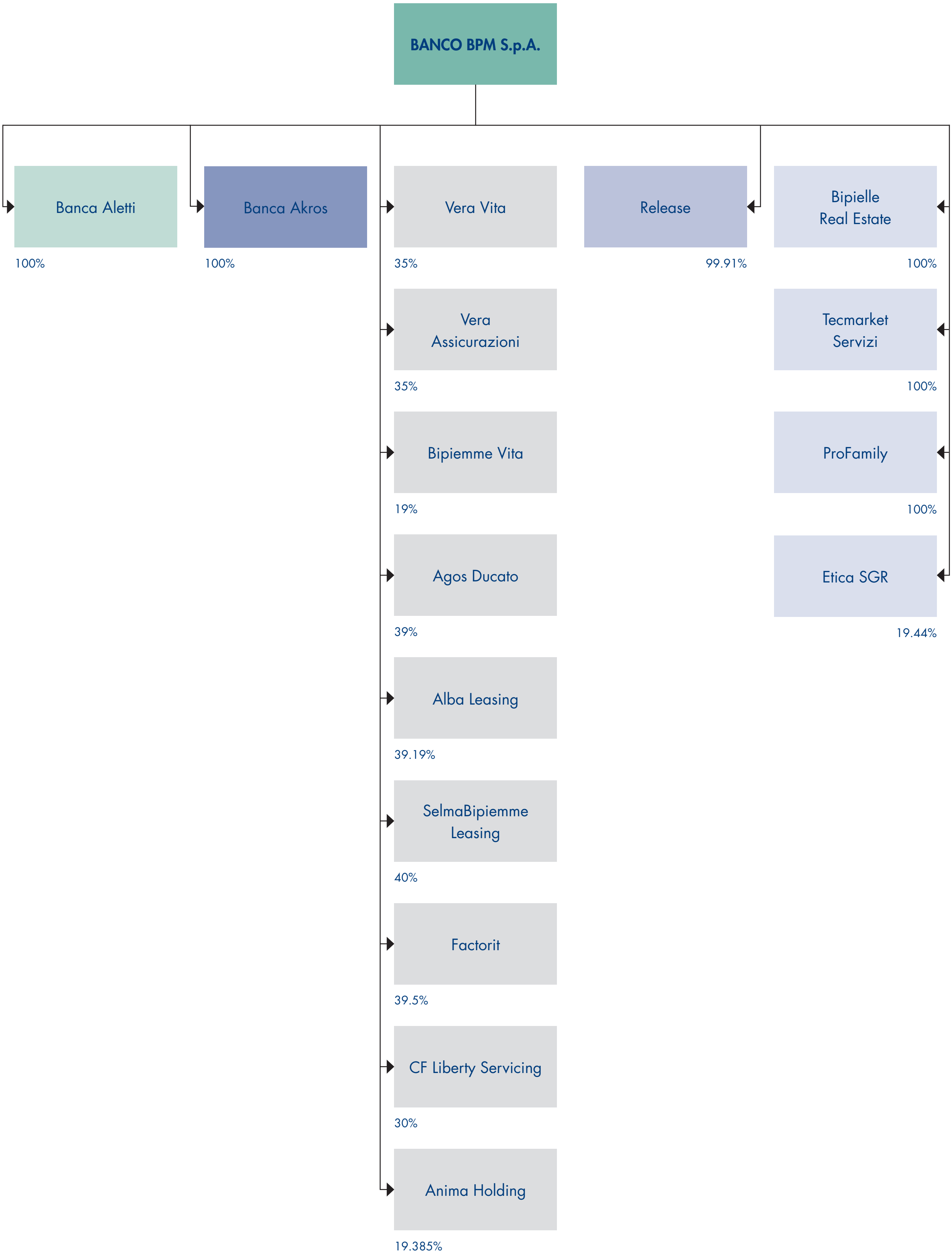
On behalf of the BOARD OF DIRECTORS

The Chairman

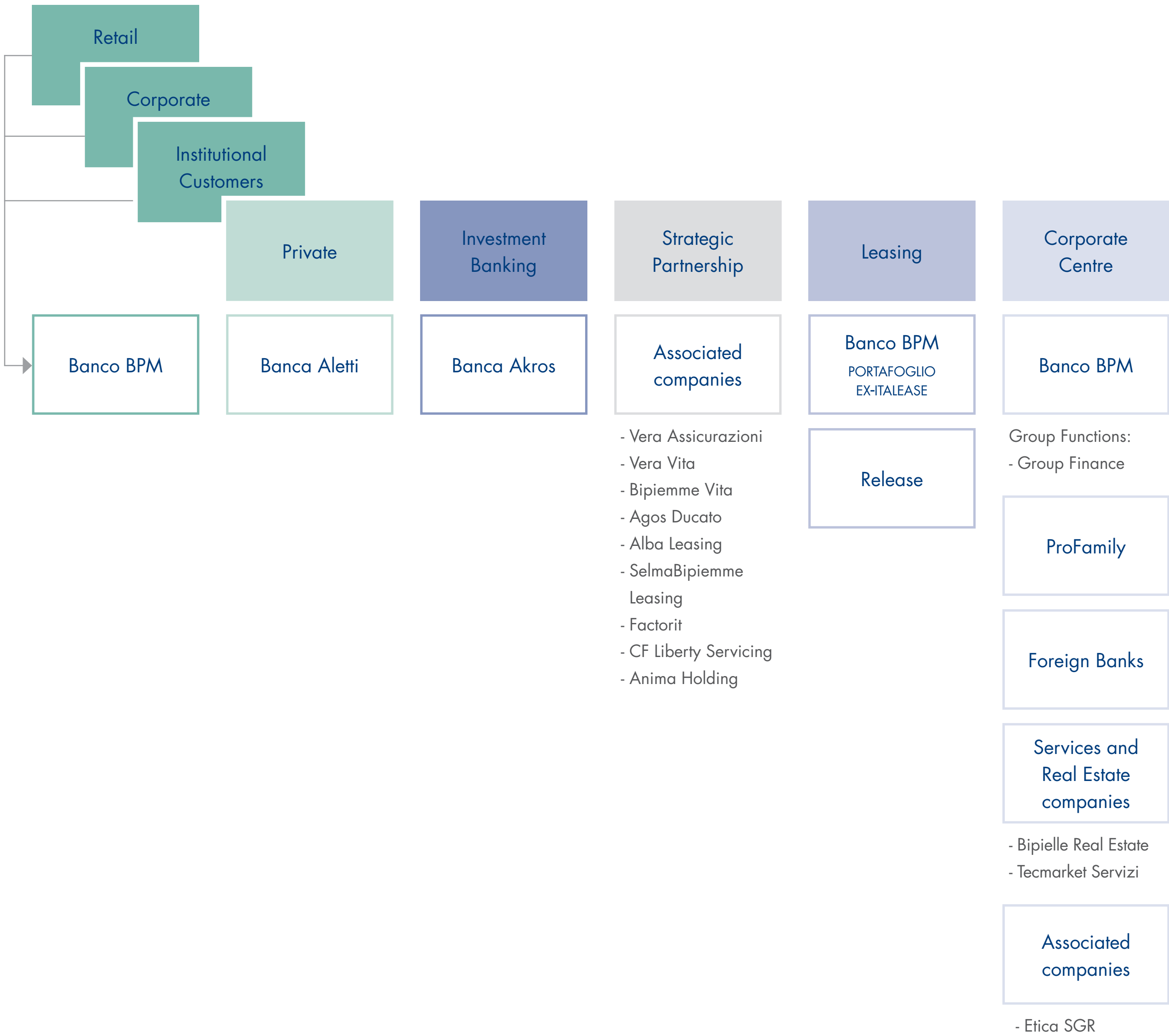
(Mr Massimo Tononi)

Reports on operations and consolidated financial statements for the year

GROUP STRUCTURE: MAIN COMPANIES



GROUP STRUCTURE: BUSINESS LINES



GROUP TERRITORIAL NETWORK

N° BRANCHES

●	NORTH	1,383
●	CENTRE	275
●	SOUTH AND ISLANDS	150
	TOTAL	1,808

Banco BPM Group Branches in Italy	Number
Banco BPM	1,752
Banca Aletti	55
Banca Akros	1
Total	**1,808**

Presence abroad

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

Group financial highlights and economic ratios

Highlights

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

(millions of euro)	2020	2019 (*)	Change
Income statement figures			
Financial margin	2,113.4	2,112.3	0.0%
Net fee and commission income	1,663.8	1,794.4	(7.3%)
Operating income	4,151.8	4,349.6	(4.5%)
Operating expenses	(2,430.1)	(2,604.0)	(6.7%)
Profit (loss) from operations	1,721.8	1,745.6	(1.4%)
Profit (loss) before tax from continuing operations	306.1	1,076.4	(71.6%)
Profit (loss) after tax from continuing operations	292.6	912.2	(67.9%)
Parent Company's profit (loss) for the year	20.9	797.0	(97.4%)

(*) The figures relating to the previous year were restated to guarantee a like-for-like comparison with the reclassification criteria used for 2020.

(millions of euro)	31/12/2020	31/12/2019	Change
Balance sheet figures			
Total assets	183,685.2	167,038.2	10.0%
Loans to customers (net)	109,335.0	105,845.5	3.3%
Financial assets and hedging derivatives	41,175.6	37,069.1	11.1%
Group shareholders' equity	12,225.2	11,861.0	3.1%
Customers' financial assets			
Direct funding	116,936.7	109,506.3	6.8%
Direct funding without repurchase agreements with certificates	120,141.1	108,879.8	10.3%
Indirect funding	94,807.3	92,672.2	2.3%
Indirect funding without protected capital certificates	91,575.9	89,742.9	2.0%
- Asset management	59,599.2	58,324.9	2.2%
- Mutual funds and SICAVs	40,797.6	39,049.8	4.5%
- Securities and fund management	3,945.2	3,904.4	1.0%
- Insurance policies	14,856.4	15,370.7	(3.3%)
- Administered assets	35,208.1	34,347.4	2.5%
- Administered assets without protected capital certificates	31,976.7	31,418.0	1.8%
Information on the organisation			
Average number of employees and other staff (*)	20,776	21,013	
Number of bank branches	1,808	1,808	

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

The following table shows several alternative performance measures (APM) identified by directors to facilitate the understanding of the economic and financial performance of Banco BPM Group's operations. The APMs are not envisaged in IAS/IFRS and, although they are calculated based on financial statements data, they are not subject to a full or limited audit.
The aforementioned measures are based on the guidelines of the European Securities and Markets Authority (ESMA) of 5 October 2015 (ESMA/2015/1415), incorporated in CONSOB communication no. 0092543 of 3 December 2015.
In line with the guidance contained in the update of the document "ESMA32_51_370 – Question and answer – ESMA Guidelines on Alternative Performance Measures (APMS)", published on 17 April 2020, no changes have been made to the APMs to take into account the effects of the Covid-19 crisis.

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

Financial and economic ratios and other Group figures

	31/12/2020	31/12/2019 (*)
Alternative performance measures		
Profitability ratios (%)		
Return on equity (ROE)	0.17%	7.20%
Return on assets (ROA)	0.01%	0.48%
Financial margin / Operating income	50.90%	48.56%
Net fee and commission income / Operating income	40.07%	41.25%
Operating expenses / Operating income	58.53%	59.87%
Operational productivity figures (thousands of euro)		
Loans to customers (net) per employee (**)	5,262.7	5,037.0
Operating income per employee (**)	199.8	207.0
Operating expenses per employee (**)	117.0	123.9
Credit risk ratios (%)		
Net bad loans / Loans to customers (net)	1.34%	1.47%
Net unlikely to pay / Loans to customers (net)	2.55%	3.70%
Net bad loans / Shareholders' equity	11.96%	13.15%
Other ratios		
Financial assets and hedging derivatives / Total assets	22.42%	22.19%
Total derivatives / Total assets	1.45%	1.24%
- net trading derivatives / total assets	1.41%	1.17%
- net hedging derivatives / total assets	0.04%	0.06%
Net trading derivatives (***) / Total assets	0.21%	0.41%
Net loans / Direct funding	93.50%	96.66%
Regulatory capitalisation and liquidity ratios		
Common Equity Tier 1 ratio (CET1 capital ratio) (****)	14.63%	14.76%
Tier 1 capital ratio (****)	15.85%	15.42%
Total capital ratio (****)	18.75%	17.73%
Liquidity Coverage Ratio (LCR)	191%	165%
Leverage ratio	5.66%	5.41%
Banco BPM stock		
Number of outstanding shares	1,515,182,126	1,515,182,126
Official closing prices of the stock		
- Final	1.808	2.028
- Maximum	2.456	2.155
- Minimum	1.043	1.620
- Average	1.538	1.897
Basic EPS	0.014	0.527
Diluted EPS	0.014	0.527

(*) The figures relating to the previous year were restated to guarantee a like-for-like comparison with the reclassification criteria used for 2020.

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

(***) The aggregate of net trading derivatives corresponds to the mismatch, in absolute terms, between the derivatives included under Balance Sheet item 20 a) of assets, "Financial assets at fair value through profit and loss - held for trading", and item 20 of liabilities, "Financial liabilities held for trading".

(****) The figures reported as at 31 December 2020 were calculated considering the profit (loss) for the year net of the dividend of 6 cents per share that the Board of Directors decided to propose to the Shareholders' Meeting to be distributed against the reserves of profits from previous years. The figures for the previous year have been restated to take account of the non-distribution of the dividend against the profit (loss) of 2019, consequent to the alignment to that envisaged in the ECB Recommendation of 27 March 2020.

Group report on operations

ECONOMIC SCENARIO

The Covid-19 pandemic

The economic scenario in 2020 was very turbulent, characterised in the first quarter by the spread of the Covid-19 pandemic and the structural change in pace that this event imposed on the global economy, marking a historic turning point with respect to the recent past. The first outbreak took place in China, back in the second half of 2019. The pandemic then initially spread in Italy, one of the first countries to be seriously hit, and later spread to the USA and Russia some weeks later, subsequently reaching a global scale. After a period of reprieve during the summer, a second wave of infections reared at the end of the autumn, which is still underway.

The first phase of the medical emergency peaked between March and April. However, the economic and social impact was markedly asymmetric in terms of the measures taken to stem the virus (total lockdown in China, passive attitude in Sweden, intermediate intensity measures in the case of Hong Kong) and the extension of the essential sectors that continued to operate. Several countries adopted less unified strategies, imposing partial measures, such as Brazil and India. Others - such as the United Kingdom and Sweden - initially convinced of the validity of a more passive attitude and of herd immunity, were then faced with the exponential increase in infections and deaths, and forced to adopt the strict containment and public health measures which had clearly proven effective in other countries.

The impact on the various economic sectors differed considerably, depending on the exposure of the individual business sectors to lockdowns and social distancing. The sectors most affected, regardless of the country concerned, were tourism, household services (excluding those provided through virtual channels), commercial real estate, raw materials sectors. Manufacturing, in general, felt a lesser impact. Lastly, only a few sectors benefited from the pandemic: for example Food and Beverage, Telecommunications and Healthcare.

As early as January 2020, huge investments were being poured into scientific research to find a way to stop the virus. At the end of February, various organisations worldwide were focussed on developing a vaccine. The announcement in the summer by US President Trump that a vaccine would be available by the autumn, and the encouraging progress of other vaccines, particularly the Russian one called “Sputnik”, registered in August, and the Chinese one called “Sinovac”, fuelled prospects of a way out of the crisis.

Thanks to the preventive/containment measures adopted, the pandemic subsided significantly, especially at the end of the spring in the north-western hemisphere, and the various restrictions cited above were eased, restoring oxygen to production activity and global demand. This exit phase, which was very successful but short-lived, only lasted a few months. Presumably also due to the easing of the lockdown, from the end of the summer the pandemic (in the northern hemisphere) recorded a new violent outbreak, which forced many countries, including Italy, to return to the containment measures, which are still in force today. In the meantime, also thanks to an accelerated approval process, other global pharmaceutical players have made vaccines available and, towards the end of the fourth quarter, the first vaccination campaigns were launched in a large number of countries worldwide.

The international scenario

The pandemic hit at a time when several advanced economies had already shown signs of difficulty and, in some cases, slowdown (Japan, USA, the Eurozone), partly as a result of the trade war between China and the USA. The economic crisis triggered is unprecedented: the lockdown has caused huge short-term economic losses and a decline in global activity that hasn’t been experienced since the times of the Great Depression. The effects of social distancing, although characterised by different intensities per economic-productive sector, have affected, in aggregate, both the demand and the supply side. The global recession appears to be the deepest since World War II, with the largest number of economies suffering a decline in per capita output since 1870. Production in emerging and newly industrialised economies is also expected to contract as a whole for the first time in at least 60 years.

The economic impact of the pandemic is distributed inconsistently in terms of geography and timeline. In many regions, the impact was more significant in the second quarter of 2020. Growth in the third quarter recovered significantly, in general, although it was short-lived: a new downturn is expected in many of the major economies in the fourth quarter, following a return to widespread lockdown measures. China is the only large economy to record a positive growth rate on average in 2020, although considerably lower than that expected at the beginning of the year. Instead, global GDP is expected to fall by -4.5% in 2020 against 2019, the largest decrease since it started to

be recorded, in the 60s, and far surpassing the fall of -0.1% following the Great Depression of 2009. Moreover, while the latter was triggered by a number of events that took place in succession from 2007 onwards, and therefore over the course of several quarters, the pandemic hit the global economy and the markets in a single quarter.
International trade, which had already suffered at the beginning of 2020 from growing protectionism exacerbated by the trade war and by an initial restructuring of global supply chains that had become too inflexible and complex, came to a grinding halt when the pandemic exploded on the scene. In reality, the pandemic simply fuelled trends that were already underway: the interruption or difficulty of supplies made the restructuring more urgent, with a view to improving efficiency and reducing the reach of global supply chains. The RCEP trade agreement signed on 15 November 2020 by China, Japan and South Korea, represented another significant factor.
Overall, the World Bank, which in April had estimated a fall in international trade volumes of -13.4% in 2020 (+0.8% in 2019), revised its estimates in January 2021 to -9.5% in terms of volumes, while Prometeia estimates a similar decline of -9.3% in terms of value (compared to -0.5% recorded in 2019).
To counter the destabilising effects of the pandemic, governments implemented a series of support measures for their national economies. The most common fiscal instrument used was postponing payments of taxes and social security contributions, followed by credit subsidies to firms, income support for families and wage subsidies.

Looking at the main players in more detail, in the first two quarters of the year, the US economy recorded a significant downturn: -5.0% and -31.4 percent respectively for the quarter and annualised. In the second quarter in particular, the more marked fall in GDP fully reflected the extent of the lockdown (more rigid in April). This decline is the highest since that of 8.4% recorded in the last quarter of 2008, during the worst period of the Great Depression. Substantial public support measures proved to be a determining factor in tackling the situation: more than USD 3,000 billion spread over four programmes including the Paycheck Protection Program (PPP) aimed at small businesses and the Stimulus Checks aimed at households, included in the CARES Act. The reversal of the trend was also sustained by a largely expansionary monetary policy, while the purchase programmes of corporate bonds on the primary (PMCCF) and secondary (SMCCF) markets played a key role in recovering confidence in the financial solidity of enterprises and reassuring savers.
Due to the easing of restrictions and the above-mentioned measures, which restored the confidence of economic operators, prospects began to look up from the end of the spring and production activity resumed: retail sales recorded a strong recovery as early as May, with +17.7 month on month. Stimulated by the good performance recorded by the same, after the collapse recorded in April (-11.2% month-on-month), industrial production recorded a sharp acceleration: +5.4% in June.
In the third quarter, also due to the measures adopted, GDP therefore recorded a rise of +33.4% on an annualised basis (after recording -31.4% in the second quarter): this result was driven by the excellent recovery of personal consumption expenditure (PCE) of +41.0% (-33.2% in the previous quarter), private gross fixed investments, +86.3% (-46.6%) - particularly investments in plant and equipment, +68.2% (-35.9%) - and residential fixed investments, +63.0% (-35.6%). On the other hand, public spending recorded an adjustment: -4.8% (+2.5%).
Despite the widespread improvement in confidence and the earnings from production activities in the third quarter (+4.6% yoy), forecasts for the fourth quarter do not appear to be as encouraging: in the wake of the uncertainties that characterised the presidential elections at the beginning of November and the related turn of events, which delayed the approval of further proposed stimulation measures, the estimates available show a slowdown of GDP at -4.0% yoy. The political turbulence surrounding the election of the new President, Joe Biden, and the failure of the departing President to acknowledge his defeat, also made political and legislative action at the end of the year more uncertain, negatively impacting the climate of confidence of households. Following a period of stasis, retail sales fell in November, -1.1% month on month (-0.1% in October) while production activity rose by +0.4% (+0.9% in October). The situation of the labour market continued to be relatively sluggish: following the collapse in the spring months, it recorded a partial recovery: the rate of employment reached 57.4%, although still significantly lower than the 61.0% recorded at the end of 2019.
Available estimates indicate, for the whole of 2020, a fall in GDP of -3.5% (+2.2% in 2019). The decrease is first and foremost due to a fall in gross private investments: -5.3% (+1.7% in 2019). The aggregate suffered in particular due to the decrease in the plant -10.5% (-0.6%), and machinery -5.0% (+2.1%) components, reflecting the slowdown in demand and the climate of uncertainty triggered by the pandemic. Personal consumption spending recorded an increase of +3.9% in terms of goods and a decrease of -7.3% in terms of services. The overall annual change of the aggregate (goods and services) was however negative: -3.9%. Lastly, the contribution to the change of net exports was -0.13%. Consumer inflation for the year is expected to be 1.4% (1.8% in 2019).
In Japan, the economy started 2020 on an uncertain note following the troubled situation recorded at the end of 2019 (-6.3% annualised quarterly GDP in the fourth quarter of 2019). The spread of the pandemic, with devastating

effects on businesses and consumers, pushed Japan into recession for the first time in four and a half years, leading to the deepest collapse since the war. The Government intervened immediately: after initial emergency aid (Yen 500 billion) in February, in March it launched a fiscal package of over Yen 1,100 billion, followed by a third one in April of Yen 117 trillion (which absorbed that remaining from the previous interventions). From the end of the spring, following the gradual weakening of the pandemic, an initial reduction of distancing and lockdown measures was decided, followed by a more extensive reopening of businesses. A fall in annualised GDP of -2.2% was recorded in the first quarter, followed by a more significant decrease in the second of -27.8% and a recovery of +22.9% in the third. In the latter case, the driving role of exports was a determining factor (+7.0% on a quarterly basis) reflected - first and foremost - by demand from the USA and, above all, from China. Instead, domestic demand continued to be weak: investment in construction fell (-5.4%) as did that in plant and machinery, albeit to a lesser extent (-2.9%). The figures for the fourth quarter are expected to be penalised by the resumption of the pandemic. Furthermore, the tone of the labour market was sustained exclusively by Government measures; wages fell in any event, penalising consumption, which continues to be weak. Overall, GDP is expected to fall by -6.0% in 2020 (+0.7% in 2019) - Source: Prometeia - while the inflation rate is expected to fall to +0.1% per year (+0.5% in 2019).
The Chinese economy, the first to be hit by the economic effects of the pandemic, felt the impact above all in the first quarter, GDP fell by -9.8% on a quarterly basis, but already in the second quarter the levels recorded at the end of 2019 had been recovered (+11.5% on a quarterly basis), thanks to the determining role played by manufacturing activity. The recovery was facilitated by the immediate and harsh lockdown and social distancing measures adopted, applied extremely quickly and strictly enforced. This enabled the effects of the pandemic to be rapidly contained: first by curbing its spread and then gradually exhausting its potential, bringing cases to very low levels. A further increase in GDP was recorded in the third quarter of +2.7% compared to the previous quarter, also due to the widespread resumption of the service sector: catering, one of the sectors most hard hit by the consequences of the pandemic recorded a rise (+0.8% compared to the same period of the previous year). The solidity of the recovery was reflected by the tone of monetary policy: initially as a supporting measure, becoming less expansive given the potential overheating of the real estate industry. Initial figures for the fourth quarter are still fairly encouraging: an increase in industrial production of +7.0% yoy in November, and 5.0% for retail sales. For the whole of 2020, estimates (Source: Prometeia) indicate a rise of +2.0% in GDP (+6.1% in 2019) and an inflation rate - given the slowdown in the first half of the year - of 2.8% (4.0% in 2019).
Emerging and developing economies are expected to contract in 2020, due to the pandemic, resulting in the first net increase in global poverty in more than 20 years. In any event, the impact of the pandemic has been disproportionate: more serious for countries that are highly dependent on international trade, on tourism, on exports of commodities (in some countries raw materials can reach an average figure of 75% of exports, particularly energy), as well as on external financing, especially in USD. The recovery of the global economy in the third quarter improved the economic situation of several emerging countries, particularly those exporting metal commodities, while the weakness of the US dollar alleviated the financial difficulties of those with the most exposure in terms of foreign debt in the US currency. Of the major economies, India, which has suffered a significant fall in consumption and a collapse in investments, due to lower domestic demand in the second quarter, is expected to record a decrease of -9.9% in its GDP in 2020. Brazil of -4.9%, and lastly Russia of -3.7%, also penalised by the downturn in oil prices. Indonesia and South Korea - countries more focused on production transformation - are expected to record less negative performances. Benefiting from the successful recovery of China, they are expected to record decreases of -3.0% and -1.2% respectively.
With regard to the prices of the main commodities, efforts to contain the pandemic, as mentioned, have triggered an unprecedented slump in oil demand and prices, and, in the first half of the year, a sharp drop in demand for metals and transport-related goods such as rubber and platinum used for vehicle parts. The almost generalised recovery of activity in the third quarter radically changed the scenario: the prices of metals and above all agricultural commodities, embarked on an uptrend, which at times was significantly bullish. The demand from China, which recovered significantly almost immediately, and the interruptions of the supply chains of several types of non-energy commodities, amplified the overheating of prices for the most popular commodities. Preliminary estimates indicate an annual increase of 4.7% on average in the prices of non-oil commodities and a fall of -33.5% in oil prices. Also thanks to the combination of the above-illustrated factors, international inflation is expected to stay low: +2.7% in 2020 compared to 3.5% in 2019 (Source: Prometeia).

The economy in Europe and Italy

European countries were some of the worst hit by the outbreak of the pandemic, which significantly impacted the economy of the Eurozone. It was one of the first areas to be affected by the spread of the virus and by the restrictive

measures imposed by governments to prevent it, launched progressively by member states from March onwards. Economic activity suffered a rapid and far-reaching contraction, which affected both supply and demand: the extension of measures to severely restrict personal movements and the interruption imposed on entire sectors of economic activity in many areas led to a sharp drop in demand for goods and services. The point of greatest economic slowdown was reached in April, coinciding with the most synchronised phase of the lockdown measures.
The European Commission suspended the Stability Pact by invoking the escape clause, and launched a package of aid in the spring worth around 540 billion (4% of the GDP EU-27), to support employment (SURE programme), credit to businesses (EIB Guarantee Fund), as well as providing precautionary credit to member states to manage the pandemic crisis (Pandemic Crisis Support) within the MES framework, totalling 240 billion, to fund healthcare costs. Interpreting EU regulations on State aid with a degree of flexibility, it then gave impetus to national measures to support critical sectors, by allowing direct compensation to businesses for the damage caused by Covid-19 (including measures in sectors such as aviation and tourism).
On 11 December, following lengthy and difficult negotiations, EU leaders finalised an agreement to extend the EU budget and to approve the Next Generation EU (NGEU) project. This allocates a total of 750 billion (390 billion in subsidies and 360 billion in loans), financed on the market and channelled through a special Recovery and Resilience Fund (RRF), which is added to the integration of existing EU budget programmes. To guarantee an advance of disbursements, national expenses made from 1 February 2020 were deemed admissible for funding. The largest beneficiaries of the RRF are countries with a high level of debt, hit by the pandemic (Italy and Spain *in primis*) and Eastern European countries. Overall, 30% of the NGEU's budget and of the EU 2021-27 budget will be then addressed to expenditure in the fight against climate change.
It is estimated that the increase in public spending, also considering the measures taken by the individual members, will result in an aggregate deficit for the Eurozone of close to around 8.8% of GDP in 2020 (0.6 % in 2019). Fiscal measures were also flanked by unprecedented monetary measures of the ECB to counter tensions in the financial markets and to guarantee extensive credit availability.
Once visible results of the containment of the pandemic were achieved, from the end of the spring, restrictions were relaxed in almost all Eurozone countries, although to different extents and timelines.
The recovery of GDP in the Eurozone in the third quarter far exceeded expectations, with a jump of 12.5%, after the first and second quarters had closed with -3.7% and -11.7% respectively. Consumption was the main driver at +14.0%, followed by public spending at +4.8%, accompanied by a recovery in gross fixed investments of +13.4%. EU and government measures to support the labour market led to a less marked fall in employment figures: after a sharp fall from 73.1% at the end of 2019 to 72.1% in the second quarter of 2020, the employment rate rose again to 72.4% in the third quarter of 2020.
For the fourth quarter, the information available points to a new inversion of the trend, both due to the second wave of the pandemic, which has seen a return to restrictive measures in numerous countries, and to the partial change in consumer spending habits. Preliminary estimates point to a new regression of GDP, -0.7% on a quarterly basis, which would correspond to a final GDP for 2020 down by -6.8% overall. The differences between the main countries in the area are, in any event, rather marked and depend both on the intensity of the lockdown measures adopted and on the sectoral characteristics of the respective economies: Spain is expected to close with the worst downturn of -11.6%, followed by France with -9.2% and Germany, which has curbed the regression to -5.5%. The annual rate of inflation as at December was -0.3% (1.3% in December 2019).

The spread of Covid-19 hit Italy just after China. In the light of the very significant impact, the first generalised social distancing measures were imposed as well as the closure of important production sectors defined as "non essential" from 22 March and for over a month. Also given the earliness of the measures, the Italian economy was one of the most affected in the Eurozone in the first half of the year. In order to deal with the exceptional situation, the Italian Government, alongside the European authorities, prepared a comprehensive set of expansive measures. Initially, it intervened with three decrees, the first of which, known as "Cura Italia" (Heal Italy), worth 25 billion (1.6% of GDP), followed by the "Rilancio" (Relaunch) decree of 55 billion (3.5% of GDP). The main measures aimed at households concerned the strengthening of social shock absorbers, the financing of special leave and the extension of paid leave for workers. On the other hand, the measures relating to businesses sought to finance the issuing of public guarantees for significant values and to introduce an extraordinary moratorium to guarantee liquidity, as well as to grant non-repayable grants for VAT payers that suffered significant falls in turnover and to reduce their tax burden.
After reaching a peak in April, pandemic figures recorded a net improvement from May onwards, and the restrictive measures were gradually relaxed. The economy benefited from the gradual reopening of production activities, which extended as the summer approached. After a jump in May of +42.1% on a quarterly basis - also due to statistical effect - in June, industrial production continued to rise, increasing by +8.2%. The climate of confidence of households rose, although still below pre-crisis levels. For businesses, the improved forecasts showed pronounced differences

between sectors: greater optimism in the manufacturing and construction sectors, against still rather negative forecasts in the services sector.
To boost the recovery, the Government issued the "August" decree, which introduced a further budget gap of 25 billion (1.6% of GDP) and adopted a new third package of support measures, known as "Liquidity", totalling around 75 billion in 2020.
However, from the beginning of August, a second wave of the pandemic materialised, which continued until the end of the year. The new increase of confirmed Covid-19 cases led to the reintroduction of several containment measures, which became progressively more restrictive, and to the definition of different levels of risk by region, which correspond to different degrees of restriction of movements and of production activities. Compared to the first lockdown, these new measures were on the whole more selective and enabled a higher number of production sectors to continue working. On 27 October, the Government adopted a package worth 5.4 billion (0.3% of GDP) to provide rapid support to the sectors hit by the new containment provisions (subsidies to 460 thousand SMEs and the self-employed, and further income support for households). The Government also extended the exemptions from social security contributions for enterprises in difficulty and in the meantime continued with the preparation of the Recovery and Resilience Plan, formulating and gathering projects to be submitted to the European authorities as part of the NGEU project.
The overall balance for GDP shows significant regression in the first and second quarters: -5.5% and -13.0% respectively, followed by a substantial recovery in the third quarter of +15.9%. This encouraging result is due to a combination of a strong increase in household consumption (+12.4%) and in investments (+31.3%), which recovered their pre-crisis levels. The contribution of net foreign demand is the result of higher exports (+30.7%), which surpassed the rise in imports (+15.9%). Instead, in the fourth quarter, a reversal in the trend of economic indicators was recorded (in November production was -1.4% and retail sales -6.9%) as well as a fall in consumer and business confidence with the arrival of the second wave of Covid-19. Preliminary estimates indicate a fall in GDP of -2.0% compared to the third quarter, which translates into a -8.9% decrease in GDP for the whole of 2020.
Consumer prices, both by virtue of the slowdown in growth and the favourable trend of the prices of energy commodities, are estimated at -0.2% (+0.6% in 2019) as a yearly average.
With regard to the labour market, the very widespread use of social dampers enabled the fall in the number of people employed to be relatively contained, -1.9% December 2020 against December 2019, while the rate of unemployment actually fell, 9.0% against 9.8% in December 2019, also reflecting the higher rate of inactivity (people who do not have and are not looking for a job): from 34.2% to 36.1%. Lastly, the number of hours worked fell by -2.5% yoy for employees and by -2.9% for total people employed.
In terms of public finance, the provisions adopted, also taking into account the effects of other financial measures, combined with the effects on tax revenues of the sharp fall in GDP, pushed estimated net borrowing in 2020 to 11.1% of GDP, bringing the ratio of public debt to GDP to 158.7% (155.2% net of Eurozone support). Nevertheless, part of these provisions are temporary, with a limited impact on 2020. The deterioration of the fundamentals did not, however, impact the refinancing capacity of public debt, which was made at continuously falling rates, reducing interest costs.

Monetary policy and the financial markets

The tendency of the global economy to stabilise itself in the last few months of 2019, favoured a positive start for financial markets in 2020 despite a continued deceleration of economic growth. The "Phase 1" agreement between the US and China, while only leading to a partial solution in a number of conflicting areas and the cancellation of existing duties, should have encouraged a recovery of global trade after a very difficult year.
The central banks' attitude had remained expansive with no defined timeframes: the QE in Europe (Asset Purchase Programme - monthly APP of 20 billion) would have ended only after an initial rise in interest rates, while reinvestment would have continued well beyond that.
The central banks' instruments, although extended in duration and now lacking any prospect of normalisation, were generally deemed as insufficient for a revival of the economy in the absence of a more expansionary fiscal policy. The case of Germany was, in this sense, emblematic because of lower expenditure than the rest of Europe despite a large tax surplus.
Countermeasures to fight the virus were initially a cause for regional concern as they would drastically reduce growth in China. Thus, the central banks of the emerging countries most exposed to the slowdown in China's economy (Brazil, Thailand and the Philippines) have encouraged a reduction in interest rates to counter a deceleration in global demand since February.

The spread of pandemic "hotspots" in Europe has led to a shift in monetary policies. This was the case of the ECB on 12 March, with the approval of an extensive package of monetary policy measures:

- new temporary LTROs in view of LTRO III (scheduled for June 2020);
- TLTRO III, with much more favourable conditions delivered, in two stages, at -25 bps and -50 bps below the refinancing rate;
- extension of the APP for a further 120 billion by the end of the year to strengthen the Corporate Sector Purchase Programme (CSPP), which was joined at the end of March by the Pandemic Emergency Purchase Programme (PEPP) with 750 billion provided until the end of the year (or for the pandemic emergency period) and conducted with flexible criteria (capital key limited to the APP); the amount of the PEPP was then increased to 1,350 billion and then to 1,850 billion and extended at least until June 2022 with reinvestments at least until the end of 2023;
- expansion of the CSPP to commercial paper issued in non-financial sectors and the extension of the parameters for the Additional Credit Claims (ACC) framework to cover corporate sectors in Eurosystem refinancing operations.

The FED activated the Term Asset-Backed Securities Loan Facility (TALF) on 9 April, which had already played an important role in supporting the US economy in the aftermath of the 2008-2009 GFC. This after having announced, a few days earlier, the reactivation of the Commercial Paper Funding Facility (CPFF) programme for the purchase of commercial paper, another important instrument in the management of the GFC and subsequently no longer used.
The positive financial market performance in the first 40 days of 2020 followed the evolution of the pandemic with an exceptionally rapid deterioration of the corporate bond market, due to a lack of liquidity. Unlike past crises, this strong correction has affected to the same extent, or sometimes even more significantly, the highest rated segments. The reaction of the stock markets was more analytical, which soon metabolised the asymmetry of the impact at sector level, marking large differences in performance, on one hand, between defensive sectors, cyclical sectors, while on the other hand, between sectors impacted or benefiting from the lockdown.
Once the correction was completed, the American market (DJ Industrial Avg) recovered about 2/3 by the end of the half year, while for Europe (Stoxx 600) and for Italy (FTSE Mib), the recovery was just over half of the correction and at 40% of the same respectively. All of the markets consolidated the levels reached during the summer, with new rallies emerging following the announcement of the Pfizer – Biontech vaccine and the outcome of the US elections. At the end of the year, the Dow Jones closed up 7.2%, the Stoxx 600 down by 4.0%, and the FTSE Mib down by 6.7%. 2020 will go down in history for the performance of the technological indices, which had already fully recovered at the end of May, and which continued to appreciate in the following weeks until the end of August, resuming again from the beginning of November: in the US, over the year as a whole, the Nasdaq 100 recorded a rise of +43.6%. From September, the Social Media component had visibly underperformed against the hardware component, due to anti-trust proceedings, which affected the major providers.
In the financial sector, European banks' share prices fell by an average of around 50% from mid-February onwards, reaching lows after just one month. The underperformance was considerable, and still evident at the end of the first half year, albeit with some brief reactions. The intervention of the European regulator in combating the risk of credit crunch, aimed at preserving the capital endowments of credit institutions by preventing the distribution of dividends, did nothing except further alienate institutional investors from the sector (-33% over the year).
As already mentioned, three events gave new impetus to market prospects in the second quarter:

- 21 July, provisional agreement reached by the European Council on the Recovery and Resilience Facility (Recovery Fund);
- 9 November, announcement of the Pfizer-Biontech vaccine, with availability of 50 million doses by the end of the year and estimated efficiency of 90%;
- 3-13 November, election of Joe Biden and consequent expectations of a partial change in US policies of recent years, particularly regarding the fight against climate change, globalisation and relations with Europe.

The government bond market in Europe initially recorded a strong widening of spreads in view of the rapid worsening of the budget deficit: for Italy the Btp/Bund spread exceeded 280 bps, forcing the European Central Bank to intervene on a growing scale; only from the second part of April were purchases able to effectively counter this trend, forcing a decrease of about 100 bps towards the end of June. In fact, this has consolidated an Italian 10-year return differential of around 100 bps compared to Spain and Portugal, now almost aligned in terms of return.
In the absence of refinancing difficulties, even for countries with high public debt, the rating agencies actually supported the vision of the international financial organisations, which have repeatedly emphasised that fiscal austerity policies are unsuitable to counter the deficit explosion resulting from the Covid crisis. Italy has significantly

benefited from this approach, insofar as, on one hand, it has been able to lower its debt service ratio to GDP due to much lower refinancing costs, despite a debt ratio that has risen from 135% to around 158%, and on the other hand, it has seen the share of debt held by the central bank rise to over 25%, reducing recourse to the market.
The spread of credit default swaps (CDS) relating to European banking issuers widened by around 60 bps in the first three months of the year, before normalising to around 80 bps (20 bps above the beginning of the year) at the end of the half year and around 60 bps at year end. The differential between subordinates and seniors (Itraxx 5Y) increased by more than 100 bps until mid-March, before falling back almost completely between the end of the semester and the end of the year. For Italian banks, the expansion of the spread (a simple average of 6 main banks) was 200 bps within a month of the outbreak of the pandemic, amplified by the initial weakness of the sovereign market. The average spread then returned from mid-May for about 2/3 of the expansion, slightly higher than that at the beginning of the year (166 bps vs.145 bps) and then closed 2020 at lower levels due to the fall in the spread of public debt.

Domestic banking activity

The dynamics of domestic banking activity in the first half of the year were naturally affected by the consequences of the health emergency. Despite the severe slowdown in economic activity, the exceptional credit support measures introduced by the above-mentioned "Liquidity" decree and the extraordinary measures determined by the ECB, mentioned in the previous paragraphs, have created the conditions for a robust expansion of lending volumes to non-financial companies. Demand from companies from the second quarter onwards was driven by liquidity needs, which increased sharply as a result of the reduction in turnover. The disbursement was concentrated on medium-long maturities, partly due to the increasing use of loans guaranteed by the Central Guarantee Fund. Demand for investment needs, on the other hand, fell sharply, as shown by the Bank of Italy's surveys. The monetary measures adopted, in particular the financing guaranteed to the banking system by the TLTRO III auctions, provide the necessary funding to support this expansion. Banks' ordinary funding also recorded significant growth rates, sustained by the accumulation of liquid assets by households, primarily current accounts, following the phase of uncertainty linked to the health emergency.
More specifically, based on the latest figures released by the ABI, the trend of loans to businesses and households (calculated including securitised loans and net of changes in amounts not related to transactions or reclassifications) showed a yoy increase of +5.1% at November. In particular, breaking the figures down by type of borrower, loans to businesses rose at October - latest available data - by +7.4% yoy, while those to households recorded an increase of +2.1%. With regard to credit quality, net bad loans (net of write-downs and provisions already made) were down to 24.5 billion at October compared to 31.2 billion twelve months earlier: -6.7 billion corresponding to -21.5%. The ratio of net bad loans to total loans, again at October, was 1.41% (compared to 1.79% twelve months earlier).
With regard to funding, the trend of total funding (deposits from resident customers and bonds) rose at November 2020 by +6.0% yoy. As at November 2020, deposits rose by over 109 billion compared with a year earlier (+8.3%), also as a result of the preference of households for liquidity, given the forced saving triggered by lockdown measures. Instead, medium/long-term funding, namely through bonds, fell in the last 12 months by -9.3% (a decline of over 22 billion).
The bank interest spread, calculated as the difference between the average interest rate on loans and the average interest rate on total funding from households and non-financial corporate customers, in the same month, remained at particularly low levels: 176 basis points (from 177 bps the previous month), much lower than the over 300 bps recorded before the Great Depression (335 bps at the end of 2007). In the same month, the mark-up (calculated as the difference between the average rate on loans to households and non-financial companies and the 3-month Euribor rate) fell to 277 basis points (-12 bps compared to the same month of the previous year), while the mark-down (calculated as the difference between the 3-month Euribor rate and the rate on total funding), in comparison with November 2019, improved slightly from a negative value of 104 bps to 101 bps.

In November 2020, the assets of open-end funds under Italian and foreign law amounted to 1,106.6 billion, up by +4.9% compared to the previous 12 months, and by +4.1% compared to the end of 2019, 21.6% of which was comprised by Italian funds and 78.4% by foreign registered funds. Net inflows of open-ended funds also rose by 16 billion from the beginning of the year.

SIGNIFICANT EVENTS DURING THE YEAR

The main events which occurred during the year that closed on 31 December 2020 are described below.

Banco BPM's response to the pandemic

2020 was affected by the international Coronavirus epidemic. The Covid-19 emergency, which started in February 2020, escalated rapidly, already involving the entire country by March.
The competent authorities introduced a series of measures to contain the spread of the virus and the negative economic effects generated by the health emergency; for banks, regulatory measures were also adopted with a view to limiting pro-cyclical aspects and encouraging the disbursement of credit.
In this context, characterised by heavy repercussions on the global economy as well as on business operations, the Group has put a detailed series of measures into place in order to protect customers and employees, as well as provide concrete support to businesses, households and the communities in which it operates, in observance of regulations in force.

Right from the first lockdown period, the Group implemented a series of organisational and IT solutions to guarantee the continuity of regular banking activity. More specifically, the Crisis Committee, as envisaged by internal regulations, set in motion organisational and IT solutions right from the first few days of the emergency to enable the Bank's regular operation to continue, with extensive use of smart-working, as well as the necessary protection and prevention measures, in line with the changing government provisions and the ABI protocol.

Following the first measures taken in response to the emergency and the revision of operating procedures, the opportunity arose to implement a structured reaction and coordination mechanism to respond to the changing operating context as effectively as possible. Banco BPM Group therefore launched a structured initiative called the "Reaction Project", with a Steering Committee that involves top management and is chaired by the CEO, and which focuses on three areas, entrusted to three working groups:

1. Commercial: with the objective of proposing targeted ideas to manage relations with the borrowing companies and/or to increase revenues both in the very short term, and sustainable in the "new normal", also in the light of new legislation;
2. Costs: with the objective of drawing up a plan to curb operating costs to counterbalance, wherever possible, the fall in revenue;
3. Balance sheet: with the objective of managing and mitigating the impact of the crisis on asset quality, capital and the funding/liquidity situation.

With regard to the first area, customer relations were quickly redirected towards a greater use of digital channels, with particular attention to checks to guarantee personal physical safety and the IT safety of transactions: measures were implemented to revise the operating and service model to guide customer relations towards "remote" operations and to boost the direct channels already available (Internet Banking, Contact Centre, Phone Banking, ATM). Furthermore, procedures to perform the activities required by government provisions were defined and implemented, as well as developing new IT procedures to speed up the credit approval and disbursement stages and to simplify operations, minimising the need to operate inside the branches, in keeping with the risk profiles and in accordance with the provisions issued by the competent authorities on each occasion.
The Bank also promptly implemented the support measures adopted by the Government, which involved granting moratoriums on mortgage payments, boosting the liquidity available to businesses by granting or renegotiating loans against public MCC and SACE guarantees, and advancing the redundancy fund.
With the contribution of the commercial network and the central functions, the processes and procedures needed to handle the great number of requests received from customers, and which continue to arrive, were updated. To identify the most suitable solutions to be able to implement these provisions, the necessary controls were always guaranteed through the preventive involvement of the control functions.
On the basis of management accounting figures, as illustrated in more detail in the following paragraph, the total amount of loans for which the Bank has granted moratorium measures under the "Heal Italy" Decree and the ABI (Italian Banking Association) protocol amounted to 16.1 billion, of which 12.2 billion in place as at 31 December 2020.

In addition, as part of government measures to support the economy, the Bank allocated over 13.9 billion in loans for companies (already approved or in the process of being approved) covered by the government guarantees, of which 10.2 billion has already been disbursed. For more details on the measures set in place for companies, refer to the paragraph below.
Furthermore, again during 2020, Banco BPM was able to meet the rising trend in the demand for digital services, also thanks to project work undertaken in previous years as part of the Group's Digital Omnichannel Transformation Programme, by developing new products and tools that enabled the even greater use of digital channels by customers and colleagues. All of the main digital adoption indicators recorded a net increase against the previous year: transactions completed on online channel rose by 26%, contributing to bringing the share of "remote" transactions of individual customers to over 80%.
The increase of the mobile channel was even more marked (+25% of user customers and +65% of mobile transactions), also thanks to the launch of the new banking App, designed with a new mobile first approach, which was immediately particularly appreciated by Group customers.
The Commercial approach towards customers also shifted to an increasingly omnichannel logic, with the introduction of an extensive set of customer journeys, based on the use of advanced analytics and on the full integration of remote contact channels with the activities of the Branch/Manager Network, and with the launch of new sales methods, to boost the service in areas with greater added value, such as for example financial consulting and the proposal of wealth management solutions (for which the remote advisory service is now available, also through all personal managers) or the management - as regards small and medium sized enterprises - of new green opportunities resulting from the Government's initiatives known as Ecobonus/Superbonus, following the launch of a dedicated full digital platform.

With regard to the second area, given the significant negative impact on the income statement in terms of lower operating income due to lower business volumes resulting from the lockdown (particularly evident in the second quarter) and to the change in the appetite of savers for financial investments, possible offsets were sought in terms of curbing current expenses. Despite the recognition during the year of extraordinary charges due to several contingency measures relating to Covid (mainly in the management of real estate, of operating support services and physical safety and prevention in the bank's offices and branches, to guarantee the safety of personnel and customers), cost control measures were strengthened and several opportunities for significant savings on non-recurring personnel expenses were seized (which benefited from a series of savings as well as the reduced amount envisaged for the incentive system), enabling a partial offset to be achieved at operating margin level.

Lastly, with regard to the third area, in strict accordance with the instructions of the Supervisory Authority and with the full involvement of the Management Bodies, the Reaction project coordinated activities to review the annual budget during the year, to adapt it to the changing operating and commercial scenario (August 2020), as well as those, still underway, to update long-term forecasts.

Measures to support customers

One of the most important objectives that the Bank set itself right from the beginning of the emergency was to make managing operations as simple as possible for customers, without the need to physically come to a branch.
More specifically, for customers who are individuals, right from the very first stage of the emergency, linked to the identification of the so-called "red zones" in the Lodi area, customers were offered the opportunity to perform a wide range of operations, by simply phoning their branch or sending an e-mail, including:

- information on accounts;
- applying for moratoriums;
- arranging bank transfers for up to 5 thousand euro per week;
- F23 and F24 payments;
- bill payments;
- prepaid top-ups;
- revocations of direct debits (SDD);
- blocking and unblocking payment cards;
- financial advice;
- arranging orders on financial instruments.

With regard instead to business customers, in addition to the online channels already available, they were given the opportunity to use a series of services through certified email or simple email, including:

- requests for information on their accounts;
- sending applications for moratoriums;
- advances on invoices/documents in Italy and abroad;
- loans for importing;
- advances on cash flows/foreign contracts;
- unsecured loans in Italy and abroad;
- short-term credit facilities;
- opening import credit facilities;
- domestic and foreign bank transfers;
- arranging electronic collection orders;
- acceptance and payment requests;
- requests for credit facilities;
- credit facility agreements including unsecured loans in Italy and abroad;
- issue of guarantees;
- addenda to contracts for exempted conditions.

Support to business customers - moratoriums

Right from the beginning, Banco BPM implemented a series of transitory manoeuvres to support its customers.
With regard to the business world, these measures also included some defined as contingency, namely that are addressed to temporarily resolving a difficult situation relating to due dates and the payment of instalments in March and April:

- mass extension of Italian Invoice Advances due in March and April: 55,000 extensions were granted for an amount of 2.4 billion;
- mass extension of Foreign Invoice Advances due in March and April: 46,500 extensions were granted for an amount of 3.7 billion;
- suspension of March payments on all types of loans paid in instalments: 125,000 instalments suspended, with regard to the principal payment, amounting in total to 2.9 billion.

Support to business continued by promptly implementing the provisions of the "Heal Italy" decree law of 17 March 2020. More specifically, Art. 56 of the "Heal Italy" Decree Law envisaged the opportunity for Micro enterprises and SMEs throughout Italy to request:

- the suspension for mortgages and other loans paid in instalments of the payment of the instalments or lease payments until 30 September 2020 (then extended to 31 January 2021 and then to 30 June 2021);
- the extension until 30 September 2020 of the expiry of loans not paid in instalments (then extended to 31 January 2021 and then to 30 June 2021);
- the impossibility to revoke, until 30 September 2020 (then extended to 31 January 2021 and then to 30 June 2021) loans granted against advances in receivables and uncommitted lines of credit in place on the date of 17 March 2020.

In total, in the business segment, around 53,000 moratoriums were granted for a principal amount of 11.4 billion, approximately 90% of these requests were received by e-mail or certified e-mail.
Banco BPM also immediately following the instructions of the ABI to adopt suitable measures to combat the slowdown of the economy due to the pandemic, addressed above all to larger businesses, which were excluded by Art. 56 of the "Heal Italy" Decree Law, giving them the opportunity to request bilateral moratoriums, also with regard to the "Covid-19" Addendum 2019 Credit Agreement - ABI Protocol of 6/3/2020.
With regard to this type of measure, over 700 moratoriums were granted to businesses, for a principal amount of 2.1 billion.

Support to private customers - moratoriums

Banco BPM immediately applied the measures envisaged by Art. 54 of the "Heal Italy" Decree Law of 17 March 2020 - Solidarity Fund for first home mortgage loans, which envisaged the opportunity for Private customers to obtain a moratorium on the payment of first-home mortgage loans by using the "Solidarity Fund for first home mortgage loans", known as the "Gasparrini Fund" or "CONSAP Fund", with the suspension of payments for a maximum of 18 months.

This solution envisaged the payment of a benefit corresponding to 50% of the interest accrued during the suspension period.
The option of requesting these measures was addressed to customers whose debt exposure was not classified as non-performing on the date of publication of the "Heal Italy" Decree.
These benefits were not automatically applied; the beneficiaries that were able to apply were individuals with a mortgage loan agreement for the purchase of a first home up to 400,000 euro, who stated, by way of self-certification, that they had suffered a temporary lack of liquidity as a direct consequence of the Covid-19 pandemic.
More specifically, these measures were addressed to customers in conditions of:
- loss of a permanent or temporary contract of employment;
- loss of a semi-employment contract or a commercial representation or agency agreement (Art. 409 (3) of the code of civil procedure);
- death or recognition of serious handicap or civil invalidity of not less than 80%;
- suspension from work for at least 30 consecutive working days with proof of the suspension status and reduction of working hours for a period of at least 30 consecutive working days, corresponding to a reduction of at least 20% of total working hours with proof of the status of reduction of working hours;
- self-employed and freelance professionals who have suffered a fall in turnover exceeding 33% in the quarter following 21 February 2020 compared to the last quarter of 2019, due to the closure or limitation of their business activity made in implementation of the provisions adopted by the competent authority for the Coronavirus emergency.

With regard to this support measure for consumers, the timing for sending the request for suspension/access to the Fund and for the response to the applicant customer were defined directly by the legislation in question.
Right from the beginning, Banco BPM decided to extend around 90% of all of the applications received, with a view to "giving customers security" whilst awaiting for the processes, rules and procedures to manage the suspensions requested to be updated.
With regard to the Consap moratoriums, Art. 54 of the "Heal Italy" Decree Law, more than 11,000 applications were processed for 1.1 billion suspended payments.
Banco BPM also gave its private customers the opportunity to access other types of moratorium, for around 13,000 applications:
- what is known as "commercial moratorium", which envisages the suspension of the entire instalment for a maximum period of 12 months, for suspended amounts of around 1 billion as at 31 December 2020;
- the ABI moratorium for consumers, for around 500 million.

Lastly, over 4,500 applications were managed for advances from the Wage Guarantee Fund.
In total, in 2020, Banco BPM managed around 42,000 applications for moratoriums against 1,600 managed in normal circumstances in the previous year, continuing to maintain a high level of service for all activities, including core businesses such as mortgage loans, subrogations and in general all transactions addressed to private customers.

Support to business customers - loans

Right from the start, Banco BPM gave its business, merchant, third sector and professional customers the opportunity to obtain new financing facilities by means of liquidity fund dedicated to the emergency totalling 5 billion, broken down as follows:
- fund of 3 billion for businesses throughout Italy belonging to all economic sectors;
- fund of 1 billion for freelance professionals;
- fund of 1 billion for merchants.

These funds are characterised by advantageous economic conditions with respect to ordinary loans and a dedicated procedure.
Support to business customers continued through the implementation of the provisions of the Decree Laws. In implementation of the provisions of the "Liquidity" Decree Law of 8 April 2020, which was subsequently converted into Law no. 40 of 5 June 2020, customers were given the opportunity to access specific loans countersigned by the Guarantee Fund for SMEs.
Specifically, with regard to the "Liquidity" Decree Law - Article 13, paragraph 1, letter m) loans with a 100% guarantee of the amount up to 25,000 euro, this limit was later increased to 30,000 euro with the conversion of the Decree Law into law, SMEs were given the opportunity to access loans for a term not exceeding 10 years, of which

a grace period of 24 months, secured at 100% by the guarantee of Law 662/1996 for SMEs, and whose amount does not exceed 25% of revenues or in alternative, double personnel costs and in any event up to a maximum of 30,000 euro, without the need to have to wait for the approval of the Guarantee Fund.
Banco BPM responded rapidly to the needs of the market and of its customers by establishing, right from the first stages, a task force dedicated to managing these applications. To this end, over 1,300 managers working in branches throughout the country received the appropriate training. This enabled the bank to efficiently and quickly meet the numerous applications for loans, which exceeded 70,000, for a total amount of around 1.5 billion.
With regard to the "Liquidity" Decree Law - Article 13 - Loans guaranteed at 80% and 90% for amounts exceeding 25,000 euro, a threshold which was then increased to 30,000 euro with the conversion of the Decree Law into law, the legislation envisaged the opportunity to apply for short and medium-long term loans to make new investments or for needs linked to working capital, with the use of the guarantee (covering up to 90%).
Again Article 13, letter e) envisages the opportunity to access loans to consolidate debt, granted with the simultaneous disbursement of an additional facility for not less than 10% (then increased to 25% with the conversion of the Decree Law into law) and a lower interest rate than the rate applied to debt consolidation operations; these loans are secured by the guarantee of Law 662/1996, which covers up to 80%.
With a view to assisting the work performed by the managers in the branches, another Task Force of around 200 people was organised, dedicated to speeding up the process.
The numbers recorded by Banco BPM are as follows: around 25,000 loans for a total of over 10 billion.
Lastly, for larger companies or for SMEs (including self-employed and freelance professionals) who have exhausted their capacity to access the Guarantee Fund[1], Article 1 of the "Liquidity" Decree Law envisages the opportunity to obtain loans for a term not exceeding 6 years, with a grace period of up to 24 months, secured by a SACE guarantee for a percentage of between 70% and 90%.
For this type of loan, the numbers recorded by Banco BPM are as follows: around 250 transactions for a total of over 2.4 billion.
Against the above-illustrated application for loans secured by public guarantees, the total amount disbursed as at 31 December 2020 was around 10.2 billion.

2020-2023 Strategic Plan

On 3 March 2020, the 2020-2023 Strategic Plan was approved, based on assumptions and objectives established prior to the global spread of the Covid-19 pandemic and the adoption of the consequent restrictive measures.

Due to the health crisis underway, the assumptions and the objectives underlying the preparation of the 2020-2023 Strategic Plan can no longer be considered current; therefore, given the new context, as better specified in the paragraph on the outlook for business operations, the Bank will prepare a new strategic plan once the prospective framework is better defined.

Derisking activities

Changes to the strategy to manage non-performing loans

The strategy to manage non-performing loans (NPL) pursued by the Group in the first three quarters of the year was focused on recovery activities which excluded the sale of loan portfolios with regard to exposures classified as unlikely to pay and envisaged limited sale objectives with regard to exposures classified as bad loans.
In light of the results of market sounding surveys conducted to monitor the opportunities offered by the NPL market, and considering the incentives for their sale introduced by Art. 44-bis of Decree Law no. 34 of 30 April 2019[2], at a meeting held on 20 October 2020, the Board of Directors of Banco BPM decided to change the strategy for the management of non-performing loans pursued to date by defining a potential sale target also for exposures classified as unlikely to pay and increasing the sale objectives of exposures classified as bad loans.

[1] The amount of the guaranteed loan cannot be higher than the greater between 25% of annual turnover and double the costs of the company's personnel in 2019.
[2] Decree converted with amendments by Law no. 58 of 28 June 2019 to the version amended by Decree Law no. 104 of 14 August 2020, converted with amendments made to the above-cited article by Law no. 126 of 13 October 2020 published in the Official Journal on the same date.

Sale of UTP loans without recourse finalised - Project Django

In December, Banco BPM finalised the sale of two separate portfolios of non-performing loans to AMCO and Credito Fondiario, and of some Single Name positions to other counterparties.
The main sales regarded two portfolios amounting to a total of around 1 billion, represented by 129 exposures, mostly mortgage loans, to corporate counterparties. More specifically, the transaction concluded with AMCO regarded a portfolio comprised by 88 positions with a gross countervalue of 648 million, while the transaction with Credito Fondiario regarded a portfolio with a gross value of 288 million made up of 41 positions. The total amount of the Single Name positions sold to other counterparties was instead around 60 million.

Securitisation of a portfolio of bad lease receivables finalised – Project Titan

Again in December, Project Titan was completed, which related to the multi-originator securitisation of loans, assets and legal relations deriving from non-performing lease agreements.
The transaction, in which Banco BPM, Release and Alba Leasing participated as originators, totalled 335 million and entailed the sale of a portfolio of receivables with a gross contractual value of 145 million (Banco BPM and Release) and the issue of three classes of securities, senior, mezzanine and junior.
The State Guarantee (GACS) will be requested for the senior tranche, which received a rating of BBB from Scope Ratings and DBRS, while the mezzanine and junior tranches were sold to third-party investors.

For further information on the impact of the change in the strategy of NPL management and the sale transactions finalised on the income statement and balance sheet, please refer to Part A – Other significant aspects relating to Group accounting policies in the Notes to the consolidated financial statements.

Other events during the year

Important funding operations completed

On 14 January 2020, Banco BPM carried out a new issue of Additional Tier 1 instruments intended for institutional investors, amounting to 400 million, as part of an effort to increase the efficiency of its capital structure.
Securities are perpetual and, in accordance with current legislation, may be called by the issuer from 2025. In the event of no call in 2025, it may be exercised later, at the coupon detachment date.
The initial six-monthly coupon was set at 6.125%. The loan settlement provides for a number of mechanisms to limit the payment of said coupon as well as temporarily reduce the nominal value. The security, placed mainly in funds, banks and hedge funds, is listed on the Luxembourg Stock Market.

The placement of a senior non-preferred bond issue of 750 million with a 5-year maturity, which is part of the Group's EMTN Programme, was also successfully completed in February 2020. The bond, intended for institutional investors, envisages a fixed coupon of 1.625%.

In 2020, the Parent Company made a further two issues of subordinated Tier 2 liabilities, the first in September for the amount of 500 million; the second in December for the amount of 350 million. Both issues have a 10-year maturity and were subscribed by mainly foreign institutional investors.

A further issue of Additional Tier 1 instruments was finalised in January 2021, for a nominal value of 400 million. For more details, refer to the section dedicated to events occurring after the date of the financial statements, contained in Part A of the Notes to the consolidated financial statements.

Anima Holding

With the Shareholders' Meeting of 31 March 2020 of Anima Holding, for the first time, the new mechanism for the appointment of corporate bodies provided for in the amendments to the Articles of Association approved by the Shareholders' Meeting of the investee company on 29 March 2019 became operational. In accordance with the rules of the new governance regime, with particular reference to the manner in which lists are presented and the adoption of a proportional criterion, Banco BPM has been able to appoint five directors, including the Chairman and the Chief Executive Officer, to a Board of Directors made up of ten members.

The representation on the Board of Directors thus achieved is considered to be evidence of Banco BPM's ability to exercise considerable influence over Anima Holding through its participation in the company's decision-making processes. This evidence is further supported by the increase in the interest held, which has become 19.385% (the stake held at the beginning of the year was 14.27%). This percentage is in fact very close to the 20% threshold, the keeping of which, in accordance with IAS 28, leads to the presumption of the possibility of exercising a significant influence on the management of the investee company. Lastly, the interest is intended to be held on a permanent basis since its strategic nature is confirmed by the close partnership and contractual agreements regarding the distribution of the funds managed by the Anima Group through Banco BPM's network.
As a result of the above, the equity interest held in Anima Holding, which until 31 March 2020 was classified under item "30. Financial assets measured at fair value through other comprehensive income" has been reclassified from 1 April 2020 under item "70. Interests in associates and joint ventures".

For further information on the economic and financial impact of the aforementioned change in classification, please refer to Part A – Other significant aspects relating to Group accounting policies in the Notes to the consolidated financial statements.

Implementation of the recommendation on dividend distributions during the pandemic contained in the communication of 27 March 2020 of the European Central Bank

In the communication dated 27 March 2020, the European Central Bank invited the significant banks subject to its supervision not to proceed with the payment of dividends (not yet resolved) and not to make any irrevocable commitment to pay them for the financial years 2019 and 2020 at least until 1 October 2020, with a view to strengthen their capital endowment and to be able to better support lending to households and businesses in the situation resulting from the ongoing health emergency.
In order to implement the above-cited recommendations, on 31 March 2020, the Board of Directors decided that at the Shareholders' Meeting of Banco BPM called for 4 April 2020, item no. 2 on the agenda (Resolutions on profit allocation and distribution) will not be discussed and voted on by the ordinary session of the Shareholder' Meeting.
Therefore, the net profit reported in the financial statements of the Parent Company Banco BPM as at 31 December 2019, amounting to 942.5 million - after deducting the amount of 105.1 million to be allocated to the unavailable reserve pursuant to Art. 6 of Italian Legislative Decree 38/2005 - was allocated to the Bank's shareholders' equity, in the amount of 837.3 million as a reserve of profits available for distribution.

Renewal of company officers

The Shareholders' Meeting of 4 April, among other resolutions, elected the members of the Board of Directors, including the Chairman and the Deputy Chairman, who will remain in office for the years 2020-2021-2022. On the basis of the votes received from the three lists submitted, the following were elected: Massimo Tononi (Chairman), Giuseppe Castagna, Mauro Paoloni (Deputy Chairman), Marina Mantelli, Maurizio Comoli, Luigia Tauro, Carlo Frascarolo, Costanza Torricelli, Eugenio Rossetti, Giulio Pedrollo, Manuela Soffientini, Mario Anolli, Alberto Manenti, Nadine Faruque and Giovanna Zanotti.
The newly formed Board of Directors subsequently appointed Giuseppe Castagna as Chief Executive Officer of Banco BPM.

The same Shareholders' Meeting also elected the members of the Board of Statutory Auditors, including the Chairman, who will remain in office for the years 2020-2021-2022. The standing Auditors are: Marcello Priori (Chairman), Maurizio Lauri, Nadia Valenti, Maria Luisa Mosconi and Alfonso Sonato.
The alternate auditors are Fulvia Astolfi, Wilmo Carlo Ferrari and Gabriele Camillo Erba.
Subsequently, statutory auditors Maria Luisa Mosconi and Fulvia Astolfi (who has replaced the former) tendered their resignations due to professional commitments and alternate auditor Wilmo Carlo Ferrari took over the office of standing auditor, pursuant to the Articles of Association and the legislation in force, until the next Shareholders' Meeting.

Communication to Cattolica Assicurazioni of the exercise of the call option on the controlling interests held in the joint ventures of bancassurance agreements

On 15 December 2020, Banco BPM informed Cattolica Assicurazioni ("Cattolica") that it had exercised the call option on the 65% interest held by Cattolica in the capital of the joint ventures Vera Vita (which holds 100% of the Irish insurance company Vera Financial DAC) and Vera Assicurazioni (which holds 100% of Vera Protezione).
The announcement of the exercise of the call option made to Cattolica illustrated the reasons demonstrating that the execution, on 23 October 2020, of the corporate and industrial transaction between Assicurazioni Generali and Cattolica, announced to the market on 25 June 2020, led to a change of control over Cattolica and therefore entitled Banco BPM to exercise the call option on the interests held by Cattolica in the share capital of the joint ventures.
The right to acquire a 65% stake in the share capital held by Cattolica in the joint ventures was conferred to Banco BPM by Cattolica in the shareholders' agreement signed in March 2018 (the "Agreement") in the event of, among other things, Cattolica's change of control, also *de facto*, by an insurance company that engages in or controls (directly or indirectly) a company that among other things engages in banking activities or services in Italy. Under the Agreement, the purchase of the 65% interest in the joint ventures is to take place based on own funds (excluding subordinated liabilities) calculated at the date of the end of the quarter prior to the exercise date of the option, and therefore based on data as at 30 September 2020. Based on the data communicated by Cattolica to the Bank, the exercise price of the option amounts to 375.9 million, of which 237.1 million for Vera Vita and 138.8 million for Vera Assicurazioni.
The exercise of the call option was made on the basis of documentation available to the public as the Bank did not have access to documentation relating to the entry of Assicurazioni Generali into the share capital of Cattolica and the relative industrial agreements.
In the correspondence sent to the Bank, Cattolica contested that a change of control had occurred and that the Bank therefore has the right to exercise the call option, as well as the criteria used to calculate the option price; Cattolica also condemned the claimed unsatisfactory performance of the partnership with Banco BPM, reserving all rights to take action to protect itself in the appropriate forums. The Bank wholly rejected Cattolica's claims, also reserving its rights in this regard.
The finalisation of the purchase by the Bank of the interests held by Cattolica in the joint ventures is, in any event, subject to the authorisation of the competent Authorities.
As at 31 December 2020, the shareholding structure of the joint ventures Vera Vita and Vera Assicurazioni, as the transfer of the interests held by Cattolica has not yet been made, is unchanged with respect to the situation prior to the exercise of the call option contested by Cattolica:

- Banco BPM holds 35% of the share capital of the insurance companies, a stake that continues to be classified as interests subject to significant influence;
- In turn, Cattolica continues to hold the controlling interest in the insurance companies and to exercise the management and coordination of the same.

For more details on the valuation of the interests held, on the intangible assets relating to the same, as well as the commitments made under the partnership agreements in place, please refer to the relevant sections of the Notes to the consolidated financial statements.

ECB confirms additional capital requirements for 2021

On 17 November 2020, the European Central Bank, considering the general situation linked to the Covid-19 pandemic, informed supervised banks that it will not issue any SREP decision in 2020. Therefore, the capital requirements already established for 2020 with the 2019 SREP decision are confirmed also for 2021, including Pillar 2 (P2R) capital requirement, which remains stable at 2.25% and which may be covered by CET1 for 56.25%, by Tier 1capital for a further 18.75% and by Tier 2 instruments for the remaining 25%[3].

[3] Regulatory amendment introduced by ECB as a measure to counter the impacts resulting from the COVID 19 pandemic.

Therefore, the minimum requirements that Banco BPM is required to meet for 2021, are as follows[4]:

- CET1 ratio: 8.458% phased-in and 8.518% fully loaded;
- Tier 1 ratio: 10.380% phased-in and 10.440% fully loaded;
- Total Capital ratio: 12.942% phased-in and 13.002% fully loaded.

Therefore Banco BPM Group's capital solidity is fully confirmed and, as at 31 December 2020 far exceeds said prudential requirements, both with reference to the effective ratios calculated in accordance with the phased-in criteria in force for 2020[5]:

- Common Equity Tier 1 ratio: 14.63%
- Tier 1 Capital ratio: 15.85%
- Total Capital ratio: 18.75%,

and considering the capital ratios calculated on the basis of fully-phased criteria in force[6]:

- Common Equity Tier 1 ratio: 13.26%
- Tier 1 Capital ratio: 14.32%
- Total Capital ratio: 17.21%.

Review of agreements relating to the partnership with Cattolica in the consumer credit sector

On 18 December 2020, an Amendment Agreement with Crédit Agricole S.A. and Crédit Agricole Consumer Finance S.A. was signed, with a view to further consolidating the existing partnership related to the consumer finance activities in Italy of Agos Ducato (in which Banco BPM holds 39%, with the French partner holding 61%), introducing some changes to the agreements signed at the end of 2018.
These amendments include additional opportunities for the investee Agos Ducato to further expand its customer base and improve its cost of funding, together with the extension, for an additional period of up to 24 months, and therefore until 31 July 2023, of the deadline for the exercise of the put option relating to 10% interest held by Banco BPM in the share capital of Agos Ducato, at the previously agreed strike price of 150 million.

Streamlining of the Group's organisational structure

On 30 December 2020, Banco BPM announced that it had signed an agreement with the Trade Unions regarding the voluntary transition to retirement of 1,500 employees, also through the use of extraordinary benefits from the Solidarity fund of the sector. This initiative seeks, inter alia, to encourage generational turnover and youth employment, envisaging 750 new hires between 2021 and 2023, and is part of the plan to reorganise and streamline the commercial network which entails the closure of 300 small branches, to be implemented in the first half of 2021.
The transaction, which does not jeopardise the bank's strong roots in the local areas, is aimed at strengthening the more structured branches to offer customers more effective consulting and better services, also thanks to the significant development of digital banking set against a decrease in purely transactional activity.
For further information on the impact of the agreements reached with the trade union organisations on the income statement and balance sheet, please refer to Part A – Other significant aspects relating to Group accounting policies in the Notes to the consolidated financial statements.

Again as part of the plan to reorganise and streamline the commercial network, in 2020, the framework agreement with the Eracle Fund was renegotiated, managed by Generali Real Estate SGR S.p.A., which is the owner of around 450 properties leased to the Group. As illustrated in the paragraph entitled "Real Estate Sector" contained in the

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[4] Said requirements include:
- the Pillar 1 minimum requirement of 8% (of which 4.5% in terms of CET 1, 1.5% in terms of AT1 and 2.0% in terms of Tier 2);
- a Pillar 2 (P2R) capital requirement of 2.25%;
- a capital conservation buffer of 2.50%, to be entirely met by Common Equity Tier 1;
- the O-SII buffer at 0.19% based on the phase-in criteria effective for 2021 (0.13% for 2020) and which will be 0.25% based on the fully-loaded criteria in 2022, to be entirely met by Common Equity Tier 1;
- the countercyclical capital buffer at 0.002% (calculated considering the respective requirements established by the competent national authorities and effective exposures as at 30 September 2020 in relation to the countries in which the Group operates), entirely met by Common Equity Tier 1.

[5] Capital ratios calculated including the profit for 2020, deducting the amount that the Board of Directors resolved to submit to the Shareholders' Meeting in the form of dividend distribution.

[6] See previous note.

next section "Results by business segment", with the afore-mentioned renegotiation, Banco BPM was able to obtain an extension of the right to early withdrawal with respect to the termination dates originally established in the agreements, with specific reference to branches already closed or to be closed soon. Given this greater flexibility, the new agreement envisages an extension from 2026 to 2032 of the termination of the lease agreements on properties that house branches that are expected to continue to operate in the future, as well as at better economic conditions for the Group compared to the previous agreement.

Realignment of tax values to book values of intangible assets

Art. 110 of Decree Law no. 104 of 14 August 2020 (known as the "August" Decree), subsequently supplemented by paragraph 83 of Art. 1 of Law no. 178 of 30/12/2020 (2021 Budget Law), reintroduced the option, for companies that prepare their annual financial statements according to IAS/IFRS accounting standards, to realign mismatches between tax values and book values with regard to certain categories of property, plant and equipment, intangible assets and interests in associates and joint ventures.

In this regard, the Board of Directors, at a meeting held on 26 January 2021, resolved to take advantage of the option to realign the tax value of intangible assets, recognised in the separate financial statements of Banco BPM following the merger by incorporation of the former subsidiary Banca Popolare di Milano, at the higher book value recognised in the financial statements as at 31 December 2020. The total amount of the realignment is 426.9 million.
Against the above-mentioned misalignment, in previous years, deferred tax liabilities had been recognised as a balancing entry in the income statement totalling 141.1 million which, by virtue of the decision taken, have been reversed against the simultaneous recognition of the substitute tax to be paid, corresponding to 3% of the realigned value, namely 12.8 million.
The income statement for the year therefore benefited from a positive impact of 128.3 million recognised in item "300. Taxation charge related to profit or loss from continuing operations".

Following the aforesaid realignment, a taxability restriction in the event of distribution had to be recognised (known as a tax-suspended reserves) for the amount of 414.1 million, corresponding to the higher realigned values net of the substitute tax to be paid.
Lastly, it should be noted that as at the date of preparation of this Financial Report, work continues to assess the convenience and opportunity of realigning other remaining mismatches between tax values and book values with regard to property, plant and equipment, the effects of which would be recognised in the 2021 financial statements, considering that the term for the exercise of the realignment option is 30 June 2021.

Completion of the liquidation of the subsidiary Leasimpresa Finance

Following the completion of the liquidation of the subsidiary Leasimpresa Finance, the company was removed from the relevant Company Register. The completion of the liquidation did not entail significant impacts on the Group's balance sheet or income statement.

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

In the months between the dates of approval of the 2019 draft budget and the financial statements as at 31 December 2020, new claims were limited both in number and as a total additional relief (+21 million). As at 31 January 2021, due to out-of-court settlements reached, claims and disputes for total relief figure exceeding 500 million were settled against claims that on the same date amounted to a total of around 700 million.
For more details, please refer to the Notes to the consolidated financial statements – Part B - Liabilities, Section 10 - Provisions for risks and charges.

Inspections of the Supervisory Authorities - European Central Bank, Bank of Italy and CONSOB

During its standard business activities, the Group is subject to inspections conducted by the Supervisory Authorities. More specifically, as regards the Single Supervisory Mechanism, the Group is subject to the prudential supervision of the European Central Bank (ECB); with regard to specific matters, supervision is the direct responsibility of the Bank of Italy and CONSOB.

Supervisory activities entail making ordinary and recurring inspections at the offices of the Parent Company ("on-site inspection"), accompanied by "remote" inspections, conducted through structured and continuous exchanges of information, as opposed to specific requests for documentation and in-depth examination of specific areas.
In 2018, 2019 and 2020, the Group received numerous on-site inspections, which regarded the following areas: Credit Quality Review (both Corporate and Retail portfolios), Transparency, Operational Risk, Liquidity, Funding Risk, IRRBB, Credit Risk Estimation Models (AIRB) and Market Risk, Anti-Money Laundering, Product Governance and Adequacy of transactions arranged by customers, Internal Governance and Remuneration.

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

At the date of this report, several inspections are still under way or are pending receipt of the Final follow-up letter or the Final Decision from the ECB, on the other hand, for others, only the conclusion of corrective action remains.

Inspections by the ECB

a) assessment of the application relating to the request for authorisation to adopt the new definitions of prudential default (entailing a substantial amendment of the internal model to estimate credit risk pursuant to Delegated Regulation (EU) 529/14 of the Commission): the off-site phase started on 14 September and concluded on 13 November 2020. Banco BPM is awaiting a final decision;
b) on the credit quality of the Retail and SME portfolio: the on-site phase started on 4 February 2020, but later the inspection was cancelled by the ECB due to the Covid-19 health emergency;
c) for the approval of the internal model for credit risk (CF/EAD; ELBE; LGD for non-performing assets; PD) for the following classes of exposure: Corporate - Other; Corporate - SME; Retail - Other SME; Retail - Retail - Secured by real estate non-SME; Retail - Secured by real estate SME: the on-site phase started on 14 October 2019 and ended - in off-site mode due to the Covid-19 health emergency - on 19 March 2020. Banco BPM is awaiting a final decision;
d) regarding Internal Governance Remuneration: the on-site phase started on 9 October and ended on 13 December 2019; Banco BPM received the Final Follow-up letter on 16 December 2020 and, on 13 January 2021, sent the corrective action plan, which is currently under way;
e) for the validation of the Internal model for market risk (VaR, sVaR, IRC) for the following risk categories: "debt instruments – specific risk; Forex Risk": the on-site phase ended on 19 July 2019; on 16 November 2020, Banco BPM received the Final Decision (with the relative authorisation to use the new model) and on 16 December 2020 sent the corrective action plan, currently under way; said action plan included the results of the supplementary decision sent by the ECB in December 2020 on completion of additional horizontal analyses conducted on the outcome of the previous TRIMIX inspection in 2018;
f) as regards liquidity risk and funding risk (Liquidity, Funding Risk and IRRBB): the on-site phase ended on 17 May 2019; on 4 February 2020, Banco BPM received the Final Decision and on 3 March 2020 it sent the corrective action plan, which is currently under way;
g) as regards Operational Risk: the on-site phase was concluded on 25 January 2019 and Banco BPM received the Final Decision on 21 November 2019, indicating the recommendations and qualitative requirements; on 19 December 2019, Banco BPM sent the corrective action plan, which is currently under way;
h) as regards Credit Risk (PD; LGD; CCF) with regard to the Corporate - Other and SME portfolios: the on-site phase started on 17 September 2018 and ended on 16 November 2018; Banco BPM received the Final Decision on 7 October 2020, indicating the binding supervisory measures and recommendations; on 5 November 2020, Banco BPM sent the corrective action plan, which is currently under way;
i) as regards credit risk, the review of credit quality, with reference to the corporate, asset based and project finance (CQR – Corporate, Asset based or Project finance Portfolios): the on-site phase ended on 3 October 2018. Banco BPM received the Final Decision on 21 October 2019, and on 7 November 2019, sent the corrective action plan, which is currently under way;
j) on internal models to estimate credit risk (PD and LGD) with regard to the Corporate and SME portfolios: the on-site inspection phase started on 19 February 2018 and ended on 20 April 2018. Banco BPM

received the final decision on 25 April 2019. The corresponding corrective action plan, sent on 24 May 2019, has been incorporated into the internal model changes referred to in c) above.

Inspections by the Bank of Italy

a) with regard to combating money laundering in on-line transactions set in place through digital channels: the on-site phase ended on 2 August 2019. On 6 November 2019, the outcome of the inspection was presented; on 17 December 2019, Banco BPM submitted the corrective action plan, which is currently under way;
b) regarding the Transparency of transactions and the correctness of customer relations. The on-site phase started on 15 October 2018 and ended on 18 January 2019. On 11 April 2019, the inspection report was presented and penalty proceedings were initiated, following which, on 15 July 2020, Banco BPM was notified of an administrative penalty, pursuant to Article 144 of the TUB (Consolidated Banking Law), relating to "shortcomings in the organisation and controls on transparency". This penalty, amounting to 1.8 million (against a maximum of "ten per cent of total annual turnover"), was paid in full in July 2020. The plan of corrective action - sent to the Bank of Italy on 17 July 2019 - was completed, in accordance with the deadline, on 31 December 2020.

Inspections by CONSOB

With regard to product governance and procedures to assess the adequacy of transactions arranged by customers: the inspection started in April 2019 and ended on 3 December 2019. On 30 July 2020, Banco BPM received a technical note in which - without starting any penalty proceeding - the Authority drew the Bank's attention to several aspects. On 16 October 2020, the Bank submitted the relative plan of corrective action to the Authority, to be implemented progressively, which is currently under way.

RESULTS

Introduction

The balance sheet and income statement are shown below in reclassified format, according to operating criteria, in order to promptly provide information on the general performance of the Group, based on economic-financial data that can be quickly and easily determined.

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

- the impacts arising from Purchase Price Allocations made following past aggregation transactions have been grouped into a single separate item in the reclassified income statement called "Purchase Price Allocation net of taxes". This item groups together the impacts that in the income statement format are recognised in interest income (reversal effect of the fair value measurement of loans), amortisation of intangible assets recognised in item 220 (amortisation of so-called "client relationships") and in the item "Taxation charge related to profit or loss from continuing operations". The figures for the previous periods of comparison were restated on a like-for-like basis;
- the portion of the economic results pertaining to investee companies carried at equity (included in item 250) has been stated in a specific item, which represents, together with the "Net interest income", the aggregate defined as the "Financial margin";
- dividends on shares classified under financial assets at fair value through profit and loss and measured at fair value through other comprehensive income (included in item 70) were re-attributed to the "Net financial result";
- the income relating to the issue of liabilities held for trading represented by Group certificates, which in the income statement drawn up based on Circular no. 262 is shown in item "80. Net trading income", was partially re-attributed to the reclassified income statement item "Net fee and commission income". In greater detail, with an operating outlook, net fee and commission income include the portion of product profitability that remunerates the placement activities performed by the Group. Moreover, fee and commission expense relating to placement services carried out by third party networks are included in the net trading income;
- the economic impact of a change in own credit risk related to the issue of certificates classified in the portfolio of "Financial liabilities held for trading" - included in the item "Net financial result" up to the third quarter of 2020 - has been included, from 30 September 2020, in the customised item "Change in own credit risk on Certificates issued by the Group, net of taxes". This decision derives from the need to isolate the economic effects of the volatility of said own credit risk recorded during 2020, as, with an operating outlook, they are not deemed expressive of actual profitability of the Group. The figures for the previous periods of comparison were restated on a like-for-like basis;
- recoveries of taxes and duties and other expenses (included in item 230) were applied as a direct decrease in other administrative expenses, where the related cost is recorded, instead of being indicated in the reclassified aggregate of "Other net operating income";
- gains and losses on disposal of loans, not represented by debt securities (included in item 100) and gains (losses) from contractual modification without derecognition (booked to item 140), were added, together with net credit impairment losses/recoveries, to the item "Net adjustments to loans to customers";
- ordinary and extraordinary charges introduced for banks due to the single and national resolution funds (SRF and NRF) and the deposit guarantee scheme (DGS) were recognised, net of relative tax effects, in a separate item "Charges related to the banking system, net of taxes", rather than in "Other administrative expenses" and "Taxation charge related to profit or loss from continuing operations";
- the extraordinary charges that are expected to be incurred for early retirement incentives, also through the voluntary use of the extraordinary benefits of the Solidarity Fund for the sector, and for the streamlining of the branch network are presented, net of the related tax effect, in a separate item named "Charges related to company restructuring, net of taxes", instead of in the items "Personnel expenses" or "Depreciation and impairment losses on property, plant and equipment";
- the impact of exercising the option to realign the tax values to the book values of the intangible assets acquired as part of the business combination between Banco Popolare Group and Banca Popolare di Milano Group, recognised under "Taxation charge related to profit or loss from continuing operations"

was re-attributed to a customised item of the reclassified income statement named “Impact of the realignment of tax values to book values”.

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

Consolidated income statement figures

Reclassified consolidated income statement

Reclassified income statement items *(thousands of euro)*	**2020**	**2019 (*)**	**Change**
Net interest income	1,982,561	1,981,069	0.1%
Gains (losses) on interests in associates and joint ventures carried at equity	130,799	131,255	(0.3%)
Financial margin	**2,113,360**	**2,112,324**	**0.0%**
Net fee and commission income	1,663,810	1,794,423	(7.3%)
Other net operating income	56,005	76,024	(26.3%)
Net financial result	318,642	366,847	(13.1%)
Other operating income	**2,038,457**	**2,237,294**	**(8.9%)**
Operating income	**4,151,817**	**4,349,618**	**(4.5%)**
Personnel expenses	(1,581,141)	(1,696,531)	(6.8%)
Other administrative expenses	(593,812)	(638,566)	(7.0%)
Net value adjustments to property, plant and equipment and intangible assets	(255,114)	(268,949)	(5.1%)
Operating expenses	**(2,430,067)**	**(2,604,046)**	**(6.7%)**
Profit (loss) from operations	**1,721,750**	**1,745,572**	**(1.4%)**
Net adjustments to loans to customers	(1,336,807)	(778,530)	71.7%
Fair value gains (losses) on property, plant and equipment	(36,721)	(158,533)	(76.8%)
Net adjustments to securities and other financial assets	(1,030)	5,759	
Net provisions for risks and charges	(42,294)	(71,025)	(40.5%)
Gains (losses) on disposal of interests in associates and joint ventures and other investments	1,190	333,151	(99.6%)
Profit (loss) before tax from continuing operations	**306,088**	**1,076,394**	**(71.6%)**
Taxation charge related to profit or loss from continuing operations	(13,518)	(164,153)	(91.8%)
Profit (loss) after tax from continuing operations	**292,570**	**912,241**	**(67.9%)**
Charges related to company restructuring, net of taxes	(187,030)	-	
Charges related to the banking system, net of taxes	(138,901)	(92,877)	49.6%
Impact of the realignment of tax values to book values	128,324	-	
Goodwill impairment	(25,100)	-	
Change in own credit risk on Certificates issued by the Group net of taxes	(11,739)	(23,273)	(49.6%)
Purchase Price Allocation net of taxes (**)	(41,492)	(14,654)	183.1%
Profit (loss) for the year attributable to non-controlling interests	4,248	15,564	(72.7%)
Parent Company’s profit (loss) for the year	**20,880**	**797,001**	**(97.4%)**

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

Reclassified consolidated income statement – Quarterly changes

Reclassified income statement items ***(thousands of euro)***	**2020**				**2019 (*)**			
	Q4	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Net interest income	509,019	519,921	479,507	474,114	473,959	495,805	512,117	499,188
Gains (losses) on interests in associates and joint ventures carried at equity	23,729	36,768	48,036	22,266	33,917	27,952	32,628	36,758
Financial margin	**532,748**	**556,689**	**527,543**	**496,380**	**507,876**	**523,757**	**544,745**	**535,946**
Net fee and commission income	429,225	417,651	376,371	440,563	462,167	444,065	453,673	434,518
Other net operating income	12,731	11,675	14,855	16,744	16,129	17,785	17,928	24,182
Net financial result	77,845	157,325	82,712	760	223,037	61,363	722	81,725
Other operating income	**519,801**	**586,651**	**473,938**	**458,067**	**701,333**	**523,213**	**472,323**	**540,425**
Operating income	**1,052,549**	**1,143,340**	**1,001,481**	**954,447**	**1,209,209**	**1,046,970**	**1,017,068**	**1,076,371**
Personnel expenses	(407,212)	(356,950)	(397,954)	(419,025)	(437,052)	(415,622)	(417,984)	(425,873)
Other administrative expenses	(125,341)	(159,797)	(154,094)	(154,580)	(149,780)	(158,632)	(163,135)	(167,019)
Net value adjustments to property, plant and equipment and intangible assets	(67,229)	(64,796)	(61,710)	(61,379)	(69,289)	(68,586)	(67,745)	(63,329)
Operating expenses	**(599,782)**	**(581,543)**	**(613,758)**	**(634,984)**	**(656,121)**	**(642,840)**	**(648,864)**	**(656,221)**
Profit (loss) from operations	**452,767**	**561,797**	**387,723**	**319,463**	**553,088**	**404,130**	**368,204**	**420,150**
Net adjustments to loans to customers	(536,225)	(324,340)	(262,999)	(213,243)	(220,499)	(208,387)	(197,692)	(151,952)
Fair value gains (losses) on property, plant and equipment	(30,989)	(316)	(5,094)	(322)	(131,012)	(739)	(19,306)	(7,476)
Net adjustments to securities and other financial assets	7,249	104	(3,728)	(4,655)	1,596	4,138	3,996	(3,971)
Net provisions for risks and charges	(35,587)	907	(9,809)	2,195	(62,633)	(2,712)	(10,102)	4,422
Gains (losses) on disposal of interests in associates and joint ventures and other investments	(354)	1,324	129	91	(3,638)	(24)	336,646	167
Profit (loss) before tax from continuing operations	**(143,139)**	**239,476**	**106,222**	**103,529**	**136,902**	**196,406**	**481,746**	**261,340**
Taxation charge related to profit or loss from continuing operations	47,946	(22,464)	(13,293)	(25,707)	(31,745)	(51,460)	(24,138)	(56,810)
Profit (loss) after tax from continuing operations	**(95,193)**	**217,012**	**92,929**	**77,822**	**105,157**	**144,946**	**457,608**	**204,530**
Charges related to company restructuring, net of taxes	(187,030)	-	-	-	-	-	-	-
Charges related to the banking system, net of taxes	(10,216)	(53,001)	(18,169)	(57,515)	(4,495)	(31,521)	(15,240)	(41,621)
Impact of the realignment of tax values to book values	128,324	-	-	-	-	-	-	-
Goodwill impairment	(25,100)	-	-	-	-	-	-	-
Change in own credit risk on Certificates issued by the Group, net of taxes	(41,116)	2,194	(110,739)	137,922	(10,487)	(13,184)	6,677	(6,279)
Purchase Price Allocation net of taxes (**)	(11,543)	(11,422)	(11,962)	(6,565)	(3,650)	(3,842)	(4,700)	(2,462)
Profit (loss) for the period attributable to non-controlling interests	220	2,520	1,537	(29)	9,247	1,846	3,225	1,246
Parent Company's profit (loss) for the period	**(241,654)**	**157,303**	**(46,404)**	**151,635**	**95,772**	**98,245**	**447,570**	**155,414**

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

With Communication no. DEM/6064293 of 28 July 2006, CONSOB asked companies issuing financial instruments listed on Italian regulated markets to provide information on the impact of non-recurring events or operations.

It is noted that the general criterion adopted by the Group requires that the following be classified as non-recurring:

- the results of the sale transactions of all the fixed assets (interests in associates and joint ventures, property, plant and equipment excluding the financial assets in the Hold to Collect ("HtC") portfolio, which can be sold in compliance with the materiality and frequency thresholds set out in IFRS 9);
- profits and losses on non-current assets held for sale;
- the income statement items of significant amounts connected with streamlining, restructuring, etc. (e.g. expenses for use of the redundancy fund, early retirement incentives, merger/integration expenses);
- the income statement items of significant amounts that are not destined to be frequently repeated (e.g. penalties, impairment of property, plant and equipment, goodwill and other intangible assets, effects of changes in regulations, exceptional results);
- income statement impacts deriving from the fair value measurement of property and other property, plant and equipment (works of art);
- tax effects connected with the income statement impacts set out in the previous points.

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

In light of the criteria set out above, the income statement for 2020 includes the following non-recurring components:
- the item "personnel expenses" includes savings on one-off components of remuneration, constituting an indirect effect of the pandemic, for 31.6 million;
- "Net value adjustments to property, plant and equipment and intangible assets" includes write-downs due to impairment of fixed assets for a total of 2.2 million;
- the item "Net adjustments to loans to customers" includes losses of 251.4 million connected with the sales of loans finalised in December as the result of the change in the strategy for managing non-performing loans decided in October 2020;
- the item "Fair value gains (losses) on property, plant and equipment" recorded capital losses of 36.7 million deriving from the fair value adjustment of investment properties following the annual update of the appraisals;
- "Net provisions for risks and charges" include allocations of 26.0 million, made in relation to the estimated charges related to contractual commitments to Cattolica Assicurazioni Group, which became likely following the decision to exercise the call option on controlling stakes in the vehicle companies of the bancassurance agreements;
- the item "Gains (losses) on disposal of interests in associates and joint ventures and other investments" by definition non-recurring, is positive by 1.2 million;
- the "Taxation charge related to profit or loss from continuing operations" includes the tax impacts of the aforementioned non-recurring items amounting to 77.0 million;
- the item "Charges related to company restructuring, net of taxes" amounting to 187.0 million, includes the costs for early retirement incentives and the streamlining of the branch network of the Group;
- "Charges related to the banking system, net of taxes" includes additional contributions paid to the National Resolution Fund amounting to 19.4 million (equal to 26.9 million gross of the related tax effect of 8.7 million);
- the item "Impact of the realignment of tax values to book values" recognises the income of 128.3 million deriving from the decision to avail of the option to realign the tax values of the book values of intangible assets;
- the impairment tests conducted on intangible assets with an indefinite life resulted in the recognition of impairment of goodwill for 25.1 million, shown in the item "Goodwill impairment".

On the whole, also taking account of the effects attributable to minorities (+0.3 million), non-recurring items relating to 2020 had a net negative impact on the profit (loss) for the year amounting to 309.6 million.

With regard to 2019, the non-recurring components determined using equivalent criteria to those indicated above were the following:
- the item "Net interest income" included the amount of 4.7 million, which the Voluntary Scheme of the Interbank Deposit Guarantee Fund paid to member banks in relation to the interest collected on the Carige subordinated loan subscribed by the Scheme as part of the "rescue" operation of Banca Carige;
- "Net value adjustments to property, plant and equipment and intangible assets" included write-downs due to impairment of fixed assets for a total of 4.4 million;
- the fair value designation of property, plant and equipment resulted in the recognition of capital losses of 158.5 million following the change in the valuation criterion for real estate;
- "Net provisions for risks and charges" included the following extraordinary allocations: 12.5 million for the estimate of the charges relating to contractual commitments assumed on disposal of assets or interests in associates and joint ventures, and 65.0 million for prudential allocations for charges relating to present

and future disputes and complaints, connected with past reports of customers interested in purchasing diamonds which give rise to requests for compensation from customers worth fulfilling with a view to customer care;

- "Gains (losses) on disposal of interests in associates and joint ventures and other investments" totalling 333.2 million included capital gains achieved through reorganisation of the consumer loan segment, for 189.5 million, and the sale to Credito Fondiario of 70% of CF Liberty Servicing S.p.A., for 142.7 million;
- "Taxation charge related to profit or loss from continuing operations" included positive tax impacts for 59.2 million relating to components illustrated above, in addition to other negative extraordinary components for a total of 2.1 million;
- "Charges related to the banking system, net of taxes" included 15.2 million represented by the additional contributions relating to paid National Resolution Fund (amounting to 22.6 million) net of the related tax of 7.4 million.

On the whole, also taking account of the effects attributable to minorities (+9.3 million), non-recurring items relating to 2019 were thus positive, amounting to 148.4 million.

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

Reclassified consolidated income statement

The main income statement items for 2020 are illustrated below.

Covid-19: effects on the economic results of the year

Before commenting on results for the year, it should be noted that they were affected by the ongoing health pandemic. In line with CONSOB Notification 8/20 of 16 July 2020, in order to better appreciate the effects of the pandemic, an illustration of its main impacts on the economic results for the year is provided below. In most cases, the impacts could not be objectively quantified and, as a result, the disclosure is necessarily limited to the influence of the pandemic on the specific income statement item.

Net interest income

The effects of the pandemic on the item in question were boosted by the significant increase in volumes of funding and the previously illustrated series of measures to meet the credit needs of customers. Those phenomena both penalised the net interest income, though to different extents: the former as a result of the need to use excess liquidity in the current interest rate scenario, and the latter as a result of the reduction in the average rates of return of the new forms of loans generated by the pandemic. A counterpoint to those negative effects was the positive impact of the actions promoted by the European Central Bank to provide incentives for banks to guarantee adequate credit support to households and businesses, above all gradual changes to the economic terms and conditions applicable to TLTRO refinancing transactions.

Net fee and commission income

The pandemic had a significant negative impact on the income statement in terms of a reduction in operating income as a result of the lower volumes of business following the lockdown, particularly sharp in the second quarter, and the change in savers' propensity to invest. This impact is most clearly reflected in the decrease in net fee and commission income, amounting to -130.6 million (-7.3%) compared to the previous year.

Net financial result

The pandemic caused extensive volatility in the financial markets, which was particularly sharp at the start of the first quarter of the year. Nonetheless, the concerted measures of the Central Banks and national governments quickly offset the main factors of uncertainty introduced by the pandemic, thus avoiding the generation of significant negative impacts on the value of financial instruments and the resulting pro-cyclical effects.

Operating expenses
During the year, charges were recognised due to a number of contingency interventions - related to property management, operational support services and security and physical prevention - were carried out at the bank's offices and branches to ensure the safety of staff and customers.
On the other hand, personnel expenses benefited from various non-recurring savings, at times considerable, as well as the lower charges envisaged for the incentive system which was revised during the year.

Net adjustments to loans to customers
When measuring the impairment of receivables, IFRS 9 requires that not only historical and current information be considered, but also forward-looking information (so-called "forward-looking" factors) considered able to influence the recoverability of credit exposures, in line with the instructions provided by the Supervisory Authority.
The fine-tuning of the methodology for estimating expected losses on credit exposures introduced in 2020 - based on a largely conservative approach in assessing the forward-looking factors, also in order to incorporate the most up-to-date macro-economic scenarios - resulted overall in an increase in the impairment of performing and non-performing loans compared to the previous year.
As regards non-performing loans, the changed context caused by the pandemic led to reconsidering the previously decided strategy for managing non-performing loans. The increase in the volumes of loans recovered through sale transactions made it possible to carry out significant derisking, but inevitably had a negative influence on the cost of credit for the year.

Charges related to the banking system, net of taxes
As previously noted, the pandemic resulted in a significant increase in the financial resources that customers decided to keep in their current accounts and savings deposits. That phenomenon regarded the entire banking system, and reflected on an increase in the levels of minimum levels of financial resources of both the Single Resolution Fund and the Interbank Deposit Guarantee Fund. This resulted in an increase in the ex-ante levels of contribution requested from banks for the purpose of reaching those levels of minimum financial resources.

Change in own credit risk on Certificates issued by the Group, net of taxes
The volatility of the financial markets caused by the pandemic affected not only the assets but also the financial liabilities issued by the Group and measured at fair value, whose prices were significantly affected by the volatility of Banco BPM's credit risk.
More specifically, as at 31 March 2020, the deterioration in Banco BPM's credit risk and the consequent reduction in the fair value of its financial liabilities measured at fair value had led to the recognition of unrealised capital gains of 206.0 million. After 31 March, the improvement in own credit risk led to a progressive reduction in the aforementioned capital gain with a consequent significant negative impact on the income statement in the second quarter, which amounted to -165.4 million. During the third quarter, limited changes were recorded and capital gains of 3.3 million were recognised. The improvement in credit risk recorded at the end of the year led to the recognition of capital losses of -61.4 million in the fourth quarter.
Overall, the effect on the income statement recorded in 2020 resulting from the change in own credit risk was a negative -17.5 million.
That amount, net of taxes, is shown in the dedicated reclassified income statement item named "Change in own credit risk on Certificates issued by the Group, net of taxes" for -11.7 million.
Regarding the balance sheet, as at 31 December 2020 the cumulative effects of the changes in own credit risk were negative overall for 52.3 million (negative impact of 34.8 million as at 31 December 2019).

Lastly, the Covid-19 crisis made it fundamentally important to update the valuations of those assets whose recoverability is founded on future cash flows, which could be influenced significantly by the crisis. In that regard, the impairment tests conducted as at 31 December 2020 on intangible assets (goodwill, trademarks, client relationships), equity interests and deferred tax assets showed the book values holding steady overall, save for the need to write down the goodwill attributed to the Bancassurance Life CGU for 25.1 million.

It must also be noted that the Group did not modify the reclassified financial statement formats or introduce customised alternative performance measures to separately highlight the effects of the Covid-19 crisis, in line with the indications contained in the update of the document "ESMA 32_51_370 - Question and answer - ESMA Guidelines on Alternative Performance Measures (APMS)" published on 17 April 2020.

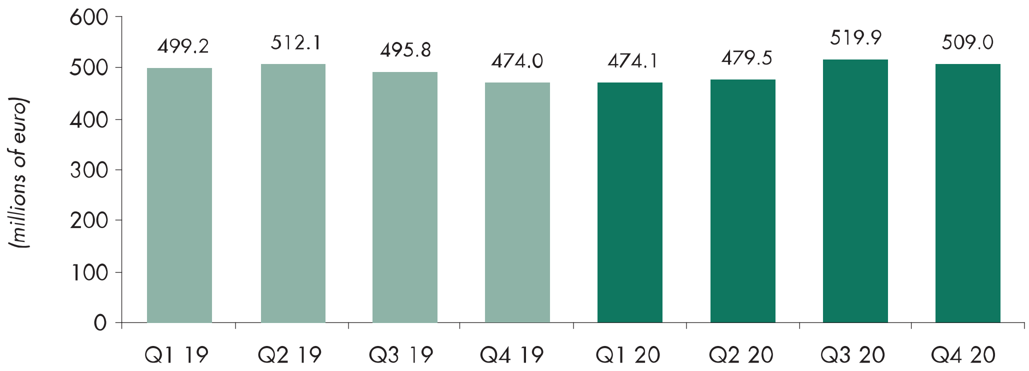
Operating income

Net interest income

(thousands of euro)	2020	2019 (*)	Abs. Change	% Change
Financial assets (securities)	440,191	591,682	(151,491)	(25.6%)
Net interest due to customers	1,792,551	1,828,323	(35,772)	(2.0%)
Net interest due to banks	(32,492)	(118,388)	85,896	(72.6%)
Securities issued and other financial liabilities at fair value	(318,163)	(308,085)	(10,078)	3.3%
Hedging derivatives (net balance) (**)	(73,383)	(112,321)	38,938	(34.7%)
Net interest on other assets/liabilities	173,857	99,858	73,999	74.1%
Total	**1,982,561**	**1,981,069**	**1,492**	**0.1%**

(*) The figures relating to the previous year have been restated to provide a like-for-like comparison.
(**) The item includes the spreads pertaining to the year on derivative contracts hedging financial assets (securities held) and financial liabilities issued.

Net interest income

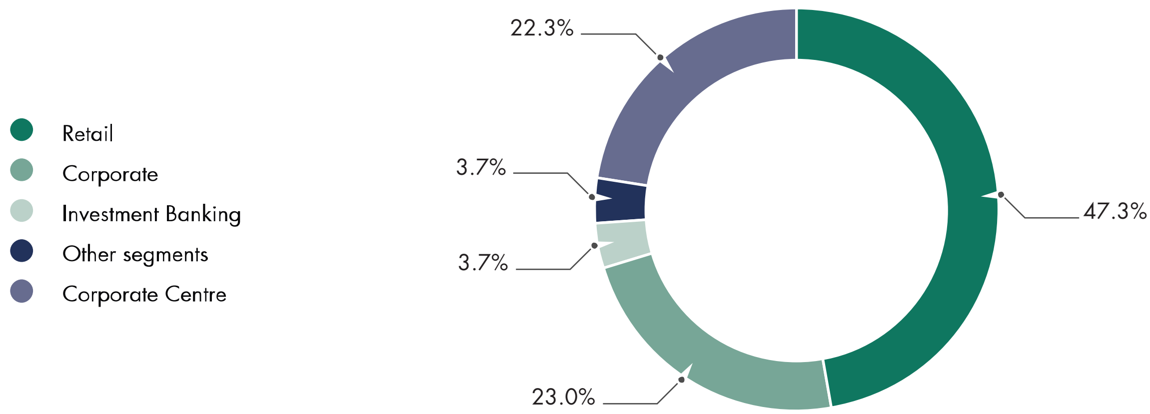


The **net interest income** amounted to 1,982.6 million, stable compared with the figure of 1,981.1 million from the previous year. The trend in net interest income was negatively impacted by the trend in interest rates and the lower contribution from non-commercial activities, as well as a lower contribution from non-performing loans resulting from the derisking plan implemented in previous years. Those effects are balanced by the positive contribution of TLTRO financing, totalling 169.2 million (86.1 million in 2019). Also considering the use of part of the liquidity deriving from TLTRO III at negative rates, the overall contribution of these operations to the net interest income was highly positive in 2020 and growing on an annual basis.
As part of the net interest income, interest income deriving from non-performing loans recorded in 2020 amounted to 110.9 million, down on the 130.8 million recorded in 2019.
In the fourth quarter, net interest income stands at 509.0 million, down by 2.1% compared with the figure for the third quarter 2020 (519.9 million), mainly due to the decrease in commercial spreads. The quarterly changes in the net interest income show a recovery in the second half of the year, with an increase of 7.9% compared with the first half, also due to the higher contribution made by TLTRO III financing operations which, in consideration of the net lending objective reached by the Group, starting from 24 June 2020, make provision for the payment of special interest, equal to 0.5%, in addition to the rate applicable for the entire duration of the loan[1].

[1] If, as at 31 March 2021, the amount of eligible loans is at least equal to the existing amount as at 1 March 2020, the interest rate (negative) applicable to TLTRO III refinancing operations for the period from 24 June 2020 to 23 June 2021 (so-called special interest period) will be increased by a further 0.50% compared to the average rate applicable to Deposit facilities. If, as at 31 March 2021, the amount of eligible loans is also at least equal to the existing amount as at 1 October 2020, the special interest rate (increase of 0.50% illustrated above) will be applied also to the period 24 June 2021 to 23 June 2022. As at 31 December 2020 Banco BPM showed an amount of eligible loans largely exceeding both the existing amount at 1 March and that of 1 October 2020. For more details, please see Part A – Accounting policies, section "Other significant aspects relating to Group accounting policies" of these Notes to the consolidated financial statements.

(thousands of euro)	2020	2019 (*)	Abs. Change	% Change
Retail	937,279	1,013,107	(75,828)	(7.5%)
Corporate	455,230	412,149	43,081	10.5%
Institutional	57,223	58,576	(1,353)	(2.3%)
Private	1,272	3,324	(2,052)	(61.7%)
Investment Banking	73,213	83,409	(10,196)	(12.2%)
Strategic Partnerships	(8,801)	(11,672)	2,871	(24.6%)
Leases	24,358	29,322	(4,964)	(16.9%)
Corporate Centre	442,787	392,854	49,933	12.7%
Total	**1,982,561**	**1,981,069**	**1,492**	**0.1%**

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



In terms of economic sector, the Commercial Network recorded a downturn, where Retail decreased by -75.8 million, only partially mitigated by the positive performance of Corporate (+43.1 million) and the attribution of a portion of the benefits from the TLTRO III to the commercial segments. More specifically, the Retail segment was impacted by a decrease in the spreads on loans, particularly short-term loans, partly balanced by the growth in the amounts of medium/long-term loans and the improvement in the profitability of funding, which benefited from both a drop in the bond component and a lower cost of demand funding, though in relation to a significant increase in its amounts.
On the contrary, the growth in net interest income in the Corporate segment benefited from a significant increase in the amounts of loans and a substantial steadiness of spreads.
The profitability of Investment Banking, represented by Banca Akros, was down (-10.2 million), mainly due to the decrease in the contribution from the securities portfolio, both due to a drop in yields and a reduction in the intragroup component, mainly composed of bonds underlying certificates, issued by the Parent Company and subscribed by Banca Akros. In particular, regarding the latter aspect, from June onwards, the certificates placed by the Commercial Network of the Group are no longer issued by Banca Akros, but directly by the Parent Company which thus no longer has to issue the related underlying bonds.
The contribution from Leases also decreased, due to the gradual decrease of interest-bearing amounts in run-off.
Lastly, the Corporate Centre improved (+49.9 million), despite the lower contribution from the securities portfolio, due to a significant drop in yields and increased costs of institutional funding, due to new issues carried out during the year for around 1,600 million (of which 850 million Tier 2). The growth in the net interest income of the Corporate Centre is mainly due to the significant decrease in the cost of funding in foreign currency, against investments in securities, and the portion of the benefit of the TLTRO III pertaining to the Corporate Centre.

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

The **result of the investee companies carried at equity** was positive for 130.8 million, substantially in line with the figure of 131.3 million recorded in 2019. As shown in the table below, the main contribution was provided by consumer credit, driven by the investment held in Agos Ducato, for 89.2 million.

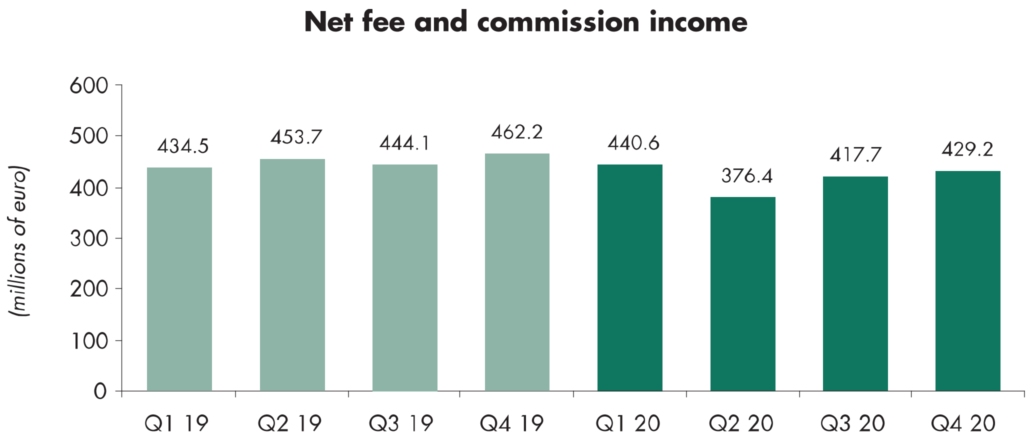
(thousands of euro)	2020	2019	Abs. Change	% Change
Agos Ducato	89,158	103,129	(13,971)	(13.5%)
Anima Holding	11,992	-	11,992	
Vera Vita	8,010	8,592	(582)	(6.8%)
Vera Assicurazioni	8,802	6,597	2,205	33.4%
Bipiemme Vita	5,612	7,249	(1,637)	(22.6%)
Factorit	3,146	2,039	1,107	54.3%
other investee companies	4,079	3,649	430	11.8%
Total	**130,799**	**131,255**	**(456)**	**(0.3%)**

In terms of economic sector, Strategic Partnerships contributed 129.4 million, mainly including Agos Ducato, equal to 89.2 million, Anima Holding, equal to 12.0 million[1] and that of the insurance companies for a total of 22.4 million. The contribution of Corporate Centre amounted to 1.4 million, and includes the contributions from minor associated companies.

Net fee and commission income

(thousands of euro)	2020	2019	Abs. Change	% Change
Management, brokerage and advisory services	787,855	866,367	(78,512)	(9.1%)
Distribution of savings products	657,033	724,715	(67,682)	(9.3%)
- Placement of financial instruments	52,298	46,549	5,749	12.4%
- Portfolio management	490,346	540,784	(50,438)	(9.3%)
- Bancassurance	114,389	137,382	(22,993)	(16.7%)
Consumer credit	26,693	35,476	(8,783)	(24.8%)
Credit cards	38,086	38,569	(483)	(1.3%)
Custodian bank	1,467	1,428	39	2.7%
Trading of securities and currencies and order collection	63,720	66,510	(2,790)	(4.2%)
Other	856	(331)	1,187	
Keeping and management of current accounts and loans	583,556	609,880	(26,324)	(4.3%)
Collection and payment services	147,910	164,653	(16,743)	(10.2%)
Guarantees given and received	64,990	70,158	(5,168)	(7.4%)
Other services	79,499	83,365	(3,866)	(4.6%)
Total	**1,663,810**	**1,794,423**	**(130,613)**	**(7.3%)**

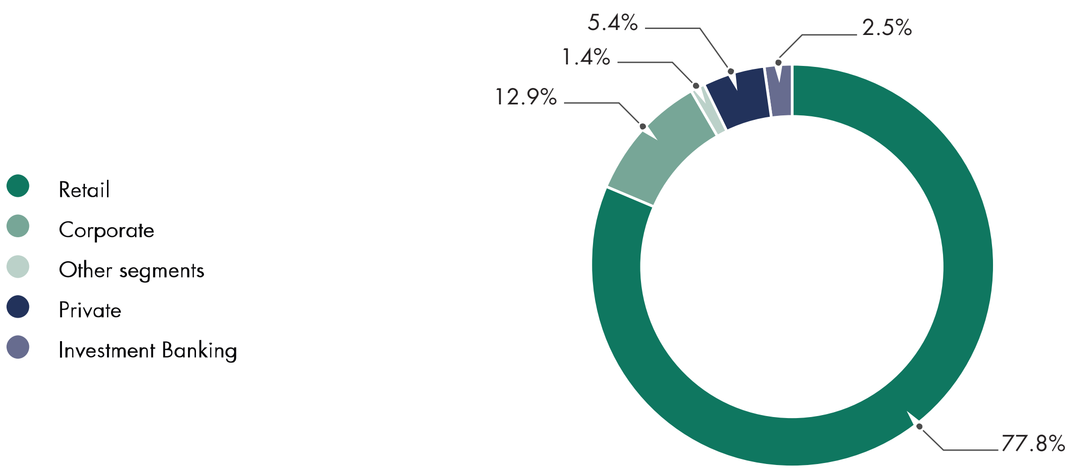
[1] The contribution of Anima Holding represents the Banco BPM's share of the income recorded from 1 April 2020 (date from which the interest was valued at equity) to 30 September 2020. The income for fourth quarter was not considered, as the investee will approve its draft financial statements following the reference date of this Report.



Net fee and commission income amounted to 1,663.8 million, down 7.3% compared with 1,794.4 million in the previous year. The decrease is generalised in all components of the aggregate (management, brokerage and advisory services -9.1% and services linked to commercial banking activities -5.6%) and is attributable to the impacts on operations of the lockdown measures, which were concentrated in the second quarter of the year. The organisational and commercial actions promptly implemented made it possible, starting from the third quarter, to obtain excellent commercial results despite the additional lockdowns decided in the autumn to contain the second wave of the pandemic.
Net fee and commission income in the fourth quarter amounted to 429.2 million, up 2.8% on the third quarter. That trend is attributable to the contributions from both commercial banking services (+3.8%) and the segment of management, brokerage and advisory services (+1.7%).
The increase in that aggregate grew further when comparing the performance in the second half of the year to the first (+3.7%).

(thousands of euro)	2020	2019	Abs. Change	% Change
Retail	1,293,613	1,419,757	(126,144)	(8.9%)
Corporate	214,835	223,708	(8,873)	(4.0%)
Institutional	39,526	41,731	(2,205)	(5.3%)
Private	89,708	89,551	157	0.2%
Investment Banking	41,651	38,821	2,830	7.3%
Leases	(979)	4	(983)	
Corporate Centre	(14,544)	(19,149)	4,605	(24.0%)
Total	**1,663,810**	**1,794,423**	**(130,613)**	**(7.3%)**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the segmentation criteria used for 2020.

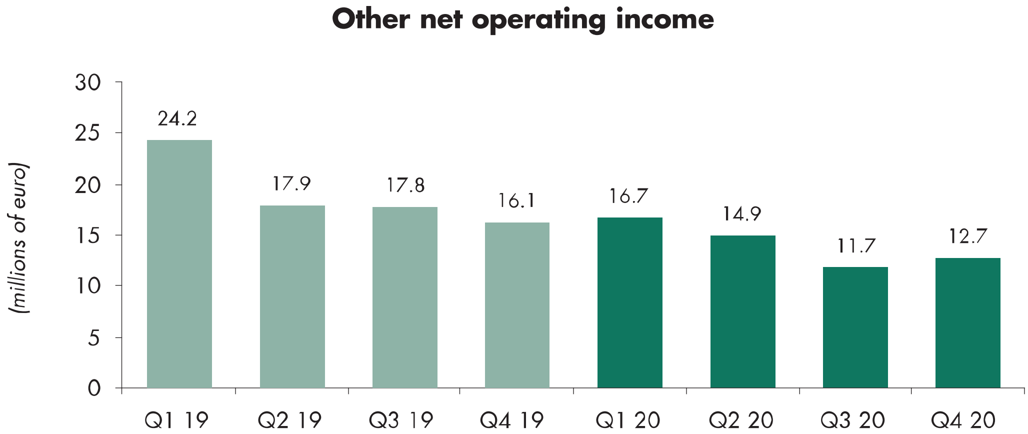


The significant decrease in net fee and commission income (-130.6 million) compared to the previous year is mainly due to the drop in fees and commissions in the segments of the Commercial Network, particularly in the Retail segment (-126.1 million), which was particularly impacted by the current economic crisis linked to the Covid-19 pandemic. Significant decreases were seen in the income from placement of asset management products (-63.3 million), consumer credit (-18.7 million), transactional banking services (-15.8 million) and insurance protection (-6.3 million).

Other net operating income

(thousands of euro)	2020	2019 (*)	Abs. Change	% Change
Income on current accounts and loans	9,898	16,156	(6,258)	(38.7%)
Rental income	39,508	45,314	(5,806)	(12.8%)
Expenses on leased assets	(14,775)	(15,968)	1,193	(7.5%)
Other income and charges	21,374	30,522	(9,148)	(30.0%)
Total	**56,005**	**76,024**	**(20,019)**	**(26.3%)**

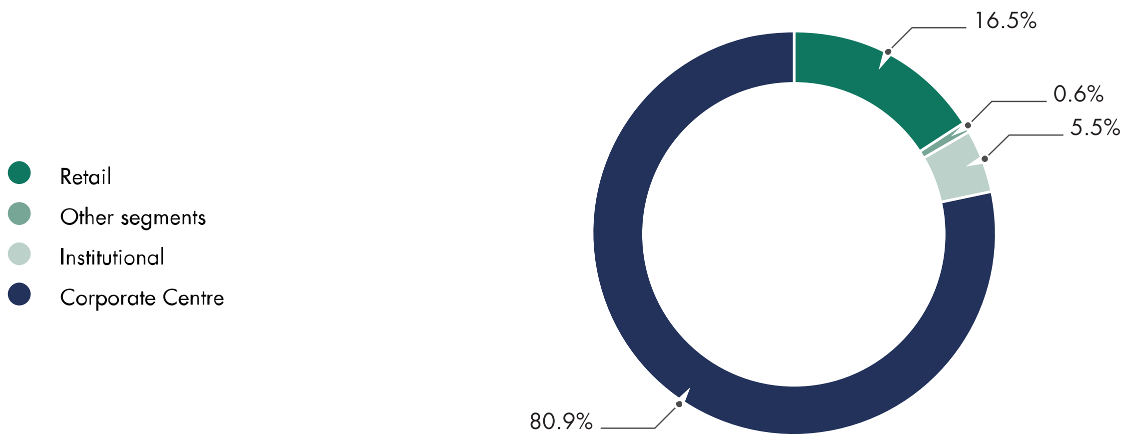
(*) The figures relating to the previous year have been restated to provide a like-for-like comparison.



Other net operating income amounted to 56.0 million, a decrease of 20.0 million compared to 2019, mainly due to the progressive reduction in "*commissioni di istruttoria veloce*" or fast-track fees (-38.7%) and the lower contribution from lease income (-12.8%).

(thousands of euro)	2020	2019 (*)	Abs. Change	% Change
Retail	9,237	19,867	(10,630)	(53.5%)
Corporate	101	298	(197)	(66.1%)
Institutional	3,057	4,049	(992)	(24.5%)
Private	7	6	1	16.7%
Investment Banking	253	787	(534)	(67.9%)
Leases	(1,945)	(1,837)	(108)	5.9%
Corporate Centre	45,295	52,854	(7,559)	(14.3%)
Total	**56,005**	**76,024**	**(20,019)**	**(26.3%)**

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



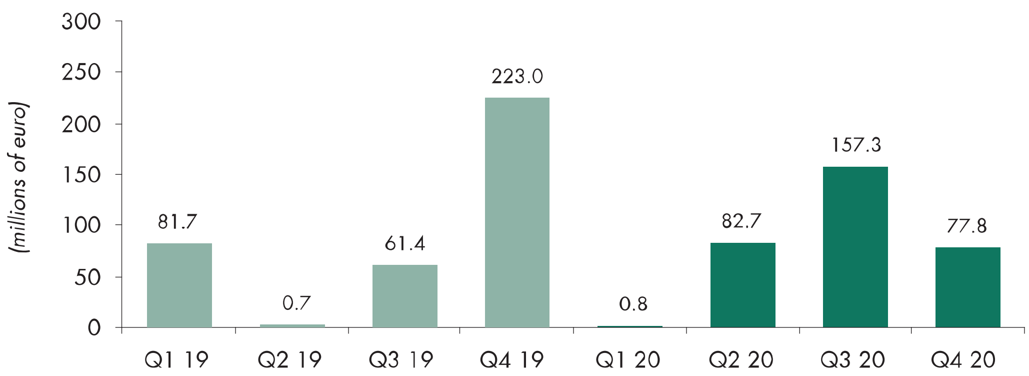
The decrease recorded in the income statement item in question is partly attributable to the trend in the Retail segment, which in the previous year benefited from an extraordinary component of around 9.1 million, relating to the redefinition of fast-track fees on several positions. The Corporate Centre also recorded a decrease, largely due to indemnities paid of 16.5 million for sales of loans carried out in previous years.

Net financial result

(thousands of euro)	2020	2019 (*)	Abs. Change	% Change
Net trading income	39,450	(159,282)	198,732	
Gains/losses on disposal of financial assets	139,928	384,517	(244,589)	(63.6%)
Dividends and similar income on financial assets	24,556	28,838	(4,282)	(14.8%)
Gains/losses on repurchase of financial liabilities	(1,903)	(4,391)	2,488	(56.7%)
Fair value gains/losses on hedging derivatives	(7,657)	7,497	(15,154)	
Other income/expense	124,268	109,668	14,600	13.3%
Total	**318,642**	**366,847**	**(48,205)**	**(13.1%)**

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

Net financial result



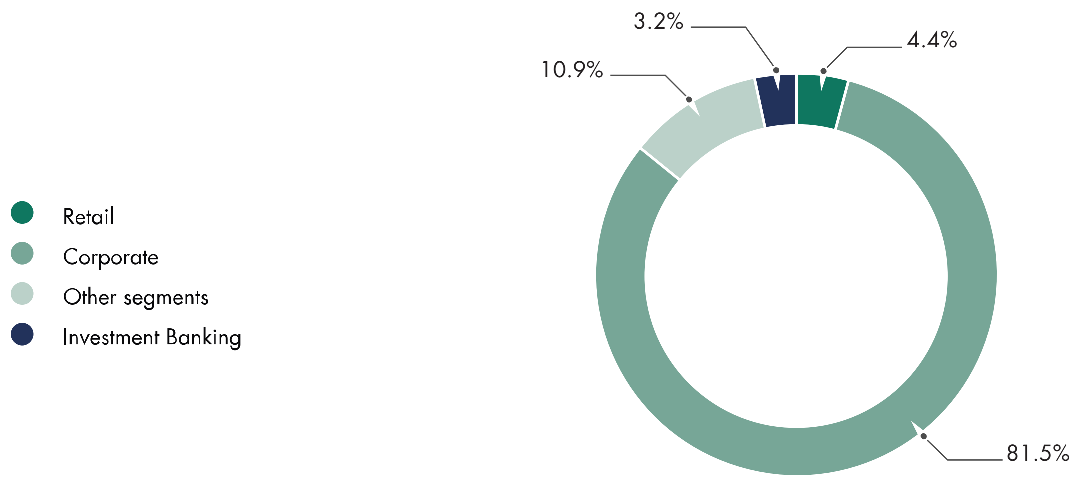
The **net financial result**[1] was 318.6 million, compared to 366.8 million in the previous year. A positive contribution to this result derived from the fair value measurement of the interest held in SIA S.p.A. for 155.2 million[2]. Note that the previous year's figure included capital gains from valuation and disposal relating to the investment held in Nexi S.p.A., recoveries on securities posted in the portfolio of financial assets mandatorily measured at fair value and gains on disposal of securities in the HTC portfolio for more than 230 million.

[1] The figure excludes the negative impact of 17.5 million deriving from the change in own credit risk on the valuation of certificates issued by the Group, shown in a separate item of the reclassified income statement.

[2] The fair value measurement as at 31 December 2020 is based on the exchange ratio communicated to the market by Nexi and Sia in their joint press release of 5 October 2020, based on which SIA shareholders will receive 1.5761 Nexi shares for each SIA share.

(thousands of euro)	2020	2019 (*)	Abs. Change	% Change
Retail	14,094	9,357	4,737	50.6%
Corporate	22,874	(7,829)	30,703	
Institutional	126	42	84	200.0%
Private	(75)	18	(93)	
Investment Banking	10,327	19,340	(9,013)	(46.6%)
Strategic Partnerships	11,671	8,948	2,723	30.4%
Corporate Centre	259,625	336,971	(77,346)	(23.0%)
Total	**318,642**	**366,847**	**(48,205)**	**(13.1%)**

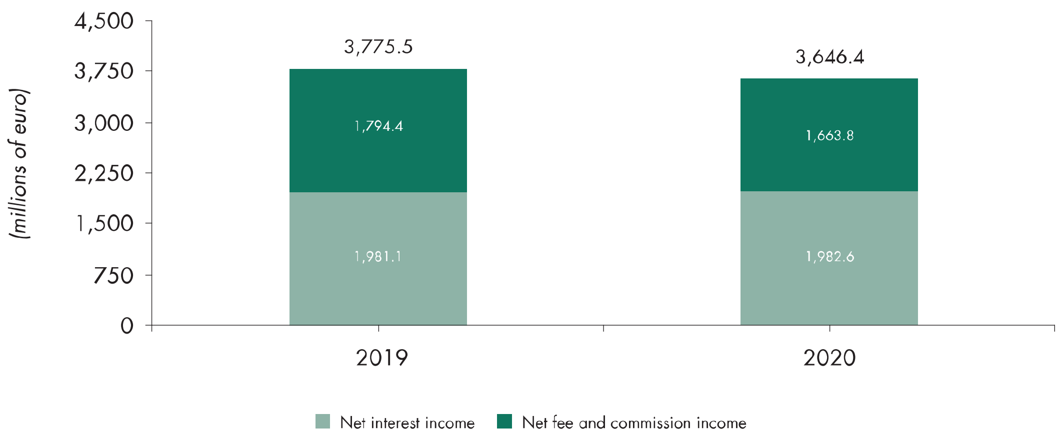
(*) The figures relating to the previous year have been restated to provide a like-for-like comparison.



In terms of economic sector, against growth in the Retail and Corporate segments due to the hedging carried out on behalf of customers, there was a sharp decrease in Corporate Centre (-77.3 million). In particular, the contribution of the securities portfolio decreased from 283.2 million to 105.9 million, only partly offset by the positive contribution of the valuation of the investments held in Nexi and SIA, totalling 158.6 million. The contribution of Investment Banking was also down, due to less structuring of products as a result of the current economic crisis, while the segment Strategic Interests reported a slight increase, due to the increase in dividends collected by Anima Holding S.p.A..

By virtue of the dynamics described, total **operating income** amounted to 4,151.8 million, down 4.5% compared with 4,349.6 million in 2019.

Core Banking Business

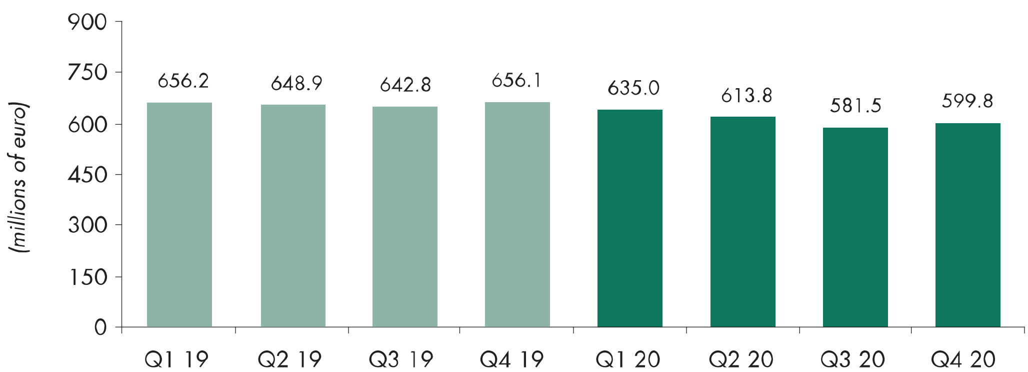


Taking only revenues from "core banking business" into account, represented by the sum of the aggregates relating to the net interest income and net fee and commission income, the 2020 figure reached 3,646.4 million, down 3.4% compared to the figure for the previous year.

Operating expenses

(thousands of euro)	2020	2019	Abs. Change	% Change
Personnel expenses	**(1,581,141)**	**(1,696,531)**	**115,390**	**(6.8%)**
Other administrative expenses	**(593,812)**	**(638,566)**	**44,754**	**(7.0%)**
- Taxes and duties	(312,976)	(311,841)	(1,135)	0.4%
- Services and consulting	(268,748)	(299,584)	30,836	(10.3%)
- Property	(60,796)	(65,534)	4,738	(7.2%)
- Postal, telephone and stationery	(26,095)	(26,787)	692	(2.6%)
- Maintenance and fees for furniture, machines and systems	(81,292)	(67,272)	(14,020)	20.8%
- Advertising and entertainment	(10,740)	(16,700)	5,960	(35.7%)
- Other administrative expenses	(105,321)	(112,548)	7,227	(6.4%)
- Expense recoveries	272,156	261,700	10,456	4.0%
Value adjustments to property, plant and equipment and intangible assets	**(255,114)**	**(268,949)**	**13,835**	**(5.1%)**
- Value adjustments to property, plant and equipment	(179,011)	(197,653)	18,642	(9.4%)
- Value adjustments to intangible assets	(73,866)	(66,811)	(7,055)	10.6%
- Net write-downs for impairment	(2,237)	(4,485)	2,248	(50.1%)
Total	**(2,430,067)**	**(2,604,046)**	**173,979**	**(6.7%)**

Operating expenses



Personnel expenses were 1,581.1 million, down by 6.8% compared to the 1,696.5 million in the previous year, due to the review of the charges relating to the incentive system and other reductions of costs related to the effects of the health emergency. The total number of employees was 21,663 as at 31 December 2020, compared to 21,941 at the end of 2019.

Other administrative expenses[1] amounted to 593.8 million, down by 7.0% compared to 2019, thanks to the strict control of costs, despite the higher charges deriving from the management of the Covid-19 emergency.

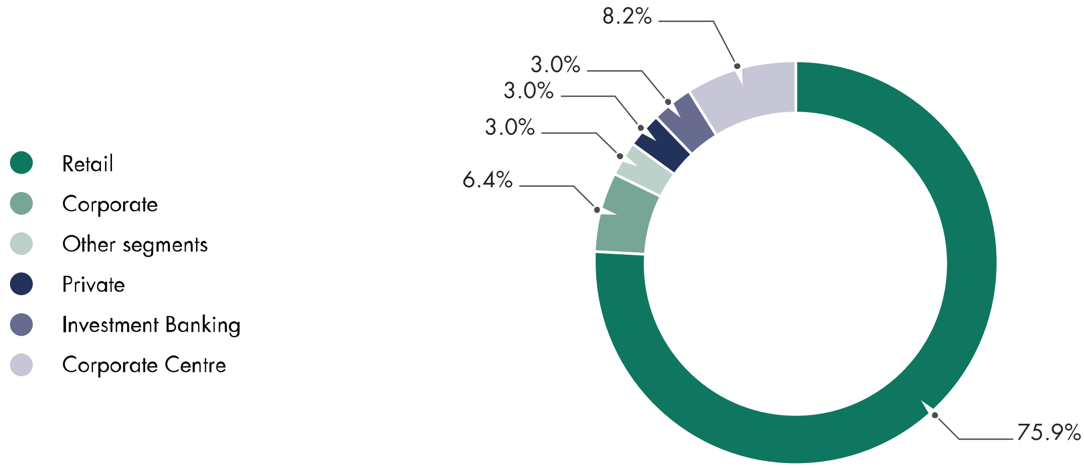
Value adjustments to property, plant and equipment and intangible assets amounted to 255.1 million, compared to 268.9 million as at 31 December 2019, and include impairment losses for 2.2 million. The comparison with 2019 shows a significant reduction in depreciation of property, plant and equipment (-19.1 million).

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

Total **operating expenses** came to 2,430.1 million, a decrease of 6.7% on 31 December 2019 due to the constant streamlining actions implemented.

(thousands of euro)	2020	2019	Abs. Change	% Change
Retail	(1,843,966)	(1,974,965)	130,999	(6.6%)
Corporate	(156,707)	(165,841)	9,134	(5.5%)
Institutional	(37,801)	(36,195)	(1,606)	4.4%
Private	(73,138)	(70,918)	(2,220)	3.1%
Investment Banking	(84,591)	(86,665)	2,074	(2.4%)
Strategic Partnerships	(2,566)	(2,771)	205	(7.4%)
Leases	(33,050)	(35,095)	2,045	(5.8%)
Corporate Centre	(198,248)	(231,596)	33,348	(14.4%)
Total	**(2,430,067)**	**(2,604,046)**	**173,979**	**(6.7%)**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the segmentation criteria used for 2020.



Operating expenses include a decrease in personnel expenses of 115.4 million, both in the Retail segment (for 57.6 million) and in the Corporate Centre (for 46.4 million), due to the gradual reduction of the workforce, the revision of the incentive system and other cost reductions related to the effects of the health emergency.
Other administrative expenses and value adjustments to property, plant and equipment and intangible assets recorded a decrease at consolidated level (for a total of 58.6 million), especially in the Retail segment (for 74.8 million), as a result of careful cost management. That trend is also seen in the Corporate Centre, where the benefit of reversal of charges to other business lines decreased.

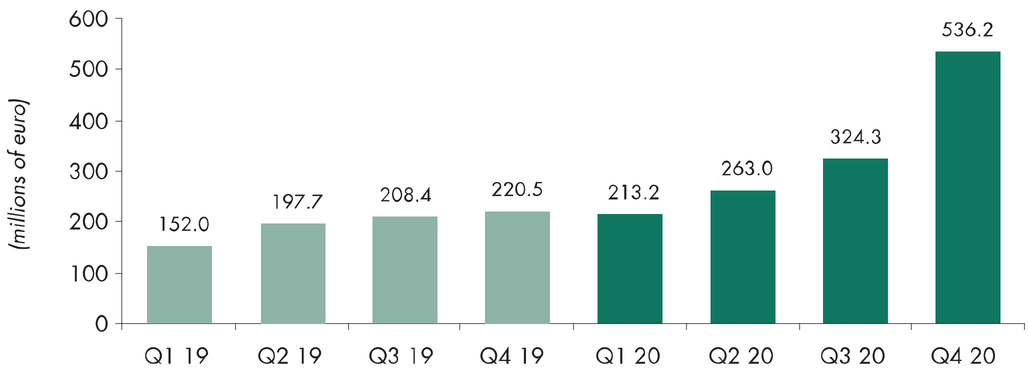
Profit (loss) from operations

Profit (loss) from operations therefore came to 1,721.7 million, down by 23.8 million (-1.4%) compared to the previous year.

Adjustments and provisions

(thousands of euro)	2020	2019	Abs. Change	% Change
Net value adjustments to loans to customers	**(1,049,656)**	**(735,955)**	**(313,701)**	**42.6%**
Specific value adjustments: derecognition	(90,908)	(54,418)	(36,490)	67.1%
Specific value adjustments: other	(1,240,351)	(1,428,460)	188,109	(13.2%)
Specific recoveries	429,297	708,968	(279,671)	(39.4%)
Net portfolio adjustments/recoveries	(147,694)	37,955	(185,649)	
Gains (losses) on disposal of loans	**(287,151)**	**(42,575)**	**(244,576)**	**574.5%**
Total	**(1,336,807)**	**(778,530)**	**(558,277)**	**71.7%**

Net adjustments to loans to customers



Net adjustments to loans to customers amounted to 1,336.8 million, up by 558.3 million compared to the previous year. This amount includes both greater adjustments to performing loans, based on the consideration of the worsening of the macroeconomic framework generated by the pandemic, and greater adjustments to non-performing loans. In addition, the value adjustments to non-performing loans include the effect of the disposal of UTP loans and bad loans finalised in December for a total of 251.4 million. As a result of this, the cost of credit, measured by the ratio of net adjustments on loans to net lending, was 122 b.p. compared to 74 b.p. as at 31 December 2019. Net of the extraordinary losses relating to the sales of the Django and Titan portfolios finalised at the end of the year and the estimate[1] of all the other adjustments to loans directly or indirectly attributable to the Covid-19 emergency, the cost of credit would decrease by around 50 b.p.

Fair value losses on property, plant and equipment came to 36.7 million. In the previous year, capital losses of 158.5 million were recorded.

The income statement for 2020 recorded **net adjustments to securities and other financial assets** of 1.0 million (net recoveries for 5.8 million as at 31 December 2019).

Net provisions for risks and charges amounted to 42.3 million (71.0 million in the previous year).

In 2020, **gains on disposal of interests in associates and joint ventures and other investments** stood at 1.2 million. In 2019 there were capital gains totalling 333.2 million, deriving from the reorganisation of the consumer loan segment (189.5 million) and establishment of the partnership with Credito Fondiario to manage recovery activities for non-performing loans (142.7 million).

Due to the trends described, **profit before tax from continuing operations** stood at 306.1 million compared to a profit of 1,076.4 million recorded in the previous year, which, however, included gains on the disposal of interests and business units indicated above.

[1] Management estimate.

Other revenue and cost items

The **taxation charge related to profit or loss from continuing operations** was -13.5 million (-164.2 million as at 31 December 2019) and bring the **profit after tax from continuing operations** to 292.6 million (912.2 million in the previous year).

The item **Charges related to company restructuring, net of taxes** records the amount of costs expected to be incurred for early retirement incentives, also through the voluntary use of the extraordinary benefits of the Solidarity Fund for the sector, and for the streamlining of the branch network, for a total of 187.0 million, net of the related tax effect.

Charges related to the banking system, net of taxes were charged to the income statement for the year, amounting to 138.9 million (92.9 million in 2019) relating to the ordinary contribution paid to the Single Resolution Fund (SRF), the contribution paid to the Interbank Deposit Protection Fund and the additional contribution to the National Resolution Fund (192.0 million before tax compared to 137.6 million as at 31 December 2019).

The item **Impact of the realignment of tax values to book values** recognises the positive impact on the income statement of 128.3 million deriving from the decision to avail of the option to realign the tax values of intangible assets to their book values. For more details on that operation, please see the section "Other significant aspects relating to Group accounting policies", found in Part A - Accounting policies of these Notes to the consolidated financial statements.

The annual impairment test conducted on intangible assets resulted in the recognition of **goodwill impairment** for 25.1 million.

The impact of the **change in own credit risk on Certificates issued by the Group, net of taxes**, shown in a separate item of the reclassified income statement, was a negative 11.7 million (-17.5 million before taxes) compared to a negative figure of -23.3 million (-34.8 million gross) in the previous year.

The item of the reclassified income statement named **Purchase Price Allocation net of taxes**[1] represents the total impact on the income statement of the reversal effect of the allocation of the prices paid in the business combination operations net of the related tax effect. In greater detail, this involves the impact on "net interest income" (-26 million) deriving from the reversal effect of the higher values attributed to the assets acquired (mainly referring to the former Banca Popolare di Milano Group) and the impact on "other net operating income" (-36 million) due to the amortisation of the higher intangible assets recognised. Net of the related tax effects, the total impact on the income statement for 2020 amounted to -41.5 million (-14.7 million for 2019).

Considering the share of income attributable to non-controlling interests (equal to +4.2 million as at 31 December 2020 compared to +15.6 million as at 31 December 2019), 2020 closed with **net profit** of 20.9 million, compared to net profit of 797.0 million as at 31 December 2019.

The **profit net of non-recurring items** was 330.5 million, compared to 648.6 million as at 31 December 2019.

[1] In application of the provisions of IFRS 3, the income statement of Banco BPM Group includes the economic impacts (known as reversal effects) deriving from the allocation of the prices paid as part of the business combination between Banco Popolare Group and Banca Popolare di Milano Group finalised in 2017 and between Banco Popolare di Verona e Novara Group and Banca Popolare Italiana Group in 2007.

Consolidated balance sheet figures

Reclassified consolidated balance sheet

Below is the reclassified balance sheet as at 31 December 2020 compared with the balances in the financial statements as at 31 December 2019.
A reconciliation between the items in the consolidated balance sheet and the reclassified consolidated balance sheet is attached to this report.

(thousands of euro)	31/12/2020	31/12/2019	Change	
Cash and cash equivalents	8,858,079	912,742	7,945,337	870.5%
Loans measured at amortised cost	120,455,666	115,889,891	4,565,775	3.9%
- Loans to banks	11,120,681	10,044,427	1,076,254	10.7%
- Loans to customers (*)	109,334,985	105,845,464	3,489,521	3.3%
Other financial assets and hedging derivatives	41,175,632	37,069,089	4,106,543	11.1%
- At fair value through Profit and Loss	9,118,571	7,285,091	1,833,480	25.2%
- At fair value through OCI	10,710,796	12,526,772	(1,815,976)	(14.5)%
- At AC	21,346,265	17,257,226	4,089,039	23.7%
Interests in associates and joint ventures	1,664,772	1,386,079	278,693	20.1%
Property, plant and equipment	3,552,482	3,624,312	(71,830)	(2.0)%
Intangible assets	1,218,632	1,269,360	(50,728)	(4.0)%
Tax assets	4,704,196	4,619,636	84,560	1.8%
Non-current assets and disposal groups held for sale	72,823	131,082	(58,259)	(44.4)%
Other assets	1,982,900	2,136,010	(153,110)	(7.2)%
Total assets	**183,685,182**	**167,038,201**	**16,646,981**	**10.0%**
Direct funding	116,936,669	109,506,299	7,430,370	6.8%
- Due to customers	102,162,461	93,375,026	8,787,435	9.4%
- Securities and financial liabilities designated at fair value	14,774,208	16,131,273	(1,357,065)	(8.4)%
Due to banks	33,937,523	28,515,685	5,421,838	19.0%
Lease payables	760,280	732,536	27,744	3.8%
Other financial liabilities designated at fair value	14,015,427	10,919,429	3,095,998	28.4%
Liability provisions	1,415,473	1,486,683	(71,210)	(4.8)%
Tax liabilities	464,570	619,269	(154,699)	(25.0)%
Liabilities associated with assets classified as held for sale	-	5,096	(5,096)	(100.0)%
Other liabilities	3,928,139	3,366,122	562,017	16.7%
Total liabilities	**171,458,081**	**155,151,119**	**16,306,962**	**10.5%**
Non-controlling interests	1,894	26,076	(24,182)	(92.7)%
Group shareholders' equity	12,225,207	11,861,006	364,201	3.1%
Consolidated shareholders' equity	**12,227,101**	**11,887,082**	**340,019**	**2.9%**
Total liabilities and shareholders' equity	**183,685,182**	**167,038,201**	**16,646,981**	**10.0%**

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

The evolution of the main balance sheet aggregates as at 31 December 2020 is illustrated below.

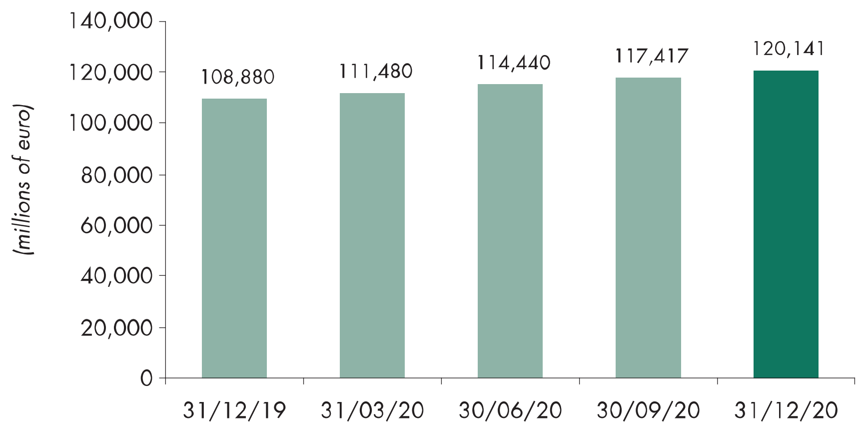
Loan brokering activities

Direct funding

(thousands of euro)	31/12/2020	% impact	31/12/2019 (*)	% impact	Abs. Change	% Change
Current accounts and deposits	**99,964,064**	**85.5%**	**87,782,024**	**80.2%**	**12,182,040**	**13.9%**
- current accounts and demand deposits	98,490,060	84.2%	86,155,794	78.7%	12,334,266	14.3%
- fixed-term deposits and other restricted current accounts	1,474,004	1.3%	1,626,230	1.5%	(152,226)	(9.4%)
Securities	**14,774,208**	**12.6%**	**16,131,273**	**14.7%**	**(1,357,065)**	**(8.4%)**
- bonds and liabilities at fair value	14,704,719	12.6%	16,055,719	14.7%	(1,351,000)	(8.4%)
- certificates of deposit and other securities	69,489	0.1%	75,554	0.1%	(6,065)	(8.0%)
Repurchase agreements	**495,505**	**0.4%**	**3,866,166**	**3.5%**	**(3,370,661)**	**(87.2%)**
Loans and other payables	**1,702,892**	**1.5%**	**1,726,836**	**1.6%**	**(23,944)**	**(1.4%)**
Direct funding	**116,936,669**	**100.0%**	**109,506,299**	**100.0%**	**7,430,370**	**6.8%**
Direct funding without repurchase agreements	**116,441,164**		**105,640,133**		**10,801,031**	**10.2%**
Other funding (Protected capital certificates)	3,699,901		3,239,661		460,240	14.2%
Total direct funding without repurchase agreements with certificates	**120,141,065**		**108,879,794**		**11,261,271**	**10.3%**

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

Direct funding

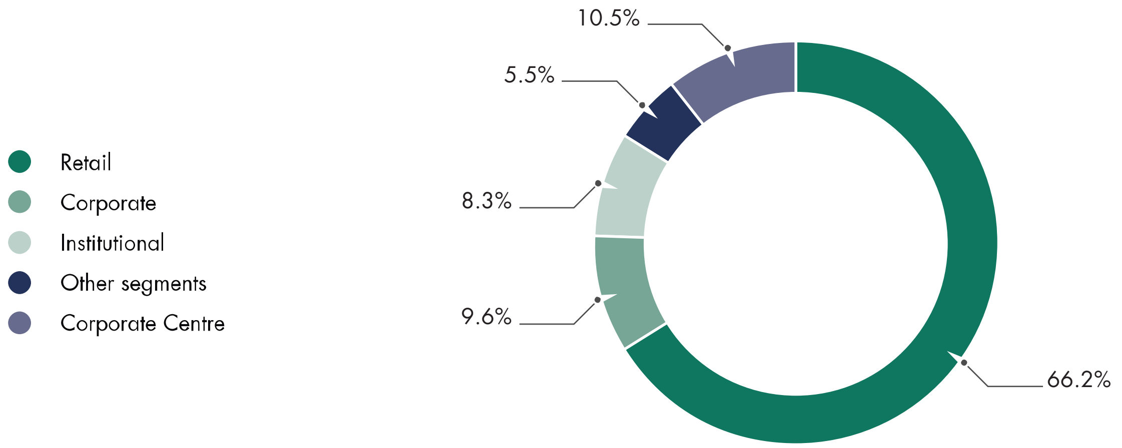


As at 31 December 2020, **direct funding**[1] totalled 120.1 billion, showing an increase of 10.3% compared to the 108.9 billion as at 31 December 2019. More specifically, in comparison with the figures at the end of 2019 there has been an increase of 12.3 billion in the segment represented by the current accounts and demand deposits of the commercial network (+14.3%). As regards bonds issued, the stock as at 31 December amounted to 14.7 billion, down by 1.4 billion compared to 31 December 2019, due to the redemptions of securities reaching maturity, which offset the new issues. As at 31 December 2020, the funding guaranteed by the stock of certificates with unconditional capital protection totalled 3.7 billion, up compared to the 3.2 billion as at 31 December 2019 (+14.2%).

[1] As from 30 June 2020, for the sake of consistency with the criteria used to represent operating results, the aggregate of direct funding is represented by the sum of term and demand deposits and current accounts, bonds issued, certificates of deposit and other securities, loans and other payables, and protected capital certificates. Repurchase agreements are not included. Figures for the previous year have been restated to ensure comparison on a consistent basis.

(thousands of euro)	31/12/2020	% impact	31/12/2019 (*)	% impact	Abs. Change	% Change
Retail	79,521,550	66.2%	71,048,249	65.3%	8,473,301	11.9%
Corporate	11,475,745	9.6%	9,170,450	8.4%	2,305,295	25.1%
Institutional	9,956,749	8.3%	9,025,006	8.3%	931,743	10.3%
Private	2,983,412	2.5%	2,713,987	2.5%	269,425	9.9%
Investment Banking	3,584,917	3.0%	3,827,404	3.5%	(242,487)	(6.3%)
Leases	6,669	0.0%	5,570	0.0%	1,099	19.7%
Corporate Centre	12,612,023	10.5%	13,089,128	12.0%	(477,105)	(3.6%)
Total direct funding	**120,141,065**	**100.0%**	**108,879,794**	**100.0%**	**11,261,271**	**10.3%**

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



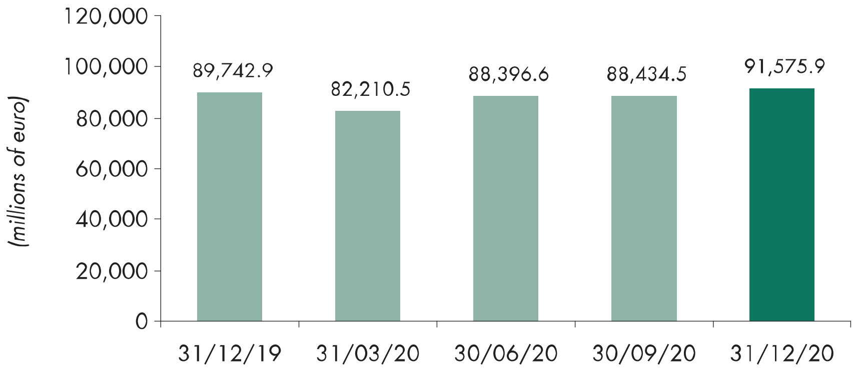
Total direct funding relative to the commercial network (Retail, Corporate, Institutional and Private) grew significantly, reaching 103.9 billion (+13.0%). In relation to a decrease in the stock of bonds placed with the Network, there was a sharp increase, especially in the Retail sector, of the non-restricted component of deposits (+9.0 billion). A significant contribution was also provided by the Corporate sector, rising from 9.2 billion to 11.5 billion.
On the contrary, Corporate Centre amounts decreased, mainly due to the contraction in institutional bonds, despite new issues for 1,600 million, of which two subordinate Tier 2 issues totalling 850 million.

Indirect funding

(thousands of euro)	31/12/2020	% impact	31/12/2019 (*)	% impact	Abs. Change	% Change
Managed assets	**59,599,197**	**62.9%**	**58,324,893**	**62.9%**	**1,274,304**	**2.2%**
mutual funds and SICAVs	40,797,605	43.0%	39,049,762	42.1%	1,747,843	4.5%
securities and fund management	3,945,198	4.2%	3,904,398	4.2%	40,800	1.0%
insurance policies	14,856,394	15.7%	15,370,733	16.6%	(514,339)	(3.3%)
Administered assets	**35,208,130**	**37.1%**	**34,347,351**	**37.1%**	**860,779**	**2.5%**
Total indirect funding	**94,807,327**	**100.0%**	**92,672,244**	**100.0%**	**2,135,083**	**2.3%**
Underlying funding for protected capital certificates	3,231,474		2,929,380		302,094	10.3%
Total indirect funding without certificates	**91,575,853**		**89,742,864**		**1,832,989**	**2.0%**

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

Indirect funding



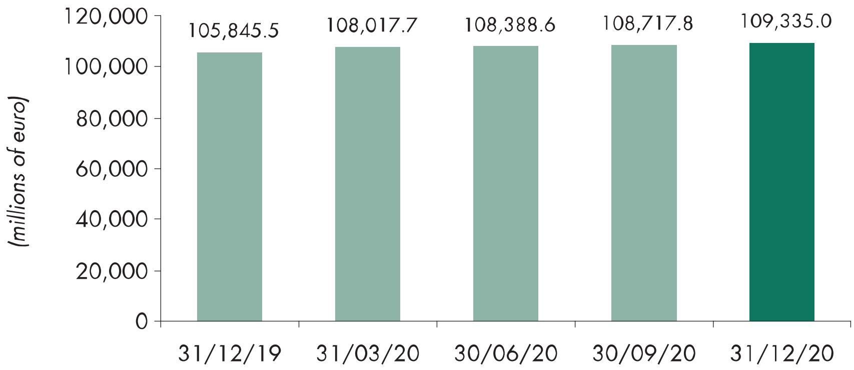
Indirect funding net of protected capital certificates[1] amounted to 91.6 billion, up by 2.0% compared to 31 December 2019.
The component of managed assets amounts to 59.6 billion, up compared to the figure of 58.3 billion as at 31 December 2019 (+2.2%), due to the contribution of funds and SICAVs, which offset the downturn in the bancassurance segment.
Administered assets, net of protected capital certificates, reached 32.0 billion, an increase of 0.6 billion (1.8%) compared to the end of 2019.

Loans to customers

(thousands of euro)	31/12/2020	% impact	31/12/2019	% impact	Abs. Change	% Change
Mortgage loans	76,393,191	69.9%	65,341,934	61.7%	11,051,257	16.9%
Current accounts	8,538,393	7.8%	11,345,996	10.7%	(2,807,603)	(24.7%)
Repurchase agreements	3,482,261	3.2%	5,724,258	5.4%	(2,241,997)	(39.2%)
Finance leases	1,491,577	1.4%	1,715,408	1.6%	(223,831)	(13.0%)
Credit cards, personal loans and salary-backed loans	1,890,737	1.7%	2,019,994	1.9%	(129,257)	(6.4%)
Other transactions	15,222,324	13.9%	17,195,762	16.2%	(1,973,438)	(11.5%)
Senior securities from sales of non-performing loans	2,316,502	2.1%	2,502,112	2.4%	(185,610)	(7.4%)
Total net loans to customers	**109,334,985**	**100.0%**	**105,845,464**	**100.0%**	**3,489,521**	**3.3%**

[1] As from 30 June 2020, for consistency with the criteria for the representation of operating results, the aggregate of indirect funding is represented net of deposits underlying protected capital certificates. Figures for the previous year have been restated to ensure comparison on a consistent basis.

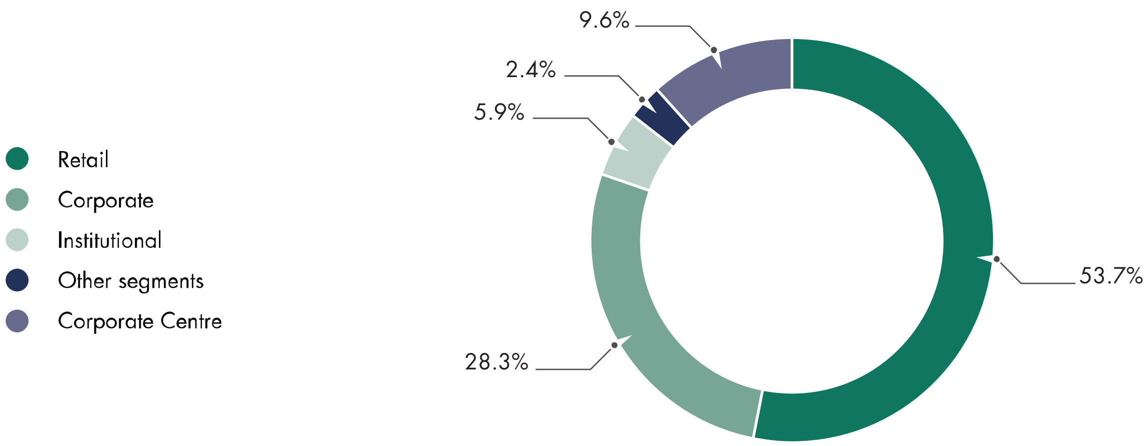
Net loans to customers



Net loans to customers[1] amounted to 109.3 billion as at 31 December 2020, an increase of 3.5 billion compared to 31 December 2019. The increase is entirely attributable to performing loans, which grew by 4.7 billion (+4.7%) with new lending to households and businesses amounting to 27.6 billion in the year, while non-performing loans fell further compared to the end of 2019 (-1.3 billion or -22.6%), due to the sales finalised in December.

(thousands of euro)	31/12/2020	% impact	31/12/2019 (*)	% impact	Abs. Change	% Change
Retail	58,679,546	53.7%	56,039,813	52.9%	2,639,733	4.7%
Corporate	30,952,448	28.3%	28,616,852	27.0%	2,335,596	8.2%
Institutional	6,498,443	5.9%	5,831,264	5.5%	667,179	11.4%
Private	335,172	0.3%	232,677	0.2%	102,495	44.1%
Investment Banking	694,825	0.6%	819,074	0.8%	(124,249)	(15.2%)
Leases	1,639,209	1.5%	2,005,510	1.9%	(366,301)	(18.3%)
Corporate Centre	10,535,342	9.6%	12,300,274	11.6%	(1,764,932)	(14.3%)
Total net loans	**109,334,985**	**100.0%**	**105,845,464**	**100.0%**	**3,489,521**	**3.3%**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the segmentation criteria used for 2019.



The growth of Group loans was positively impacted by the trend in loans of the Commercial Network, which stood at a total of 96.5 billion (+5.7 billion), also considering the sale of UTP loans at the end of the year (Django Transaction). The significant growth recorded was specifically concentrated in the Retail (+2.6 billion) and Corporate (+2.3 billion) sector, where the sharp growth in medium/long-term loans more than offset the decrease in the short-

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

term segment. Corporate Centre saw a downturn, where the exposure to Cassa Compensazione e Garanzia, in the Parent Company's banking book position, decreased from 5.4 billion in 2019 to 3.3 billion in 2020.

Credit quality

Loans to customers at amortised cost

(thousands of euro)	31/12/2020		31/12/2019		Abs. Change	% Change
	Net exposure	% impact	Net exposure	% impact		
Bad loans	1,462,216	1.3%	1,559,597	1.5%	(97,381)	(6.2%)
Unlikely to pay	2,784,816	2.5%	3,911,791	3.7%	(1,126,975)	(28.8%)
Non-performing past-due exposures	45,642	0.1%	72,996	0.1%	(27,354)	(37.5%)
Non-performing loans	**4,292,674**	**3.9%**	**5,544,384**	**5.2%**	**(1,251,710)**	**(22.6%)**
Performing loans	102,725,809	94.0%	97,798,968	92.4%	4,926,841	5.0%
Senior securities from sales of non-performing loans	2,316,502	2.1%	2,502,112	2.4%	(185,610)	(7.4%)
Performing exposures	**105,042,311**	**96.1%**	**100,301,080**	**94.8%**	**4,741,231**	**4.7%**
Total loans to customers	**109,334,985**	**100.0%**	**105,845,464**	**100.0%**	**3,489,521**	**3.3%**

(thousands of euro)	31/12/2020				31/12/2019			
	Gross exposure	Total value adjustments	Net exposure	Coverage	Gross exposure	Total value adjustments	Net exposure	Coverage
Bad loans	3,578,445	(2,116,229)	1,462,216	59.1%	3,564,561	(2,004,964)	1,559,597	56.2%
Unlikely to pay	4,945,662	(2,160,846)	2,784,816	43.7%	6,423,516	(2,511,725)	3,911,791	39.1%
Non-performing past-due exposures	62,018	(16,376)	45,642	26.4%	98,492	(25,496)	72,996	25.9%
Non-performing loans	**8,586,125**	**(4,293,451)**	**4,292,674**	**50.0%**	**10,086,569**	**(4,542,185)**	**5,544,384**	**45.0%**
of which: forborne	*4,155,253*	*(1,913,282)*	*2,241,971*	*46.0%*	*4,701,537*	*(1,809,432)*	*2,892,105*	*38.5%*
Performing loans (*)	**105,508,487**	**(466,176)**	**105,042,311**	**0.4%**	**100,631,192**	**(330,112)**	**100,301,080**	**0.3%**
of which: Stage 1	*98,314,976*	*(155,709)*	*98,159,267*	*0.2%*	*94,717,188*	*(123,560)*	*94,593,628*	*0.1%*
of which: Stage 2	*7,193,511*	*(310,467)*	*6,883,044*	*4.3%*	*5,914,004*	*(206,552)*	*5,707,452*	*3.5%*
of which: forborne	*1,780,371*	*(94,599)*	*1,685,772*	*5.3%*	*1,982,039*	*(73,477)*	*1,908,562*	*3.7%*
Total loans to customers	**114,094,612**	**(4,759,627)**	**109,334,985**	**4.2%**	**110,717,761**	**(4,872,297)**	**105,845,464**	**4.4%**

(*) Includes senior securities from sales of non-performing loans for an amount of 2,316.5 million (of which 2,317.9 million in gross exposure and 1.4 million in value adjustments).

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

Net non-performing loans (bad loans, unlikely to pay and past due and/or non-performing overdue) amounted to 4.3 billion as at 31 December 2020.
An analysis of the individual items shows the following changes:

- Net bad loans of 1.5 billion, down by 6.2% compared to 31 December 2019;
- Net unlikely to pay of 2.8 billion, down by 28.8% compared to 3.9 billion as at 31 December 2019;
- Net past due exposures amounting to 46 million (73 million as at 31 December 2019).

The coverage rate for the entire impaired loans aggregate rose to 50.0% (45.0% as at 31 December 2019).
More specifically, as at 31 December 2020, the coverage ratio was as follows:

- Bad loans 59.1% (56.2% as at 31 December 2019);
- Unlikely to pay: 43.7% (39.1% as at 31 December 2019);
- Past due 26.4% (25.9% as at 31 December 2019).

The coverage ratio of performing loans came out at 0.44%, compared to 0.33% as at 31 December 2019.

Financial assets

(thousands of euro)	31/12/2020	% impact	31/12/2019	% impact	Abs. Change	% Change
Debt securities (*)	33,859,700	82.2%	31,238,603	84.3%	2,621,097	8.4%
Equity instruments	1,387,043	3.4%	1,942,243	5.2%	(555,200)	(28.6%)
UCIT units	1,015,377	2.5%	604,969	1.6%	410,408	67.8%
Total securities portfolio	**36,262,120**	**88.1%**	**33,785,815**	**91.1%**	**2,476,305**	**7.3%**
Derivative trading and hedging instruments	2,661,631	6.5%	2,063,323	5.6%	598,308	29.0%
Loans	2,251,881	5.5%	1,219,951	3.3%	1,031,930	84.6%
Total financial assets	**41,175,632**	**100.0%**	**37,069,089**	**100.0%**	**4,106,543**	**11.1%**

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

Financial assets amounted to 41.2 billion, an increase of 11.1% compared to 37.1 billion as at 31 December 2019; the increase was mainly concentrated in debt securities (+2.6 billion) and, specifically, in the portfolio of securities held to maturity measured at amortised cost. The breakdown as at 31 December 2020 is made up of debt securities for 33.9 billion, equity instruments and UCIT units for 2.4 billion, derivatives for 2.7 billion and other financial assets, mainly represented by repurchase agreements for 2.3 billion. Exposures in debt securities issued by sovereign states amounted to 29.0 billion, of which 19.3 billion referring to Italian government securities. Investments in Italian government securities are classified under financial assets at amortised cost for 13.6 billion, in the portfolio of financial assets measured at fair value through other comprehensive income for 4.3 billion and in the portfolio of financial assets at fair value through profit and loss for 1.4 billion, as they are held for trading.

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

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

(thousands of euro)	31/12/2020	% impact	31/12/2019	% impact	Abs. Change	% Change
Debt securities	2,128,251	23.3%	2,086,204	28.6%	42,047	2.0%
Equity instruments	1,061,431	11.6%	1,310,644	18.0%	(249,213)	(19.0%)
UCIT units	1,015,377	11.1%	604,969	8.3%	410,408	67.8%
Total securities portfolio	**4,205,059**	**46.1%**	**4,001,817**	**54.9%**	**203,242**	**5.1%**
Financial and credit derivatives	2,661,631	29.2%	2,063,323	28.3%	598,308	29.0%
Loans	2,251,881	24.7%	1,219,951	16.7%	1,031,930	84.6%
Overall total	**9,118,571**	**100.0%**	**7,285,091**	**100.0%**	**1,833,480**	**25.2%**

Financial assets measured at fair value through other comprehensive income

(thousands of euro)	31/12/2020	% impact	31/12/2019	% impact	Abs. Change	% Change
Debt securities	10,385,184	97.0%	11,895,173	95.0%	(1,509,989)	(12.7%)
Equity instruments	325,612	3.0%	631,599	5.0%	(305,987)	(48.4%)
Total	**10,710,796**	**100.0%**	**12,526,772**	**100.0%**	**(1,815,976)**	**(14.5%)**

Financial assets at amortised cost

(thousands of euro)	31/12/2020	% impact	31/12/2019	% impact	Abs. Change	% Change
Debt securities (*)	21,346,265	100.0%	17,257,226	100.0%	4,089,039	23.7%
Total	**21,346,265**	**100.0%**	**17,257,226**	**100.0%**	**4,089,039**	**23.7%**

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

Exposure to sovereign risk

The Group's total exposure in sovereign debt securities as at 31 December 2020 was 29,024.8 million, and is provided below, broken down by country (in thousands of euro):

Countries	Fin. assets at fair value through profit and loss	Fin. assets measured at fair value through other comprehensive income	Fin. assets at amortised cost	Total debt securities	of which Parent Company
Italy	1,398,644	4,285,296	13,632,869	19,316,809	19,095,808
Spain	420,578	951,469	1,318,638	2,690,686	2,690,686
Ireland	3	-	19,943	19,946	19,943
Germany	3	364,805	536,312	901,120	901,117
France	-	1,308,511	1,658,968	2,967,479	2,967,479
Austria	-	-	145,167	145,167	145,167
Other EU countries	4	142,176	289,791	431,971	431,967
Total EU countries	**1,819,232**	**7,052,258**	**17,601,688**	**26,473,178**	**26,252,167**
USA	3	358,352	2,001,907	2,360,262	2,360,260
Israel		-	5,235	5,235	5,235
Chile		20,977	2,066	23,043	23,043
Argentina	42	-	-	42	42
China	-	77,987	49,549	127,536	127,536
Mexico	-	4,189	18,935	23,124	23,124
South Korea		10,703		10,703	10,703
Russia			1,722	1,722	1,722
Total other countries	**45**	**472,208**	**2,079,414**	**2,551,667**	**2,551,665**
Total	**1,819,277**	**7,524,466**	**19,681,102**	**29,024,845**	**28,803,832**

Exposure is mainly concentrated within the Parent Company Banco BPM, which as at 31 December held a total of 28,803.8 million, mostly relative to Italian government bonds.

Investments in sovereign debt securities are classified in the portfolio of financial assets at fair value through profit and loss for approximately 6%, in the portfolio of financial assets measured at fair value through other comprehensive income for 26%, and the remaining 68% is classified in the segment of financial assets at amortised cost.

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

Financial assets at fair value through profit and loss

Status	Maturing by 2021	Maturing between 2021 and 2025	Maturing between 2025 and 2030	Maturing beyond 2030	Total fair value as at 31/12/2020	Total fair value by hierarchy		
						LEVEL 1	LEVEL 2	LEVEL 3
Italy	2,002	1,121,322	274,608	712	1,398,644	1,398,644	-	-
Spain	-	-	420,578	-	420,578	420,578	-	-
Ireland	-	1	1	1	3	3	-	-
Greece	-	-	-	2	2	2	-	-
Germany	-	-	-	2	2	3	-	-
Other EU countries	-	-	1	-	1	2	-	-
Total	**2,002**	**1,121,323**	**695,188**	**717**	**1,819,232**	**1,819,232**	**-**	**-**
of which Parent Company	-	1,113,802	686,706	-	1,800,507	1,800,507	-	-

Financial assets measured at fair value through other comprehensive income

Status	Maturing by 2021	Maturing between 2021 and 2025	Maturing between 2025 and 2030	Maturing beyond 2030	Total fair value as at 31/12/2020	Net reserve at FVTOCI	Value adjustments	Total fair value by hierarchy		
								LEVEL 1	LEVEL 2	LEVEL 3
Italy	1,881,322	1,767,860	636,114	-	4,285,296	48,449	-	4,285,296	-	-
Spain	-	71,834	879,636	-	951,470	12,639	-	951,469	-	-
France	-	-	1,308,511	-	1,308,511	15,367	-	1,308,511	-	-
Germany	-	77,452	287,353	-	364,805	3,497		364,805		
Other EU countries	-	4,580	125,821	11,775	142,176	3,219	-	142,176	-	-
Total	**1,881,322**	**1,921,726**	**3,237,435**	**11,775**	**7,052,258**	**83,171**	**-**	**7,052,257**	**-**	**-**
of which Parent Company	1,881,322	1,720,242	3,237,435	11,775	6,850,774	82,857		6,850,775	-	

Financial assets at amortised cost

Status	Maturing by 2021	Maturing between 2021 and 2025	Maturing between 2025 and 2030	Maturing beyond 2030	Total book value as at 31/12/2020	Total fair value	Total fair value by hierarchy		
							LEVEL 1	LEVEL 2	LEVEL 3
Italy	2,193,191	8,722,987	2,716,691	-	13,632,869	14,200,300	14,200,300	-	-
Spain	-	365,353	953,285	-	1,318,638	1,395,360	1,395,360	-	-
France	-	-	1,658,968	-	1,658,968	1,739,571	1,739,571	-	-
Ireland	-	-	19,943	-	19,943	22,178	22,178	-	-
Germany	-	-	536,312	-	536,312	554,937	554,937		
Other EU countries	-	5,352	429,606	-	434,958	455,961	455,961	-	-
Total	**2,193,191**	**9,093,692**	**6,314,805**	**-**	**17,601,688**	**18,368,307**	**18,368,307**	**-**	**-**
of which Parent Company	2,193,190	9,093,292	6,314,403	-	17,600,885	18,367,505	18,367,505	-	-

Net Interbank Position

Loans to banks

(thousands of euro)	31/12/2020	% impact	31/12/2019	% impact	Abs. Change	% Change
Loans to central banks	**7,826,884**	**70.4%**	**6,556,632**	**65.3%**	**1,270,252**	**19.4%**
Loans to other banks	**3,293,797**	**29.6%**	**3,487,795**	**34.7%**	**(193,998)**	**(5.6%)**
Current accounts and demand deposits	552,608	5.0%	908,865	9.0%	(356,257)	(39.2%)
Fixed-term deposits	75,366	0.7%	134,493	1.3%	(59,127)	(44.0%)
Repurchase agreements	854,645	7.7%	971,491	9.7%	(116,846)	(12.0%)
Other loans	1,811,178	16.3%	1,472,946	14.7%	338,232	23.0%
Total loans (A)	**11,120,681**	**100.0%**	**10,044,427**	**100.0%**	**1,076,254**	**10.7%**

Due to banks

(thousands of euro)	31/12/2020	% impact	31/12/2019	% impact	Abs. Change	% Change
Due to central banks	**27,820,559**	**82.0%**	**20,783,964**	**72.9%**	**7,036,595**	**33.9%**
Refinancing operations	27,355,979	80.6%	20,735,884	72.7%	6,620,095	31.9%
Other payables	464,580	1.4%	48,080	0.2%	416,500	866.3%
Due to other banks	**6,116,964**	**18.0%**	**7,731,721**	**27.1%**	**(1,614,757)**	**(20.9%)**
Current accounts and demand deposits	521,475	1.5%	636,642	2.2%	(115,167)	(18.1%)
Fixed-term deposits	152,328	0.4%	113,156	0.4%	39,172	34.6%
Repurchase agreements	4,619,012	13.6%	5,870,652	20.6%	(1,251,640)	(21.3%)
Other payables	824,149	2.4%	1,111,271	3.9%	(287,122)	(25.8%)
Total payables (B)	**33,937,523**	**100.0%**	**28,515,685**	**100.0%**	**5,421,838**	**19.0%**
Mismatch loans/payables (A) - (B)	**(22,816,842)**		**(18,471,258)**		**(4,345,584)**	**23.5%**
Due to central banks: refinancing operations	(27,355,979)		(20,735,884)		(6,620,095)	31.9%
Interbank balance (excl. refinancing operations)	4,539,137		2,264,626		2,274,511	100.4%
Mismatch towards central banks (excl. refinancing operations)	7,362,304		6,508,552		853,752	13.1%
Interbank balance towards other banks	(2,823,167)		(4,243,926)		1,420,759	(33.5%)

Net interbank exposure as at 31 December 2020 amounted to -22,816.8 million, compared to the balance of -18,471.3 million at the end of last year.
Amounts due to central banks came to 27.8 billion, and include TLTRO III long-term refinancing operations with the European Central Bank for a nominal value of 27.5 billion.

If net exposures towards central banks are not considered (in reality linked to the mandatory reserve), the net interbank balance towards other banks is negative, and amounts to -2,823.2 million (-4,243.9 million as at 31 December of last year).

Interests in associates and joint ventures

Interests in companies subject to significant influence as at 31 December 2020 amounted to 1,664.8 million, compared with 1,386.1 million as at 31 December 2019.

The increase recorded during the year, of 278.7 million, refers to the acquisitions of Anima Holding S.p.A. for 192.2 million (of which 141.5 million resulting from the reclassification of the interest held up to 1 April 2020, as illustrated in “Part A – Accounting policies” in the Notes to the consolidated financial statements) and to the effects deriving from the valuation of interests in associated companies using the equity method, relating to the share of the results recorded by the same during the year (+130.8 million), the effects of the reductions of capital of Agos Ducato (-69.0 million), Anima Holding (-0.9 million), and Etica SGR (-0.9 million) following the distribution of dividends, as well as changes attributable to the Group in the valuation reserves of those companies (+9.0 million).

In July, the Parent Company Banco BPM made a capital contribution of 17.5 million to its investee Vera Vita S.p.A., against a total capital contribution of 50 million.
Banco BPM has also subscribed a share of 35 million of Tier 2 subordinated loans in favour of Vera Vita S.p.A., issued for a total amount of 100 million.

Property, plant and equipment

(thousands of euro)	31/12/2020	31/12/2019	Abs. Change	% Change
Property, plant and equipment used in operations	**2,392,442**	**2,308,541**	**83,901**	**3.6%**
- at cost	894,659	875,205	19,454	2.2%
- at fair value	1,497,783	1,433,336	64,447	
Property, plant and equipment held for investment purposes	**1,160,040**	**1,315,771**	**(155,731)**	**(11.8%)**
- at fair value	1,160,040	1,315,771	(155,731)	
Total property, plant and equipment (item 90)	**3,552,482**	**3,624,312**	**(71,830)**	**(2.0%)**
Property, plant and equipment held for sale (item 120)	61,449	33,594	27,855	82.9%
Total property, plant and equipment	**3,613,931**	**3,657,906**	**(43,975)**	**(1.2%)**

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

Property, plant and equipment used in operations *(thousands of euro)*	At cost	At fair value	31/12/2020	31/12/2019
Owned assets	**100,866**	**1,497,783**	**1,598,649**	**1,546,998**
- land	-	1,101,844	1,101,844	1,043,095
- buildings	-	345,839	345,839	336,504
- other	100,866	50,100	150,966	167,399
Rights of use acquired through leases	**793,793**	**-**	**793,793**	**761,543**
- buildings	781,132	-	781,132	760,865
- other	12,661	-	12,661	678
Total	**894,659**	**1,497,783**	**2,392,442**	**2,308,541**

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

Property, plant and equipment held for investment purposes *(thousands of euro)*	At cost	At fair value	31/12/2020	31/12/2019
Owned assets	**-**	**1,160,040**	**1,160,040**	**1,315,771**
- land	-	829,624	829,624	952,657
- buildings	-	330,416	330,416	363,114
Total	**-**	**1,160,040**	**1,160,040**	**1,315,771**

As at 31 December 2020, the total property, plant and equipment held by the Group amounted to 3,613.9 million. Moreover, the segment of non-current assets held for sale as at 31 December 2020 includes 61.4 million of property, plant and equipment (33.6 million as at 31 December 2019), referring to real estate for which sales agreements were defined.

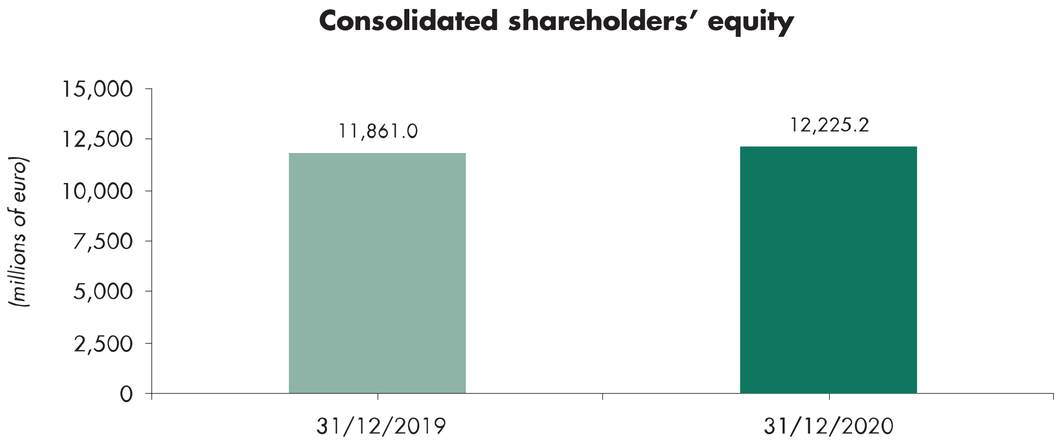
Liability provisions

As at 31 December, liability provisions amounted to 1,415.5 million (1,486.7 million last 31 December) and included the provisions for employee severance pay of 369.5 million (384.9 million at the end of last year), pension funds of 133.7 million (150.9 million as at 31 December 2019), allocations against commitments and guarantees given of 127.4 million (116.0 million at the end of the previous year) and other provisions of 784.9 million (834.9 million at the end of 2019).
These latter included provisions for personnel expenses for 450.7 million (368.8 million as at 31 December 2018), mainly attributable to the costs expected to be incurred for early retirement incentives, also through the voluntary use

of the extraordinary benefits of the Solidarity Fund of the sector and provisions for legal and tax disputes of 109.5 million (156.9 million at the end of last year).

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

Shareholders' equity and solvency ratios



The Group's consolidated shareholders' equity as at 31 December 2020, including equity instruments, valuation reserves and profit for the year, amounted to 12,225.2 million, compared to the figure at the end of 2019 of 11,861.0 million.
The increase of 364.2 million is due to the issuance of 400 million nominal Additional Tier 1 instruments in January, recognised in the financial statements for an amount of 397.3 million (equal to the consideration received less transaction costs) under item "140. Equity instruments" net of the negative contribution of comprehensive income recorded during the year. The latter is negative by 16.7 million due to the net profit for the year of 20.9 million and the negative change in valuation reserves of 37.6 million.
In addition, other negative changes totalling 16.4 million were recorded, relating to the payment of coupons in relation to Additional Tier 1 instruments and the change in own shares in portfolio.

The following table shows the breakdown of valuation reserves:

(thousands of euro)	**31/12/2020**	**31/12/2019**
Financial assets measured at fair value through other comprehensive income	139,259	(2,715)
Property, plant and equipment	246,926	249,658
Foreign investment hedges	199	206
Cash flow hedges	(4,287)	(6,905)
Exchange rate differences	11,860	11,604
Financial liabilities designated at fair value through profit and loss (changes in own credit risk)	(8,608)	3,292
Actuarial gains/(losses) on defined benefit pension plans	(95,176)	(102,344)
Share of valuation reserves related to interests in associates and joint ventures carried at equity	17,925	9,726
Special revaluation laws	2,314	2,314
Total	**310,412**	**164,836**

Valuation reserves as at 31 December 2020 were positive and amounted to 310.4 million, compared with the positive figure of 164.8 million as at 31 December 2019. The most significant change was seen in the reserves on Financial assets measured at fair value through other comprehensive income, which recorded a positive change of

142 million referring mainly to reserves on foreign government securities for 59.3 million and on other debt securities for 25.6 million.

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

(thousands of euro)	Shareholders' equity	Net profit (loss) for the year
Balance as at 31/12/2020 as per the Parent Company's financial statements	**12,136,580**	**(24,270)**
Impact of the valuation at equity of associated companies	113,705	130,799
Cancellation of dividends received during the year by subsidiaries and associated companies	-	(70,847)
Other consolidation adjustments	(25,078)	(14,802)
Balance as at 31/12/2020 as per the consolidated financial statements	**12,225,207**	**20,880**

Solvency ratios - reference legislation and standards to follow

From 1 January 2014, the new harmonised regulations for banks and investment companies contained in (EU) Regulation no. 575/2013 ("CRR") and in Directive no. 2013/36/EU ("CRD IV") dated 26 June 2013 came into force. These transpose the standards defined by the Basel Committee for banking supervision (Basel 3 framework) to the European Union. The Regulation and related technical rules are directly applicable in national law, and constitute the "Single Rulebook".
It is noted that the minimum capital requirements for 2020 are as follows:

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

The Bank of Italy has confirmed the Countercyclical Capital Buffer ratio for exposures to Italian counterparties at zero per cent also for the fourth quarter of 2020.
With its communication of 30 November 2017, the Bank of Italy identified Banco BPM banking group as an Other Systemically Important Institution (O-SII). The O-SII reserve for 2020 came to 0.13%, and must be gradually increased every year on a straight-line basis until it reaches 0.25% on 1 January 2022.
On 11 December 2019 the European Central Bank (ECB) notified Banco BPM of its final decision regarding the minimum capital ratios that Banco BPM is required to meet on an ongoing basis, starting from 2020.
The decision is based on the supervisory review and evaluation process (SREP) conducted in compliance with Article 4(1)(f) of Regulation (EU) no. 1024/2013. In compliance with Article 16(2)(a) of the Regulation no. 1024/2013, which confers on the ECB the power to require supervised banks to hold own funds in excess of the minimum capital requirements laid down by current regulations, the requirement to be added to the requirements highlighted above was reduced to 2.25% (the additional requirement set out in the previous decision valid for 2019 was 2.50%).
Taking into account the requirements deriving from the aforementioned SREP requirement, Banco BPM Group was to comply with the following capital ratios at consolidated level for 2020, in accordance with the transitional criteria in force:

- CET1 ratio: 9.385%;
- Tier 1 ratio: 10.885%;
- Total Capital ratio: 12.882%.

Due to the health emergency linked to Covid-19, with the letter dated 8 April 2020, the ECB decided to amend the decision taken in December 2019, stipulating that the SREP requirement of 2.25% must be maintained by Banco BPM for 56.25% as Common Equity Tier 1 (CET1) and 75% as Tier 1 Capital (Tier 1).
Lastly, on 17 November 2020, considering the general situation linked to the Covid-19 pandemic, the European Central Bank informed supervised banks that it will not issue any SREP decisions in 2020. Therefore, the above capital requirements previously established for 2020 are confirmed also for 2021. Therefore, also considering the countercyclical capital buffer established by the competent national authorities for exposures to the countries in which the Group operates, equal to 0.003%, the minimum requirements that Banco BPM is required to meet for 2021 and until a new communication is issued, are as follows:

- CET1 ratio: 8.459%;
- Tier 1 ratio: 10.381%;
- Total Capital ratio: 12.943%.

As at 31 December 2020, also including the profit for 2020, and considering the proposed distribution of a dividend of 6 cents per share that will be submitted to the Shareholders' Meeting[1], the phased-in Common Equity Tier 1 ratio comes to 14.63% compared to 14.76%[2] as at 31 December 2019.

The phased-in ratio benefits from the exercise of the option for the full application of the transitional regime introduced by the new Art. 473a of Regulation EU no 575/2013, which extends over time the impact on own funds deriving from the application of the new impairment model introduced by IFRS 9. Said transitional regime provides the option of including in Common Equity Tier 1 capital a transitional positive component equal to a percentage of the increase in provisions for expected credit losses due to the application of IFRS 9. That percentage decreases over time over a time frame of five years, as indicated below:

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

From 1 January 2023 the impact deriving from the first-time adoption of IFRS 9 shall be fully reflected in the calculations of own funds. Without prejudice to the impacts expected from the transitional regime mentioned above, Banco BPM does not benefit from any impact on Common Equity Tier 1 capital in the financial statements as at 31 December 2020 due to the new transitional regime set out by the amendments made by Regulation 873/2020 to Article 473a in relation to increased provisions allocated during the current year for expected losses on performing loans in relation to the amount of the same as at 1 January 2020.
The estimates of the capital ratios that the Group would have, all other conditions being the same, if it had not exercised the above option, are called, in brief, "fully phased IFRS 9". Excluding the impacts of the transitional regime mentioned, the fully phased IFRS 9 CET 1 ratio is 13.26%.

The phased-in Tier 1 ratio phased-in is 15.85%, while the Total Capital ratio is 18.75%.
The buffer on the limit set out for the possibility to distribute dividends (Maximum Distributable Amount or MDA buffer) is 553 b.p. (388 b.p. fully phased), which rises to 614 b.p. considering the issue of AT1 financial instruments for 400 million in January 2021 (449 b.p. fully phased).

Liquidity position and leverage

On 1 October 2015, Delegated Regulation (EU) no. 61/2015 entered into force, which requires that banks maintain a specific level of liquidity measured with regard to a short-term time horizon (Liquidity Coverage Ratio, "LCR"). The regulation establishes a gradual phase-in[(3)]. As at 31 December 2020, Banco BPM Group had a consolidated LCR equal to 191%.

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

Lastly, the value of the leverage ratio as at 31 December 2020 came to 5.66%, calculated using the transitional definition of Common Equity Tier 1 capital and benefiting from the exclusion of several exposures to central banks, as per Regulation (EU) 2020/873. The ratio calculated based on the fully phased rules is 5.16%.

1 Based on that set out in Art. 26, paragraph 2 of Regulation EU no. 575/2013 of 26 June 2013 (CRR), the profit for 2020 will formally become part of the Common Equity Tier 1 capital from the moment that the Shareholders' Meeting approves the 2020 financial statements.
2 Figure recalculated to include in the reserves the dividend whose distribution from the profit for 2019 was not submitted to the Shareholders' Meeting following the indications provided by the European Central Bank in its communication of 27 March 2020.
(3) 60% from 1 October 2015; 70% from 1 January 2016; 80% from 1 January 2017 and 100% from 1 January 2018.

RESULTS BY BUSINESS SEGMENT

Introduction

According to IFRS 8, companies must provide information enabling users of financial statements to assess the nature and the effects on the financial statements of their business activities and the economic contexts in which they operate.
Therefore, it is necessary to highlight the contribution of the various operating segments to the formation of the Group's income.
The identification of the "operating segments" of this Section is consistent with the procedures adopted by Company Management to make operating decisions and is based on internal reporting, used for allocating resources to the various segments and analysing their performance.

For this reason, and in order to improve the representation of the Group's profitability, operating segments that are below the quantitative thresholds put forward in paragraph 13 of IFRS 8 are also highlighted.

For 2020, the operating segments taken as a reference to provide the disclosure in question are as follows:

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

Also note that the justification for identifying Leases as an operating segment lies in the need to provide separate evidence of a run-off activity, whose economic contribution indicated is, therefore, represented solely by the result deriving from the management of the progressive reduction in assets and liabilities of the former Banca Italease (today incorporated into Banco BPM) and the subsidiary Release.

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

- the "Retail" segment includes the management and marketing of banking and financing services/products and loan brokering, which are mainly aimed at private customers and small businesses. These activities are for the most part carried out by the Parent Company's Commercial Network;
- the "Corporate" segment includes the management and marketing of banking and financing services/products and loan brokering, which are mainly aimed at medium and large-sized companies. These activities are for the most part carried out by the Parent Company's Commercial Network;
- the "Institutional" segment includes the management and marketing of banking and financing services/products and loan brokering, which are mainly aimed at bodies and institutions (UCITs, SICAVs, insurance companies, pension funds and banking foundations). Those activities are conducted in an equal amount by the Commercial Network of the Parent Company, for "local institutional" counterparties, and by specialised branches, for "systemically-important institutional" counterparties;
- the "Private" segment includes the management and marketing of banking and financing services/products and loan brokering, which are mainly aimed at private customers with assets that, individually and/or within their business, amount to at least 1 million euro. These activities are carried out by the subsidiary Banca Aletti;
- the "Investment Banking" segment includes activities to structure financial products, access to regulated markets, support and development of specialised financial services. These activities are carried out by the subsidiary Banca Akros;
- the "Strategic Partnerships" segment includes the contribution of shares held in Agos Ducato, Vera Vita, Vera Assicurazioni, Bipiemme Vita, Factorit, Alba Leasing, SelmaBipiemme Leasing, CF Liberty Servicing and Anima Holding;

- the "Leases" segment includes data relating to activities connected to the Group's leasing business, the scope of which encompasses:
  - activities relating to the contracts of the former Banca Italease;
  - Release;
- the "Corporate Centre" segment, in addition to governance and support functions, includes the portfolio of owned securities, the treasury and the Group's Asset and Liability Management, the stock of bond issues placed on institutional markets, equity interests not allocated between Strategic Partnerships and companies operating in the real estate sector. Lastly, all the consolidation entries are included in this residual segment.

The table below provides the key income statement and balance sheet figures, broken down by segment, referring to 2020 compared with those as at 31 December 2019.

Note that the figures of the previous year have been restated as compared to those published in the 2019 Annual Report, as a result of the reallocation of customers among the various business lines, made on the basis of sales logic to achieve segmentation that better reflects the characteristics of customers.
In addition, the same have been adapted to the new formulation of the Reclassified Income Statement on the basis of which:

- the economic impact of a change in own credit risk related to the issue of certificates is included in the ad hoc item "Change in own credit risk on Certificates issued by the Group, net of taxes";
- the impacts of reversals of the PPA, recognised following business combinations concluded in previous years are shown in a separate item called "Purchase Price Allocation net of taxes".

	Group	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Operating income									
2020	**4,151,817**	2,254,223	693,040	99,932	90,912	125,444	132,255	21,434	734,577
2019 (*)	**4,349,618**	2,462,088	628,326	104,398	92,899	142,357	128,715	27,489	763,346
Operating expenses									
2020	**(2,430,067)**	(1,843,966)	(156,707)	(37,801)	(73,138)	(84,591)	(2,566)	(33,050)	(198,248)
2019 (*)	**(2,604,046)**	(1,974,965)	(165,841)	(36,195)	(70,918)	(86,665)	(2,771)	(35,095)	(231,596)
Profit (loss) from operations									
2020	**1,721,750**	410,257	536,333	62,131	17,774	40,853	129,689	(11,616)	536,329
2019 (*)	**1,745,572**	487,123	462,485	68,203	21,981	55,692	125,944	(7,606)	531,750
Profit (loss) for the year									
2020	**20,880**	(319,352)	2,023	17,107	4,025	24,212	113,872	(90,626)	269,619
2019 (*)	**797,001**	8,920	68,092	36,514	7,917	38,049	129,558	(129,028)	636,979
Net loans (including senior securities from sales of non-performing loans)									
2020	**109,334,985**	58,679,546	30,952,448	6,498,443	335,172	694,825	-	1,639,209	10,535,342
2019 (*)	**105,845,464**	56,039,813	28,616,852	5,831,264	232,677	819,074	-	2,005,510	12,300,274
Direct funding (without repurchase agreements with certificates)									
2020	**120,141,065**	79,521,550	11,475,745	9,956,749	2,983,412	3,584,917	-	6,669	12,612,023
2019 (*)	**108,879,794**	71,048,249	9,170,450	9,025,006	2,713,987	3,827,404	-	5,570	13,089,128

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the segmentation criteria used for 2020.

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

	Group	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Operating income									
2020	**4,151,817**	2,254,223	693,040	99,932	90,912	125,444	132,255	21,434	734,577
2019	**4,349,618**	2,518,431	577,136	97,239	93,366	142,357	131,472	33,673	755,944
Operating expenses									
2020	**(2,430,067)**	(1,843,966)	(156,707)	(37,801)	(73,138)	(84,591)	(2,566)	(33,050)	(198,248)
2019	**(2,604,046)**	(1,974,965)	(165,841)	(36,194)	(70,918)	(86,665)	(2,771)	(36,358)	(230,334)
Profit (loss) from operations									
2020	**1,721,750**	410,257	536,333	62,131	17,774	40,853	129,689	(11,616)	536,329
2019	**1,745,572**	543,466	411,295	61,045	22,448	55,692	128,701	(2,685)	525,610
Profit (loss) for the year									
2020	**20,880**	(319,352)	2,023	17,107	4,025	24,212	113,872	(90,626)	269,619
2019	**797,001**	71,296	18,647	31,105	8,002	38,049	131,403	(125,319)	623,818
Net loans (including senior securities from sales of non-performing loans)									
2020	**109,334,985**	58,679,546	30,952,448	6,498,443	335,172	694,825	-	1,639,209	10,535,342
2019	**105,845,464**	56,335,048	28,601,715	5,720,739	245,141	819,074	-	2,005,510	12,118,237
Direct funding (without repurchase agreements with certificates)									
2020	**120,141,065**	79,521,550	11,475,745	9,956,749	2,983,412	3,584,917	-	6,669	12,612,023
2019	**108,879,794**	71,458,290	8,796,052	8,978,898	2,744,058	3,827,404	-	5,570	13,069,522

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

Retail

	2020	2019 (*)	absolute change	% change
Net interest income	937,279	1,013,107	(75,828)	(7.5%)
Financial margin	**937,279**	**1,013,107**	**(75,828)**	**(7.5%)**
Net fee and commission income	1,293,613	1,419,757	(126,144)	(8.9%)
Other net operating income	9,237	19,867	(10,630)	(53.5%)
Net financial result	14,094	9,357	4,737	50.6%
Other operating income	**1,316,944**	**1,448,981**	**(132,037)**	**(9.1%)**
Operating income	**2,254,223**	**2,462,088**	**(207,865)**	**(8.4%)**
Personnel expenses	(1,012,069)	(1,069,663)	57,594	(5.4%)
Other administrative expenses	(703,243)	(778,051)	74,808	(9.6%)
Net value adjustments to property, plant and equipment and intangible assets	(128,654)	(127,251)	(1,403)	1.1%
Operating expenses	**(1,843,966)**	**(1,974,965)**	**130,999**	**(6.6%)**
Profit (loss) from operations	**410,257**	**487,123**	**(76,866)**	**(15.8%)**
Net adjustments to loans to customers	(690,545)	(336,066)	(354,479)	105.5%
Net provisions for risks and charges	(7,465)	(60,560)	53,095	(87.7%)
Profit (loss) before tax from continuing operations	**(287,753)**	**90,497**	**(378,250)**	
Taxation charge related to profit or loss from continuing operations	79,132	(24,886)	104,018	
Profit (loss) after tax from continuing operations	**(208,621)**	**65,611**	**(274,232)**	
Charges related to company restructuring, net of taxes	(123,265)	-	(123,265)	
Charges related to the banking system, net of taxes	(89,604)	(60,439)	(29,165)	48.3%
Impact of the realignment of tax values to book values	128,324	-	128,324	
Purchase Price Allocation net of taxes (**)	(26,186)	3,748	(29,934)	
Parent Company's profit (loss) for the year	**(319,352)**	**8,920**	**(328,272)**	

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the segmentation criteria used for 2020.
(**) PPA relating to receivables and client relationships, net of related tax effects.

Economic performance of the segment

Total operating income amounted to 2,254.2 million, down by 8.4% on the previous year. Within this aggregate, net interest income fell by 75.8 million, even given the allocation of part of the benefit generated by the TLTRO III to the Commercial Network and in particular to the Retail segment. The fall is due, on one hand, to the decrease of the spread of loans (especially in the short-term segment), and on the other, to higher funding costs, which rose significantly with regard to the non-restricted component.
Net fee and commission income recorded a downtrend (-126.1 million) significantly affected by the current pandemic crisis, both as regards investment products (-63.3 million) and consumer credit (-18.7 million) and of the transactional bank component (-15.8 million).
Other net operating income was also down, which last year benefited from the recovery of 9.1 million resulting from the redefinition of the calculation of fast track fees for some positions, while the net financial result increased, due to greater hedges made on behalf of customers.
Operating expenses of 1,844 million recorded a fall of 131 million; specifically personnel expenses recorded a decrease of 57.6 million, due to the lower number of resources; the reduction of other administrative expenses was instead 74.8 million, due to a careful cost policy.
Net adjustments to loans to customers were significantly higher, and amounted to 690.5 million (against 336.1 million in 2019), following the derisking exercise performed by the Group, which materialised at the end of the year with the sale of non-performing loans through the "Django" transaction.
Provisions for risks and charges amounted to 7.5 million, compared to 60.6 million last year, and included extraordinary provisions recognised for charges that could have arisen from the settlement of present and future disputes and claims.
The item "Charges related to company restructuring, net of taxes" includes the costs, after tax, relating to early retirement incentives and to the streamlining of the Group's branch network amounting to 123.3 million.

Net banking industry charges amounted to 89.6 million (against 60.4 million last year). Their trend is affected by an increase in contributions due to the National Resolution Fund (of 42 million) and to the Interbank Deposit Guarantee Fund (of 47.6 million).
The positive impact resulting from exercising the option to realign tax values to book values for intangible assets was recognised under the item of the same name and amounted to 128.3 million.
Instead, the contribution of the PPA (Price Purchase Allocation) of -26.2 million, was negative due to the lack of positive reversals on non-performing loans.
Due to the above, the Retail segment closed 2020 with a loss of 319.4 million.

As illustrated in the introduction, the "Retail" segment includes the management and marketing of banking and financing services/products and loan brokering, which are mainly aimed at private customers and small businesses.

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

Private Customers

Introduction

In 2020, in addition to its core business activities, the Bank was engaged in managing the Covid-19 emergency.

Numerous measures were implemented to guarantee banking services to customers, even remotely, when personal movements were drastically reduced.
A fundamental driver for these activities is represented by the projects developed in the past year and a half, as part of Banco BPM's .DOT (digital omnichannel transformation) programme. The development of digital platforms (public websites, YouWeb, YouBusinessWeb, YouApp) and the integration of the various channels with CRM, enabled customers to be promptly informed of the organisational changes resulting from the pandemic right from the start of the lockdown, as many branches closed and services were provided on appointment only.
Initiatives were launched to stimulate the digital adoption, to provide information about the anti-crisis measures launched at Government level and extended by Banco BPM, to reassure its customers at a confusing time for the financial markets and to demonstrate its proximity to the communities in the areas with which the Bank has always had close ties. In Phase 1 (March-April), a structured customer communication plan was set in motion, which in less than two months sent over 3 million e-mails, over 500 thousand text messages and over 2 million post-login messages with personalised content depending on the target and the objectives.
With a view to enabling customers to always be updated on developments of the measures adopted to manage the emergency, direct access to a dedicated "News Covid–19" section has been created from the homepage of the website www.bancobpm.it, which gathers all information that may be of use to customers in a single place, including operating procedures to apply for support measures, and the protection envisaged to mitigate the negative impact of the Covid emergency.

In what is known as Phase 2 (May), various commercial initiatives were gradually introduced, and Customer Journeys to help customers find the answers to their needs. Personal Loans, Investment Services, E-money and digital services for companies are the areas considered a priority for the resumption of commercial activity.
A new APP was added to the channels already available (web and contact centres, website) to make it even easier for customers to set up an appointment in their branch.

Private Customers

Banco BPM's Private Customers include all private individuals, with the exception of what is known as Private Banking customers, natural persons who are either "Personal" or "Universal" customers.

In December 2020, Private customers broke down as follows:

Segment	no. of customers with current account	% of customers with current account
Universal	2,717,048	80.1%
Personal	623,248	18.4%
Other Retail segments	50,227	1.5%
Total Retail customers with a current account (including card accounts)	**3,390,523**	**100.0%**

Products, services and loans for private Retail customers

Current accounts

Also in 2020, Banco BPM focused its efforts on the efficient streamlining of its range of products and services, and, at the same time, adjusted the economic conditions of the same.
To ensure that its customers were able to promptly take advantage of the tax opportunities offered, specific current accounts were created for the so-called "superbonuses".
Further and important developments are currently under analysis or under implementation and will be completed in the coming months.
Close collaboration with the commercial network continued, to provide support to the same and the need for training/information.

New Public Websites

The modernisation of the digital ecosystem of public websites, which led to the release of the new commercial (www.bancobpm.it) and institutional (www.gruppo.bancobpm.it) websites in December 2019, played a key role during the year not only from a sales perspective, but also to manage communication relating to the health emergency. Especially in the first six months and during the lockdown when access to the physical channel was strictly limited, the commercial website became the main hub for communication and support, as well as the landing point for all Direct Mailing activities. In the 12-month period, over 160 banking articles were published, in excess of 130 pages were updated and new sections were created, including that dedicated to Covid-19 containing information for customers (and others) relating to the implementation of the various Government Decrees. With respect to the previous year, the Group's public website recorded an increase in sessions of over 60%. The section dedicated to the magazine, where all news relating to the emergency is published, as well as financial education editorials, grew by 420%. Furthermore, to give its customers an even more effective user experience, improving access to the content published, work was carried out on the architecture of the commercial website, thanks to the connection with CRM and the more evolved Digital Marketing platforms. These developments will enable the browsing experience to be personalised, featuring purchase paths that are increasingly in line with the characteristics and needs of individual users.

Transfer of tax credit originating from Ecobonus and Superbonus schemes

Within the context of the Covid-19 pandemic emergency, what is known as the Relaunch Decree, subsequently converted into Law no. 77 of 17 July 2020, introduced an extraordinary opportunity for customers in the private customer segment, as well as in the condominium associations and business segments, namely the possibility of transforming the tax deductions resulting from the credit accrued for energy efficiency work on property (known as Ecobonus and Superbonus) into a tax credit transferable to third parties, including banks and financial institutions. To enable its customers to exploit this opportunity, Banco BPM entered into a partnership with a leading operator in the sector (Cherry106) with the aim of providing its customers with a digital platform to manage the transfer of tax credit; this way, the customer, unlike the procedures followed by other operators in this sector, can enter the application directly on-line and then make the relative request, receiving all feedback by e-mail. The bank handles the subsequent re-purchase of the credit, therefore closing the transaction and guaranteeing the monetisation of the

tax credit. The customer can then proceed with the work, selling the credit at a very advantageous price and, if creditworthy, also obtain a loan from the Bank to cover initial expenses.
As at 31 December 2020, around 1,000 credit transfer applications were entered in the digital platform by customers interested in the scheme, with a breakdown of 60% for the corporate and condominium associations segment and 40% for the private customer segment.

Multi-channel services

During the course of 2020, efforts continued to develop the range of digital services, addressed to both "Private" and "Business" customers.

In 2020, the projects developed on the platforms for private customers were focused on:
- launching the roll-out plan for services "enabling" remote transactions to be carried out, such as for example a Digital identity for customers with accounts at branches and a Remote Digital Signature for pure digital WeBank customers. These services will facilitate the digital transformation of commercial processes both in the branch and on digital channels into paperless mode. The roll-out process will be completed in 2021 across the entire customer base;
- making the channels more efficient by converging some Trading and Investment sections of the YouWeb and WeBank websites.

This enabled the YouWeb service to be renewed, giving it a more complete range of functions and making it easier to use, thanks to the wide-scale adoption of solutions already developed for pure digital WeBank customers. The convergence process, which was completed in December 2020, will lead to significant benefits, both in terms of optimising development and maintenance work, and cutting costs:
- designing a new app for Mobile banking services for private customers, with totally new graphics, improved navigation and a series of new functions. The reason behind the new app is Banco BPM's intention to pursue a development approach based on a "Mobile First" logic, due to the increasing widespread use of smartphones and tablets by bank customers. The new features introduced will enable a real connection to be created between the branch network, the advisors and the customers, with a full multichannel approach;
- revising the on-line section dedicated to the world of insurance, giving customers the opportunity to buy the policies proposed directly on-line.

With regard in particular to business customers, efforts focused on revising the user interface with a view to improving the User Experience (e.g. streamlining and simplifying the authorisation processes for payment transactions) and on introducing new functions from a multichannel perspective (such as for example the option of setting up an appointment with your branch advisor on-line).

Contingency processes implemented during the Covid pandemic

During the first few years of 2020, to tackle the emergency situation caused by the epidemic underway, numerous contingency processes were implemented, with the aim of facilitating remote transactions for customers.

The following paragraphs illustrate the main processes designed for "private" and "business" customers.

Contingency processes created for "Private" customers:
- establishment of remote Digital Channels (YouWeb and YouCall) to enable customers to operate remotely, without having to come to the branch;
- replacement of the safety procedure used to access channels with a self mode in the event of a malfunction.

Contingency processes created for "Business" customers:
- application for moratorium to suspend the payment of loan instalments and revocations of credit facilities (Heal Italy Decree);
- application of loans for up to 25 thousand euro, guaranteed by MCC;
- management of SDD mandates, with the option of revoking a mandate on-line or refusing a debit charge.

In 2020, Banco BPM significantly increased the levels of digital adoption in all major customer segments, due to the increase of access authorisation and the growth in services that can be used specifically on mobile devices. The figures show that the introduction of the new App for Private customers further boosted the use of the mobile channel for both information purposes and to perform transactions, making the mobile channel increasingly central to relations between the Bank and customer.

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

Product/Service	**End of 2020 figures**	**End of 2019 figures**	**% Change**
No. of Customers with the Home Banking service	1,987,677	1,943,694	+ 2.3%
No. of Customers with Telephone Banking	1,896,984	1,859,514	+ 2.0%
No. of Pure digital Customers (WeBank)	250,742	217,014	+ 15.5%

% Customers making transactions	**End of 2020 figures**	**End of 2019 figures**	**Change**
% Customers making online transactions against total customers making transactions	49.3%	42.4%	+ 6.90%
% Customers making mobile transactions against total customers making online transactions	60.3%	50.7%	+9.60%

Contact Centre

In 2020, a year characterised by a significant change in customer behaviour, also due to the health emergency, the Customer Support and Development structure further enhanced its synergy with the Network channel, providing support to the increasing number of customers now using digital channels.

New activities were introduced in collaboration with the Network:
- information service regarding measures to sustain income and liquidity, launched in the first half of the year;
- telephone service to assist with making/changing appointments and for any requests for information on this function, for both private and business customers.

Within the scope of providing customer support, this was actively managed both through traditional telephone channels (operator and Interactive Voice Response - IVR) and written channels (email messages) as well as through a virtual assistant (web and mobile) and social media channels; the main areas of operations, in addition to those indicated above, were as follows:
- assistance and navigation support to customers using home banking services, both for private Banco BPM customers and WeBank digital customers and companies using remote banking services (YouBusiness Web);
- the management of telephone banking services (direct banking and trading operations) both for private Banco BPM customers and WeBank digital customers;
- customer support during the before- and after-sales steps of the WeBank online service, for all the products and services offered, in partnership with the virtual branch (representing the single communication channel between the bank and the customer);
- support to private WeBank and Banco BPM customers on topics relating to cards.

As regards business development, a cross-selling approach between the different areas of business was taken with customers.

E-Money - Payment cards

The “E-Money - Payment Cards” area is particularly dynamic, due to continuous technological development and the momentum of the reference legislation and of national and international circuits; circuits with which the Bank has continuous and in-depth dialogue in place, with a view to identifying and even anticipating market trends.
This area includes, for example, work carried out in partnership with Bancomat on both “physical” services and with regard to important news in the digital sphere, for which the bank is one of the major sponsors.

Products are managed in accordance with PSD2 (Payment Services Directive 2) provisions, also as regards SCA (Strong Customer Authentication).
Following the well-known government provisions, merchant customers were guaranteed services that enable them to benefit from tax credit on POS transactions and, for all cardholders, the opportunity to join the "Government Cash Back" scheme from as early as December 2020.

In collaboration with the Bank's commercial functions, a number of initiatives were launched, focused on sustaining commercial offer, and were immensely successful.
Lastly, this great drive has entailed continuous efforts to streamline the product catalogue, to adjust prices and to make processes more efficient (e.g. POS) to ensure that the commercial network and customers are able to make the best use of these services.

From a legislative perspective, the PSD2 required the introduction of Strong Customer Authentication, also for on-line payments with payment cards, to increase the safety of electronic payments and reduce the risk of fraud, which has affected merchants, circuits, issuers and acquirers. Banco BPM Group, which also acts in the capacity of issuer, has set out an activity plan and a series of communication initiatives to facilitate the migration towards new "PSD2 compliant" safety instruments.
To promote the migration process and given the emergency context triggered by the pandemic, a function has been implemented on internet banking platforms YouWeb and WeBank, which enables customers to replace their non-compliant safety instruments with mobile tokens.
The schemes set in motion (DEM, communication via internet banking and the App, branch campaigns, campaigns via SMS) launched during 2020 will continue for the first few months 2021 as well.

Private mortgage loans

The impact of the Covid-19 pandemic and the consequent lockdown period also affected the segment of mortgage loans to households, which nevertheless held its ground, recording only a moderate fall in 2020 (-18%) in disbursements compared to the previous year, which had been characterised by a sharp increase.

Mortgage lending to Banco BPM group's private customers amounted to 3.2 billion. Efforts in this area continued in 2020, entailing the streamlining of the range of products and services sold through direct channels and commercial partners, maintaining its benchmark status among the major national competitors.

2020 saw the Bank focused in particular on providing support to customers experiencing difficulties in paying their loan instalments due to the effects of the Coronavirus, both as regards employees and the sphere of the self-employed and professionals.

Banco BPM immediately applied all of the legislative moratoriums offered by the Government, adding its own schemes to these entailing the complementary suspension of household mortgages and loans.
Overall the moratoriums granted to private customers in 2020 regarded around 30,000 loans.

Consumer credit

The Covid-19 pandemic emergency also had a significant impact on the production of personal loans in 2020, which amounted to 730 million, almost all disbursed by Agos Ducato, a consumer credit company, whose products are distributed exclusively by Banco BPM.
To give continuity to its range of services, in agreement with Agos Ducato, the opportunity to sell personal loans remotely was also introduced, thus meeting the need of private customers.
Furthermore, to show that it really understands the needs of households that are having to tackle this difficult economic situation, during 2020, Banco BPM sponsored schemes relating to Agos personal loans, under which the customers interested were able to benefit from advantageous conditions, including postponing the payment of the first instalment.

Advances on severance pay for employees of the Public Administration

In 2020, considerable efforts were made to promote the loan for advances on severance pay for employees of the Public Administration, which, also due to the signature of new agreements, enabled Banco BPM to be the market leader for this type of product.
The fruitful cooperation between Banco BPM and the leading Italian Institutions and Professional associations continues, confirming the significant attention paid to professionals and the Bodies and Military corps of the Italian state.

Advances from the Wage Guarantee Fund, "Extraordinary" and "In Derogation"

From March 2020, the Covid-19 pandemic emergency forced numerous companies to resort to the Wage Guarantee Fund.
From the first few months, Banco BPM subscribed to the National ABI agreement to advance these amounts to all workers that were entitled as unable to work due to the pandemic.
All operations were carried out free of charge for the customer.

Investment products

The funding volumes for asset management products recorded during the year confirm our customers' preference for flexible forms of investment, with a view to diversifying the financial assets in their portfolios.
In order to ensure the most extensive range of asset management products, Banco BPM Group continued its partnership with the most important and prestigious international investment firms, as well as with Anima SGR, the Group's main partner in the investment sphere.
The Group's commitment to policies for economic sustainability was also confirmed in 2020, and is reflected in the range of products linked to ESG dimension (Environmental, Social and Governance) such as, for example, the "Anima Investimento Circular Economy 2025" product, a fund that envisages investing in companies that can reap benefits from a planned economic system to re-use materials in subsequent production cycles, therefore reducing waste, and the family of Anima Esalogo funds, which fully meet ESG requirements.
In 2020, the certificates were appreciated in particular by retail customers. The main characteristics of the product that proved to be the most appealing are the guarantee of the capital invested on maturity and the minimum investment cut to 100 euro making it accessible to a larger share of customers.
In 2020, the Group continued to distribute insurance products through the joint-ventures established with Vera Vita, Vera Financial and Bipiemme Vita.
In this regard, customers showed a preference for the range of traditional Segment 1 policies. These products provided customers with an answer to their need for security, particularly important in these historic times. With regard to insurance investment products, Unit-linked products with investments that meet ESG criteria were also offered. Consequently, companies that develop their businesses with due regard for the environment were preferred, as they guarantee sustainable working conditions for their employees and have a transparent governance model.
In 2020, special attention was paid to supplementary pension arrangements, with a view to improving the customer's awareness of an important, but still little heard of topic.
In the last quarter, the Group set a commercial initiative relating to pension funds in motion, through a Customer Journey experience, by making the "Arti & Mestieri" pension fund by Anima SGR and the pension insurance product P.I.P. Piano Individuale Pensionistico [Individual Pension Plan] by Vera Vita available to customers.

Bancassurance Protection

From March 2020, the effects of the pandemic reflected heavily on development priorities in the protection sphere.
In this context, the range of insurance products, like the other product areas, had to promptly adapt to guarantee the continuity of services provided to customers.

To this end, as a priority, 2020 was characterised by the activation of remote sales channels, which enabled customers to take out insurance cover.
The online channel and products sold remotely by branch advisors guaranteed customer access to insurance cover and preserved the relationship between the bank and the customer.

Furthermore, specific initiatives were set in motion with partner Insurance Companies, with a view to facilitating access to insurance cover, and offering real benefits, such as a month of free insurance cover or a free geolocation service in the case of claims relating to the Auto policies distributed by Banco BPM.

Listening to customers

In 2020, listening to customers and surveying their satisfaction were of primary importance, for the purpose of improving the service provided.
In 2020, the Customer Satisfaction survey was conducted, involving around 170 thousand retail, Private and SME customers, through telephone interviews (67%) and e-mail (33%).

Satisfaction is measured using TRI*M, a numeric score ranging from 0 to 100 provided by the assessments that customers provide regarding overall satisfaction, level of recommendation, likelihood of repurchase and economic convenience of Banco BPM's range of products and services.
The Customer Satisfaction surveys also investigate satisfaction with the products, reputation, branch services, web channels and any problems encountered.
The results for this year show a situation of stability with respect to 2019.
Banco BPM's TRI*M score is 67, measured also taking into account the delicate context and the period of health and economic emergency experienced in 2020.

In 2020, the tools available to oversee the transactional Customer Experience were further developed.
More specifically, 2020 saw the launch of a project to acquire instant digital feedback from customers. Following the acquisition of a customer feedback management platform, short questionnaires were introduced into the home banking channel, YouWeb, to obtain valuable information from customers in real time, with a view to quickly and accurately improve the web platform user experience. The new tool immediately enjoyed widespread use: in just under a month from the launch of the first questionnaires in YouWeb, around 10 thousand responses were collected. In 2021, the use of the tool will be progressively extended to other digital platforms as well (web and mobile).
All of the above integrates with the programme to monitor the transactional customer experience, which currently enables Banco BPM to survey 21 private and corporate customer processes, testing their satisfaction and their perception of simplicity with regard to a specific transaction that the customer has just performed (the processes surveyed impact the main online and offline banking areas, from mortgages to purchasing securities, from cash transactions to the payment of bank transfers and F24 tax forms online).
The measurement of the customer experience also enables critical issues in existing processes to be identified and to take prompt action to resolve them.
23 thousand private customers were interviewed and 6.8 thousand retail companies, with particularly significant redemption rates.
The main outcomes relating to the Customer Experience are continuously shared with the Bank's other structures, to provide support to the same in the development of products and/or the improvement of customer-related processes.
In addition to the previously mentioned Customer Satisfaction and Customer Experience surveys, in 2020, around 10 customised research projects were conducted for the Group, aimed at verifying customers' approaches, also following the changes in customer habits when using banking services linked to the Covid-19 emergency, and collecting feedback on existing products and services. These projects also involved the research Community Panel called "Insquadra", launched in 2019 for Private customers and extended in 2020 to Business customers, with a view to further boosting the tools available to continually listen to customer opinions. Around 2 thousand private and 500 business customers were involved.

Business Customers

There were over 470 thousand Business customers with a current account as at 31 December 2020, of which:

Segment	no. customers with current account	% compared to total businesses
Small Business Operators	160,435	34.0%
Businesses	144,390	30.6%
Companies	43,849	9.3%
Condominium Associations	77,942	16.5%
Other businesses	45,082	9.6%
Total	**471,698**	**100.0%**

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

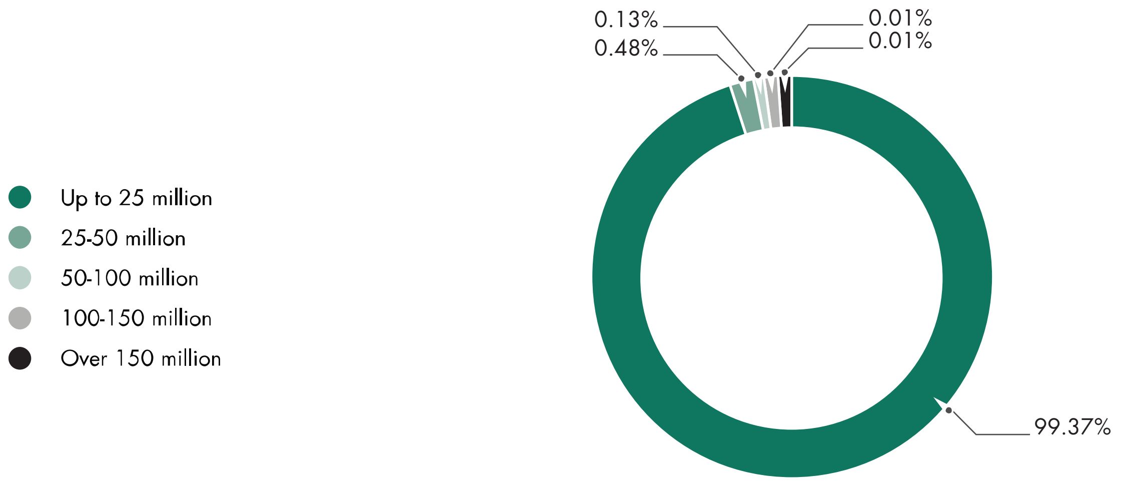


Figure 1 - Breakdown of Business customers in 2020 by turnover bracket

Regarding the breakdown of customers by production sector, commercial activities, ore extraction and manufacturing activities continued to represent the most significant area, followed by those related to construction and property, catering and the agricultural sphere.

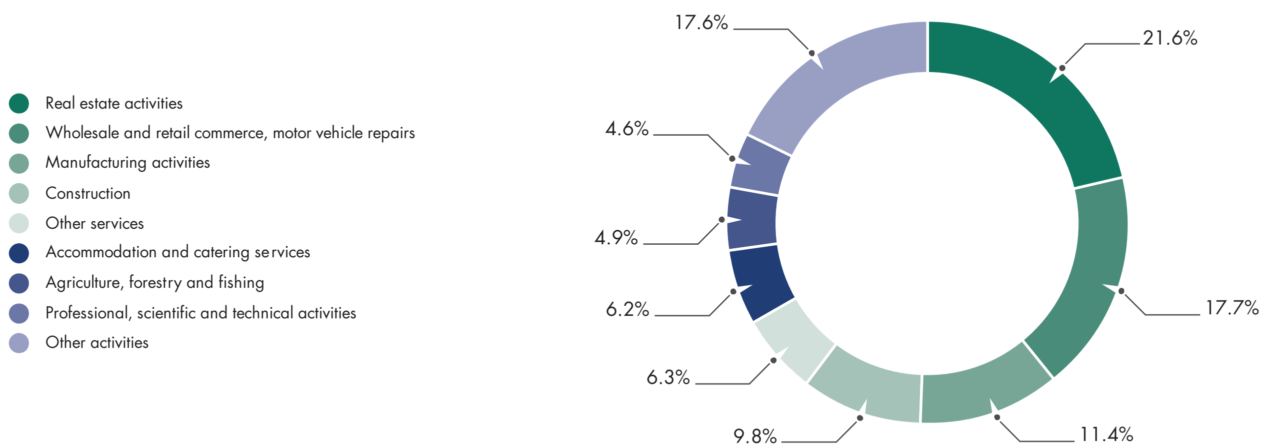


Figure 2 - Breakdown of Business Customers in 2020 by business sector

As mentioned above, the distribution of Business customers includes a significant proportion of small and medium enterprises, for which the Group further strengthened its activities in 2020, thereby confirming its role as the bank of reference and support for the entrepreneurial fabric in the main areas served.
More specifically, this entailed the offer of dedicated products and services, illustrated below.

Collection and payment services

2020 saw the full adoption of the innovative Instant Payment service (technically called SCT INST) based on a European operating standard and relative legislative changes, with reference to increases of the amount that may be collected in this way to 100 thousand euro.
In parallel, the 'YouInvoice' service enabled customers to exploit a powerful and efficient driver application to manage their electronic invoicing cycles, integrating them with the time of collection, payment and advances on invoices. In fact, the inquiry functions for users of the service were increased in proportion to their credit standing and the amounts available.

Loans and lending

The lending products that comprise the various catalogues, unique to Banco BPM Group, seek to meet their main and most frequent requirements: investment, working capital, liquidity, expansion, advances, cash flexibility.
In 2020, work continued to improve and update the types of loans, with a view to guaranteeing a catalogue of lending products that is always able to meet market needs and at the same time can be successfully distributed by the Commercial Network.

As already mentioned in the section on Private customers, the Bank finalised an agreement with the intermediary Cherry 106 S.p.A. for the distribution of a series of products to purchase tax credit, originating from the Relaunch Decree Law, and offered on a fully "digital" basis.

Specific lending solutions were also released to complete the financial cycle of the renovation and/or energy efficiency works of residential buildings by private, condominium association and business customers.

During 2020, work also continued on the projects to pursue simple, accessible financial solutions to support SMEs in their energy transitions. The works relating to those projects are part of the larger context of the guidelines and strategies on lending policies adopted by the bank. These include joining the Working Group promoted by the ABI and called "Sustainable Loans", the objective of which is to develop metrics and guidelines to support supply chains in the process of transition towards sustainability, with regard to the environmental ESG dimension, particularly that related to climate change.

Smart Lending

In 2020, developments relating to the range of digital products mainly regarded making it possible for remote banking "YouBusiness Web" customers to directly apply to the Bank for the subsidies related to the emergency resulting from the Covid-19 pandemic through this channel, with regard to:
- the award of loans secured by the Guarantee Fund for Small and Medium Enterprises, as set forth in Decree Law no. 23 of 8 April 2020 (Liquidity Decree);
- the suspension of the payments of loan instalments rather than extend short-term debts.

A new project was also launched, the aim of which is to achieve the full digitalisation of the process of awarding medium/long-term loans by the end of next year, by integrating the application phase, already developed in 2019, with the award, stipulation and signature of the loan agreement.

Other activities to support and increase business loans

Following the economic/financial difficulties experienced by Businesses in 2020, Banco BPM set in motion the schemes needed to promptly provide the support and relief measures envisaged by the law and by ABI Agreements.
Specifically, the following were implemented:
- new loans secured by the Guarantee Fund for Small and Medium Enterprises (pursuant to the Liquidity Decree and subsequent amendments);

- suspension of the payment of mortgage and unsecured loan instalments (pursuant to the Cura Italia (Heal Italy) Decree and subsequent amendments);
- suspension of the payment of mortgage and unsecured loan instalments and extension of short-term loans pursuant to the 2019 Credit Agreement and subsequent Addenda signed by ABI and Trade Associations.

Agrifood

The "agrifood" segment plays an increasingly important role in the commercial strategies of Banco BPM Group.
In 2020, also in this segment, efforts were above all focused adapting and creating products to fulfil the different provisions to support businesses (pursuant to the "Heal Italy" and "Liquidity" Decrees).
In this regard, note in particular, the 30 thousand euro loans 100% guaranteed by ISMEA and the opportunity to access the guarantee of the Guarantee Fund for SMEs in the whole primary segment.
Even within the limitations imposed by the Covid pandemic, in 2020, Banco BPM also continued to pursue and support business opportunities resulting from the implementation of the Rural Development Programmes (RDP) envisaged for 2014-2020, confirming the important commercial scheme called "RDP - We are with you 100%".
Furthermore, Banco BPM provides financial support to businesses both in the form of short-term products (relating to the various options of getting advances on public contributions) and medium/long-term products (supporting investment).
In 2020, the credit assessment procedure for agricultural enterprises continued to be adopted and maintained (Due Diligence of Agricultural Enterprises). This procedure, together with the presence of specialised professionals in the Network and the range of "Semina" lending products, makes Banco BPM one of the Italian banks with the most focus on the development of the Agrifood segment.

Subsidised Financing and Guarantee Bodies

In 2020, Banco BPM continued to disburse loans to Small and Medium Enterprises and to enterprises with low capitalisation, as well as to households, with a view to (i) facilitating access to credit and/or (ii) to reduce the cost of the latter. These loans feature (i) public guarantees (e.g. Guarantee Fund for SMEs, ISMEA Guarantee Funds, European Investment Fund-EIF, SACE, Guarantee Fund for the First Home, etc.), or (ii) are granted by the Bank using funds obtained at advantageous conditions (e.g. the funds of the European Investment Bank (EIB) or of the Cassa Depositi e Prestiti (state controlled fund and deposit institution)).
During the year, the most significant initiatives were as follows:

- activation of new EIB funding for a total of 500 million, used to grant medium/long-term loans to support investment programmes of Italian SMEs and Mid Caps and, for a share of 100 million, to companies in the agricultural sector with specific focus on young farmers and on actions to combat climate change;
- activation of the EIF Innovfin Guarantee Agreement, which will allow the disbursement of further loans amounting to around 500 million to SMEs and Mid Caps with a strong focus on research and development and/or technological innovation.

Guarantee instruments for enterprises

Considering the importance of guarantees in facilitating access to credit, especially by SMEs, Banco BPM has given the utmost impetus to guarantee operations, which are ancillary to the disbursement of credit, by subscribing/adhering to specific agreements and contracts with the managers and providers of guarantees.

Banco BPM is also active in the main national subsidised guarantee instruments, including:

- Guarantee Fund for Small and Medium Enterprises, specialised in protecting bank loans granted to support business financial needs;
- ISMEA (the Italian Institute for Services for the Agricultural Food Market), formerly the SGFA (the Italian Agricultural and Food Management Fund), dedicated to issuing direct or subsidiary guarantees, co-guarantees and counter-guarantees to agricultural companies.

The above-mentioned funds benefit from the ultimate guarantee of the State, which allows the Bank to lower the production costs of lending and to apply special terms to loans guaranteed by the same.

Considerable efforts were also addressed to operations with Confidi (mutualistic entities created to facilitate access to credit for SMEs), both to draw up a new version of the Convention in view of the 2019 reform of the SMEGF, and to extend collaboration with these enterprises during this emergency period given the more extensive support of the counter-guarantee provided to them by the SME Guarantee Fund (SMEGF).

The Bank also continued to work with various Foundations under specific agreements that regulate operations as regards measures to contrast usury with regard to the funds allocated by Italian Law 108/96 "Anti-Usury Law".

Other State subsidies for businesses

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

Long Term Rental

With a view to extending its range of services, Banco BPM decided to offer innovative solutions also in the mobility segment, proposing the long-term rental service (LTR) to its customers through a commercial partnership with Alphabet (BMW Group), a leading operator in this sector, signed in October 2019.

In March, the sale of the new long-term rental service addressed to Private and Business Customers was launched. In 2021, the service will start to be sold through the digital channels (YouWeb and WeBank) as well as proposals for other services such as, for example, short-term rental and Corporate car sharing.

Corporate

	2020	2019 (*)	absolute change	% change
Net interest income	455,230	412,149	43,081	10.5%
Financial margin	**455,230**	**412,149**	**43,081**	**10.5%**
Net fee and commission income	214,835	223,708	(8,873)	(4.0%)
Other net operating income	101	298	(197)	(66.1%)
Net financial result	22,874	(7,829)	30,703	
Other operating income	**237,810**	**216,177**	**21,633**	**10.0%**
Operating income	**693,040**	**628,326**	**64,714**	**10.3%**
Personnel expenses	(71,015)	(77,924)	6,909	(8.9%)
Other administrative expenses	(80,797)	(84,991)	4,194	(4.9%)
Net value adjustments to property, plant and equipment and intangible assets	(4,895)	(2,926)	(1,969)	67.3%
Operating expenses	**(156,707)**	**(165,841)**	**9,134**	**(5.5%)**
Profit (loss) from operations	**536,333**	**462,485**	**73,848**	**16.0%**
Net adjustments to loans to customers	(497,972)	(364,285)	(133,687)	36.7%
Net provisions for risks and charges	(10,886)	5,373	(16,259)	
Profit (loss) before tax from continuing operations	**27,475**	**103,573**	**(76,098)**	**(73.5%)**
Taxation charge related to profit or loss from continuing operations	(7,555)	(28,483)	20,928	(73.5%)
Profit (loss) after tax from continuing operations	**19,920**	**75,090**	**(55,170)**	**(73.5%)**
Charges related to company restructuring, net of taxes	(8,649)	-	(8,649)	
Charges related to the banking system, net of taxes	(9,346)	(6,469)	2,877	44.5%
Purchase Price Allocation net of taxes (**)	98	(529)	627	
Parent Company's profit (loss) for the year	**2,023**	**68,092**	**(66,069)**	**(97.0%)**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the segmentation criteria used for 2020.
(**) PPA relating to receivables and client relationships, net of related tax effects.

Economic performance of the segment

The Corporate segment recorded a total operating income of 693.0 million, up by 64.7 million (+10.3%) compared to last year.

Within this aggregate, net interest income was 455.2 million, up by 43.1 million against 2019 (+10.5%), benefiting from a higher volume of loans, especially in the medium/long-term component, and from a slightly higher spread. This more than offset the trend of funding, the volume of which also rose significantly, particularly with regard to the non-restricted component. Attention should also be drawn to the benefit resulting from the allocation of part of the economic effects of the TLTRO III.
Net fee and commission income, amounting to 214.8 million was down (-8.9 million), due in particular to the lower contribution of transactional banking services (-4.7 million), while the net financial result rose significantly (amounting to 22.9 million, +30.7 million against 2019), thanks to hedging products placed with businesses (+4.6 million) and to the result of the fair value measurement of loans that did not pass the SPPI test (+26.2 million).
Operating expenses recorded a decrease of 9.1 million, both in terms of personnel expenses and other administrative expenses, while the cost of credit rose sharply, amounting to 498 million (364.3 million in 2019), reflecting the Group's derisking exercise.
In addition, charges related to the banking system, net of taxes were charged to the segment, amounting to 9.3 million, against 6.5 million in 2019, as well as restructuring charges, net of taxes, of 8.6 million, which brought the net result of the business line to 2.0 million, compared to 68.1 million last year.

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

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

Introduction

The structure of the Corporate network shows continuity and stability with respect to the organisation consolidated in previous years, with no substantial changes occurring in 2020.

The current workforce guarantees efficient oversight of commercial and territorial areas through:
- a central structure which directly handles business governance;
- 5 Corporate Markets (Milan, North - West, North - East, Centre North, Centre South) organised into 18 Corporate Centres;
- over 150 managers who, together with dedicated analysts, assist companies in their operations, with a strong focus on business support;
- a Large Corporate structure, with several local offices (Milan, Turin, Verona, Bologna, Rome), which focuses on serving customers with a turnover exceeding 1 billion euro.

Corporate customers

The Corporate segment includes Mid and Large Corporate companies.

Segment	no. of customers with current accounts (*) or with loans (**) as at 31/12/2020
Mid Corporate	approx. 10,000
Large Corporate	approx. 1,250
Total companies	**approx. 11,250**

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

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

Corporate Customers	Total	of which, holders of current accounts	of which, those with loans
Number of customers	approx. 11,300	approx. 10,800	approx. 7,600
Number of Groups	approx. 3,200	approx. 3,100	approx. 2,980

The data on loans (progressive 2020 data, average annual balances - Source RDB) is as follows:

Performing loans ***(in millions of euro)***	**37,175**
Cash + Bonds	32,560
Unsecured	4,615
Direct Funding	**9,905**

Corporate business strategy for 2020

The changing economic context in 2020 and its unprecedented market scenario, characterised by the ongoing medical emergency, drove the Corporate business strategy towards the adoption of two macro-approaches: one more tactical and operational, dictated by the "extraordinary" circumstances; the other more project-oriented and far reaching.

"Continuity and reaction": the tactical approach for Corporate activities

The state of emergency resulting from the pandemic permeated and impacted the commercial activities of the Corporate segment, both in terms of the product range (as government support measures became progressively available to Customers), and in terms of how services were provided.
On one hand, the aim was to guarantee operational continuity and the continuation of ordinary activities, on the other hand, the network made significant efforts to promptly meet the needs of customers, digitally or remotely, thanks to the adoption of web collaboration platforms and the acceleration of the Bank's investments in the digitalisation of processes and services and in the implementation of digital interaction procedures with customers, consistent with the emergency situation.
This perspective also included the implementation in the first half of the year of a new commercial platform called "Sales4Change", which sought to boost the effectiveness of the commercial solutions proposed by the Corporate network.

Sustainability: the project-related approach for Corporate activities

Providing support to customer companies that are transitioning towards a more sustainable business model in terms of ESG, is a far-reaching strategic objective for the Bank.
Through its commercial activities, the Corporate segment is actively involved in reaching several targets that fall within the scope of the SDG (Sustainable Development Goals). Moreover, the year that has just finished has demonstrated that investing in sustainability is one of the priorities of companies that wish to continue to be competitive in the market, even in situations of stress such as the current one.

The following paragraphs describe the areas of Corporate activities relating to the two strategic approaches identified.

Focus on a range of dedicated products and services to provide support to Corporate Customers

Also in 2020 Banco BPM Group confirmed its leading position, at national level, for the specific needs of companies in the Corporate segment. Its consolidated experience gained in supporting this specific segment, combined with its deep roots in local areas, contribute to the constant strengthening of the bank-business relationship, with continuously significant market shares in the specific business segment. Working more closely with Corporate customers was one of the measures set in motion to provide support to companies hit by the pandemic in 2020. Even during the lockdown periods, customers have been able to count on the presence of their managers, as well as all of Central Management, through digital tools and media.

<u>Loans and lending with specific relation to the Covid-19 Health Emergency</u>

In 2020, work to develop the range of lending products dedicated to Corporate customers was characterised by the implementation of the changes introduced by the various Government Decrees containing emergency measures.

The initiatives undertaken with a view to supporting companies regarded both the adaptation to Government or system measures (e.g. ABI), and specific schemes of the Bank.

More specifically, the following are worth mentioning:

- application of the measures envisaged by the Decree Laws (DL) that were issued over the year (e.g. "Heal Italy" DL, CDP Fund, Liquidity DL, SACE Italy Guarantee, FGPMI (Guarantee Fund for SMEs)-MCC Guarantees);
- application of the moratoriums envisaged by the Banking System (Agreement for ABI credit and subsequent Covid-19 addenda with extension of the measures to large companies);
- emergency schemes to provide liquidity to businesses through the use of a special fund allocated by Banco BPM Group for a total value of 3 billion;
- implementation of specific bilateral moratoria;
- Implementation of tools to be able to work remotely, through the use of the usual online channel and of Certified E-mail, with a view to streamlining both ordinary operations, and the contractual stage of lending operations.

With regard to Corporate customers, the tool that was most used and considered to be effective, is represented by SACE's Italy Guarantee (Decree Law no. 23 of 8 April 2020 - Liquidity Decree Law Art. 1, converted, with amendments, into Italian Law no. 40 of 5 June 2020) which Banco BPM subscribed to immediately and was one of the first banks to sign SACE's General Conditions.

This tool, which envisages that SACE may grant guarantees, in accordance with European legislation on State aid, has proven to be very useful in guaranteeing the liquidity needed by Italian companies, whose activities have been restricted or interrupted by the Covid-19 pandemic, to sustain working capital, investments, personnel costs, etc.

The Bank has set a series of initiatives in place, including establishing a dedicated team (made up of specialists and coordinated by the Foreign and Trade Finance structure) for the technical-legal assessment of merit as regards subsidies, the introduction of a specific lending product, the activation of new credit procedures, continuous training and support for the network structures in contact with customers.
In 2020, Banco BPM disbursed loans to Corporate customers under the SACE Italy Guarantee scheme amounting to approximately 1.9 billion, plus disbursements of around 1 billion secured by the guarantee of the Central Guarantee Fund for SMEs.

<u>Main commercial initiatives</u>

With a view to further consolidating its role of reference bank for Italian Mid-Caps, as always, the Corporate structure focused its activities on further increasing its market share, share of business and its overall positioning to serve its customers. These objectives do not ignore the constant monitoring of aspects of creditworthiness, along with activities targeted to monitoring the risk-return ratio.

Its collaboration and synergy with Banca Akros continues to be significant, the latter specialising in Capital Markets (hedging) and Investment Banking (Equity Capital Markets, Debt Capital Markets, M&A, Securitisation and Advisory segments).

In December 2020, the Group also announced the allocation of a fund of 5 billion called "Sustainable Investments 2020-2023", to encourage the transition towards a sustainable economy. The fund is a tangible response to the issues emerging in the ESG dimension, which increasingly represent a key element for the development of business customers.

The fund has set itself important objectives, including:

- increasing the share of sustainable loans in the Group's assets;
- confirming Banco BPM as a partner that provides support to companies that are starting to transition towards sustainable business models;
- confirming the Banco BPM brand as forerunner in the sphere of sustainability;
- providing the customer with an innovative financial tool (e.g. technical advice from the Bank's partners).

The fund is addressed to any business that intends to start investing in increasing the ESG sustainability of its business model.
The Sustainability Fund is consistent with the framework that the legislator, with the increasing support of public opinion, has set out in terms of sustainable objectives/policies both at European level (EU Green Deal), and national

level (National Integrated Energy and Climate Plan - PNIEC, published at the beginning of 2020 and which extends the objectives of the "old" National Energy Strategy). The Fund is Banco BPM's answer to these institutional initiatives.
BBPM has also launched specific initiatives to grasp the opportunities offered by the Relaunch Decree (in particular Superbonus 110% and Ecobonus) in terms of promoting / developing energy efficiency, which fully meet renewable energy requirements and the objectives of the PNIEC.
In terms of businesses, a 2.5 billion fund dedicated to the Superbonus 110% and the Ecobonus has recently been approved.

Hedging financial risk

In 2020, Banco BPM Group reaffirmed its activity of providing specialised support to corporate customers in managing interest rate, exchange rate and commodity risks, through the Corporate & Institutional Banking structure of Banca Akros. This activity is directed towards companies that feature the aforementioned risk hedging needs in relation to their operational management or the structure of their financial statements.
Customers are assisted by a group of sales advisors and specialists equipped with superior technical and commercial skills, located in different geographical areas.
During the year, the Group continued to develop new products and services offered to customers, continuing to strengthen its role as a benchmark for its customers in terms of innovation.
In 2020, this sector stood out for the significant increase in both interest rate and exchange and commodity hedges. Through its sales staff and specialists, the structure has forged solid relationships with its customers, by continuing to provide services with high added value, even in an increasingly challenging market context.

Purchase of trade and tax receivables without recourse

In 2020, Banco BPM strengthened and consolidated the development of services in the sector of business loans secured by the sale of trade receivables as well as the purchase of the same receivables without recourse and tax receivables due to the Public Administration, including tax credit relating to Decree Law 34, (*so-called Ecobonus*).
The purpose of these activities is to sustain the customer's working capital at a particularly complicated time for company liquidity, through the sale of their trade and/or tax receivables. The execution expertise acquired by Banco BPM in this area is demonstrated by its ability to enter into customised agreements with leading companies that wish to optimise the opportunities available to manage supply debt, while at the same time offering financial services to their suppliers.
Consolidating its leadership position in this specific market has been possible also due to an initial phase in which internal procedures were innovated by developing a digital platform able to facilitate operating aspects in the bank-customer relationship.

Origination

Through Senior Bankers, specialised by Industry, and with the support of dedicated Business Analysts, in 2020 the quality of relationships with business owners and the management of companies served was improved; the benefits included increased perceived satisfaction, cross-selling of Corporate and Investment Banking products and overall profitability of relations with corporate customers.
The Origination Unit then succeeded in further strengthening Strategic Coverage activities for the more complex Corporate customers, also thanks to the implementation of systematic Capital Structure Analysis & Solutions activities.
In addition, a team of specialists was established dedicated to the SME segment, again based on the approach of improving the quality of the relationship and cross-selling.

Structured finance

Within the scope of the Corporate function's activities, in 2020, Structured Finance consolidated its important role of meeting the more sophisticated financial needs of institutional and industrial counterparties, which benefit from a highly specialised approach.
Economic performance in 2020 was substantially in line with that of 2019, despite the considerable disruption that the country system has to face during the year due to the effects of the pandemic.

More specifically, Corporate Lending recorded a slight fall caused by the interruption of several structuring operations; this contingency was not fully offset by the new operations concluded with the support of system interventions implemented to tackle the pandemic.
On the other hand, Financial Sponsor activities recorded a particularly positive year due to the high number of mid-cap primary operations that represent the Bank's main area of operations.
Real Estate Financing also enjoyed very good performance, maintaining the high levels of activity recorded in 2019, thanks to the high interest of institutional operators in areas in which the Bank has extensive commercial coverage.
Project Finance activities recorded a slight decrease due to the substantial interruption of infrastructure activities, again due to the pandemic underway.
Lastly, in general, Structured Finance confirmed its role as an important driver in the development of more dynamic and sophisticated customer relations, with the service model adopted allowing for systematic specialised support to be given to the commercial networks during their development, negotiation and consolidation of operating relationships with customers.

The paragraphs below illustrate the activities related to internationalisation processes and the promotion of imports/exports which, even in an economic context of unprecedented complexity, recorded significant growth in 2020 as well.

Foreign Operations and Trade Finance

Dedicated network and foreign goods unit
As a whole, the Foreign Operations structure currently has 130 resources and handles documentation for foreign operations.
In particular, it oversees documentary credit, documented remittances and international guarantees, in accordance with the relative rules in force, seeking to provide customers with a high value-added service that guarantees consistent returns in terms of commission income.

Financial Institutions
During 2020, despite the constraints imposed by the health emergency, the Financial Institutions Group (F.I.G.) oversaw the main foreign markets with the primary purpose of guaranteeing adequate credit lines to support customers' import and export business.
As regards exports, the structure implemented and renewed adequate trade credit lines, both ongoing and temporary, for foreign banks; with regard to imports, as the usual targeted international missions in the main countries of interest for customers could not be undertaken, F.I.G., in any event, maintained regular contact with foreign correspondent banks and managed to maintain existing credit lines.
For the purpose of providing suitable coverage for trade finance operations with countries / banks considered risky or problematic, the Financial Institutions Group renewed its participation in the respective trade facilitation programmes of the main supranational banks: EBRD, IFC and ADB.
By managing the foreign Representative Offices in Mumbai and Hong Kong, the entity has helped customers who operate, or intend to operate, in the areas of responsibility of these offices.
To support new asset acquisitions, F.I.G. confirmed its membership of B.A.F.T. (Bankers' Association for Foreign Trade) and I.T.F.A. (International Trade and Forfaiting Association).
F.I.G. also organised a webinar entitled "Russia: beyond the sanctions and the coronavirus, a market of great opportunities" in collaboration with the Italo-Russian Chamber of Commerce, which saw the participation of around 150 Banco BPM customers.

Foreign Products and Services
Banco BPM provided significant support to companies operating in foreign markets in a year characterised by the global contraction of the demand for goods and services triggered by the pandemic.
In fact, the bank responded to the changed financial requirements of business operators by working with institutional entities and implementing the measures made available by the Government provide financial support to Italian exports.

In line with the growing importance of offering a range of digital services, in 2020, Banco BPM continued its integration of new cutting edge channels, with both information and order functions, addressed to companies that work with or intend to work with firms abroad.

More specifically, continuing to move forward with the process to improve the digital user experience of Business Customers, BANCO BPM Trade World was created.
This is a new HUB that combines the You World – Doing Business in the World, used by around 1,100 Retail and Corporate customers and the You Lounge – The Trade Club platforms, which serves around 1,500 Retail and Corporate customers. You Lounge, together with a further 13 leading international partner banks, participates in the Trade Club Alliance with geographic coverage that extends to 60 countries and over 22,000 selected companies.
Merging the two platforms into a single environment meets the two-fold objective of facilitating access and boosting the use of both services by customers.

The digital range of products and services in the Foreign sphere is completed by a third portal called YouTrade Finance, which enables goods operations to be managed online, simplifying and optimising the bank-customer relationship, and is able to guarantee the highest level of security (e.g. use of digital signatures) through guided procedures.

Agreements with leading institutions
In order to expand the support to customers that operate in the complex field of internationalisation, Banco BPM has joined numerous associations through its managers specialised in Foreign Operations and Trade Finance, and has agreements in place with leading institutions (including ICC Italia International Chamber of Commerce, Credimpex Italia, German-Italian Chamber of Commerce, De International Italia and the previously mentioned SACE). All of this has been done to offer its customers professional support based on in-depth knowledge of regulatory techniques and methods, instruments and rules relating to the world of international trade.
Regarding relations with the Chambers of Commerce, in 2020 Banco BPM maintained its collaboration with the German-Italian Chamber of Commerce (CCIG), as well as with DE International Italia. This company, which belongs to the CCIG, offers a wide range of services for the internationalisation and promotion of forms of cooperation (business days, B2B meetings between Bank customers and foreign operators) with a particular focus on the German area, a region of Europe of particular interest for exporting Italian companies.

Culture of sustainable finance for customers

The increased attention paid to the area of sustainability has also been incorporated in projects to educate customers.
In 2020, the “III class ELITE Lounge Akros Banco BPM Sustainability focus” was created, a new training and commercial project, which will be launched at the beginning of 2021 and will last two years, in partnership with Elite S.p.A. (Borsa Italiana) and Banca Akros.
The companies that will participate in the Lounge will have the opportunity to improve their knowledge, enhance projects undertaken in the sphere of sustainability (e.g. circular economy, energy from renewable sources, waste management) and boost their growth and development potential.
In addition, they can more openly discuss extraordinary finance operations, M&A, internationalisation, issue of bond loans, IPOs and even the process of listing on the capital market.

Institutional

	2020	2019 (*)	absolute change	% change
Net interest income	57,223	58,576	(1,353)	(2.3%)
Financial margin	**57,223**	**58,576**	**(1,353)**	**(2.3%)**
Net fee and commission income	39,526	41,731	(2,205)	(5.3%)
Other net operating income	3,057	4,049	(992)	(24.5%)
Net financial result	126	42	84	200.0%
Other operating income	**42,709**	**45,822**	**(3,113)**	**(6.8%)**
Operating income	**99,932**	**104,398**	**(4,466)**	**(4.3%)**
Personnel expenses	(8,499)	(7,312)	(1,187)	16.2%
Other administrative expenses	(28,423)	(28,262)	(161)	0.6%
Net value adjustments to property, plant and equipment and intangible assets	(879)	(621)	(258)	41.5%
Operating expenses	**(37,801)**	**(36,195)**	**(1,606)**	**4.4%**
Profit (loss) from operations	**62,131**	**68,203**	**(6,072)**	**(8.9%)**
Net adjustments to loans to customers	(24,015)	(8,638)	(15,377)	178.0%
Net provisions for risks and charges	(400)	246	(646)	
Profit (loss) before tax from continuing operations	**37,716**	**59,811**	**(22,095)**	**(36.9%)**
Taxation charge related to profit or loss from continuing operations	(10,372)	(16,448)	6,076	(36.9%)
Profit (loss) after tax from continuing operations	**27,344**	**43,363**	**(16,019)**	**(36.9%)**
Charges related to company restructuring, net of taxes	(1,035)	-	(1,035)	
Charges related to the banking system, net of taxes	(9,180)	(6,970)	(2,210)	31.7%
Purchase Price Allocation net of taxes (**)	(22)	121	(143)	
Parent Company's profit (loss) for the year	**17,107**	**36,514**	**(19,407)**	**(53.1%)**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the segmentation criteria used for 2020.
(**) PPA relating to receivables and client relationships, net of related tax effects.

Economic performance of the segment

Total operating income for the Institutional segment came to 99.9 million, down by 4.5% compared to the previous year (-4.3%).
Within this aggregate, despite the substantial stability of net interest income, thanks to an uptrend of loans which balanced the increase in funding, especially the non-restricted component of the same, a fall in net fee and commission income was recorded (-2.2 million), due to the decrease recorded in commission on company financing operations.
Operating expenses increased overall, and amounted to 37.8 million (+1.6 million against 2019), in particular due to higher personnel expenses, which rose 1.2 million.
Net adjustments to loans to customers rose significantly to 24.0 million, compared to 8.6 million recorded last year due to the derisking exercise undertaken by the Group.
Charges related to the banking system, net of taxes were charged to the income statement of the current year amounting to 9.2 million (7.0 million in 2019) as well as charges for company restructuring, net of taxes of 1 million.
2020 closed with a net profit of 17.1 million.

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

The coordination and commercial support relating to Institutional customers, the Public Administration, Religious Entities, the Third Sector and Centralised Alliances, has been entrusted to the Institutional Customers, Entities and Third Sector Function, which manages the product range offered, developing suitable distribution channels, evolving the service model and developing dedicated products.
The "business" offices that the Institutional Customers, Entities and Third Sector Function is comprised by, are as follows:

- Institutional;
- Centralised Partnerships with Alliances External to the Group;

- Entities and the Public Administration;
- Third Sector and Religious Entities.

Institutional

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

Relations with the Institutional Counterparties are monitored by the Structure of the same name through a complete service model, which includes managers and specialised employees and a dedicated branch.

Institutional customers are broken down by type of SAE (Sector of Economic Activity) as follows (figures as at 31 December 2020):

Type of Entity by SAE (Sector of Economic Activity) (*)	% Breakdown
Mutual Investment Funds, Pension Funds and UCITs	27%
SIMs, SGRs and trust companies	7%
Non-banking (Leasing, Factoring) and Consumer Credit companies	5%
Regions, Healthcare Companies, Large Municipalities and Companies Co-owned by the Public Administration	7%
Insurance companies	5%
Bank foundations	2%
Central Government and Constitutional Bodies	2%
Social Security and Social Welfare Entities	1%
Other companies and financial intermediaries	44%
Total	**100%**

(*) *Group companies are not included*

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

With a view to achieving greater efficiency in the management of relationships, the services offered have been harmonised and commercial partnerships have been developed with Banca Akros and Banca Aletti to make the range of services offered to this particular type of customer more complete and specialised.

In 2020, a specific study began on the interconnections between institutional investors and the real economy, by starting to offer the Mediation of Alternative Investment Funds service, in full synergy with the "Alternative Investments and Funds" Function, and studying ways of participating in/funding the securitisation vehicles subscribed by institutional investors or originated by the same.

Commercial partnership with allies external to the Group

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

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

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

Centralised commercial management takes the form of a dedicated structure, included within the Institutional Customers, Entities and Third Sector Function, which has 18 branches spread across Italy.

Direct supervision through a wholly dedicated structure enables commercial agreements to be constantly developed in view of legislative changes as well as better economic returns and better supervision of operational risks especially as regard Anti-Money Laundering Legislation. In collaboration with the "allies", we serve around 36,000 customers.

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

Entities and the Public Administration

Pursuant to EU Regulation 549/2013 on the European system of national and regional accounts, Entity or "Public Sector" Customers consist of:

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

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

The activity is quality certified in accordance with UNI EN ISO 9001:2015. In 2019, the UNI EN ISO 9001 quality certification for the design and management of Treasury and Cash Services and the provision of loans to the Public Administration was also successfully renewed for an additional three years, confirming the full validity of the processes implemented and the significant ability to analyse and manage risks.

Commercial activities in 2020 focused on the extraordinary contest triggered by the Covid-19 pandemic, providing Public Sector counterparties with products and services able to meet specific needs.

Entities and P.A. Customers are broken down by type of SAE (Sector of Economic Activity) as follows (figures as at 31 December 2020):

Type of Entity by SAE	% Breakdown
Municipalities - Unions of municipalities	35%
Schools and Universities	20%
Companies Co-Owned and Production Companies of Public Services	26%
Other entities	19%
Total	**100%**

Third Sector and Religious Entities

The customers belonging to the Third Sector and Religious Entities are represented by Associations, Foundations, Socially Useful NPOs, Cooperatives and Social Enterprises and other "non-profit" Organisations envisaged by the Law Reforming the Third Sector (Legislative Decree 117/17), in addition to dioceses, parishes, congregations and religious orders. The segment also includes trade unions and political parties.

Third-Sector customers and Religious Entities are broken down by type of SAE (Sector of economic activity)/Legal status as follows (figures as at 31 December 2020):

Type of Entity by legal nature	% Breakdown
Associations	47%
Foundations	2%
Religious Entities (parishes)	13%
Social Cooperatives	4%
Other entities with or without legal status	34%
Total	**100%**

Given the growing importance of the Third Sector, which offers significant prospects for development, Banco BPM has decided to strengthen its sales efforts through a dedicated structure, which now includes specialists in each geographical area of action of Banco BPM.

The most important initiatives of 2020 included:

- entering into an agreement with the Archdiocese of Milan regarding loans to parishes in the Province of Milan to face the Covid-19 emergency;
- sponsoring the "Cantieri Viceversa" laboratory, organised by the National Forum of the Third Sector, to ensure the matching of the demand for and the supply of funds between Third Sector organisations and entities; after the laboratory was concluded, the Third Sector and Religious Entities Structure took part in a webinar entitled "Sustainable Finance and the Third Sector", as part of the "CSR" Week (Corporate Social Responsibility Week), contributing by giving important insights at this high quality event.

Private

	2020	2019 (*)	absolute change	% change
Net interest income	1,272	3,324	(2,052)	(61.7%)
Financial margin	**1,272**	**3,324**	**(2,052)**	**(61.7%)**
Net fee and commission income	89,708	89,551	157	0.2%
Other net operating income	7	6	1	16.7%
Net financial result	(75)	18	(93)	
Other operating income	**89,640**	**89,575**	**65**	**0.1%**
Operating income	**90,912**	**92,899**	**(1,987)**	**(2.1%)**
Personnel expenses	(52,422)	(54,729)	2,307	(4.2%)
Other administrative expenses	(20,112)	(15,866)	(4,246)	26.8%
Net value adjustments to property, plant and equipment and intangible assets	(604)	(323)	(281)	87.0%
Operating expenses	**(73,138)**	**(70,918)**	**(2,220)**	**3.1%**
Profit (loss) from operations	**17,774**	**21,981**	**(4,207)**	**(19.1%)**
Net adjustments to loans to customers	81	(13)	94	
Net provisions for risks and charges	16	(2,752)	2,768	
Profit (loss) before tax from continuing operations	**17,871**	**19,216**	**(1,345)**	**(7.0%)**
Taxation charge related to profit or loss from continuing operations	(4,914)	(5,285)	371	(7.0%)
Profit (loss) after tax from continuing operations	**12,957**	**13,931**	**(974)**	**(7.0%)**
Charges related to company restructuring, net of taxes	(4,676)	-	(4,676)	
Charges related to the banking system, net of taxes	(1,369)	(2,961)	1,592	(53.8%)
Purchase Price Allocation net of taxes (**)	(2,887)	(3,053)	166	(5.4%)
Parent Company's profit (loss) for the year	**4,025**	**7,917**	**(3,892)**	**(49.2%)**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the segmentation criteria used for 2020.
(**) PPA relating to receivables and client relationships, net of related tax effects.

Economic performance of the segment

Total operating income for the Private sector came to 90.9 million, down slightly (-2.1%) compared to the previous year.

Within this aggregate, net interest income, of 1.3 million was down against 2019 (-2.1 million), due both to the fall in the spread of loans, and above all to the higher cost of funding, thanks to higher volumes of the non-restricted component.
Net fee and commission income of 89.7 million was substantially in line with last year.
Operating expenses of 73.1 million were up against last year (+3.1%) substantially due to higher administrative expenses, which rose by 4.2 million, partly offset by lower personnel expenses, which were down by 2.3 million.
During the year no appreciable difference in net provisions for risks and charges were noted compared to 2019, when they were 2.8 million, and included extraordinary provisions recognised for charges potentially resulting from the settlement of present and future disputes and claims.
Charges related to company restructuring, net of taxes, of 4.7 million and charges related to the banking system, net of taxes, of 1.4 million (3.0 million in the previous year) were charged to the income statement of the segment in question.
Also considering the negative contribution of the PPA (Purchase Price Allocation) of -2.9 million, the Private business segment closed with a profit for the year of 4.0 million.

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

At the end of 2020, the Private Banking Network of Banca Aletti recorded a global amount of "assets under management" (administered and managed) of 22.9 billion, significantly higher than 2019; the figure includes the liquidity positions of private customers of Banca Aletti with accounts at Banco BPM.

Even faced with the difficulties caused by the Covid-19 pandemic, the year was characterised by a slight increase in operating income for the Private segment compared to the average figure for the previous year, resulting from the stability of net income from services, in addition to an improvement in the financial margin.

The solidity of the income figures is based on a context of stability and relaunch of the advisory activities of the Private Network which, also taking advantage of the positive developments achieved last year in terms of diversification, and even faced with the very violent fluctuations of the global markets in the first half of the year, it was able to guarantee an excellent information and technical service as well as strong customer relations. This activity enabled it to limit the emotional approach to investments and reinforced a medium-long term vision of the same, with clear benefits for customers in terms of end-year returns.

The continued negative structural yields of interbank monetary rates which were joined by the changes in the yield curves of many bond markets, increased the downward trend towards bond and monetary investments; on the other hand, the overall uncertain situation encouraged the recovery in volumes of direct funding on demand, in line with the trends recorded by the industry.

The many actions and strategies aimed at increasing volumes in the medium term and expanding the scope to customers provided comforting results in terms of new net funding, both as regards private and institutional customers. In particular, the ability to attract new customers and to develop existing ones is worth mentioning, given the fact that the year has been characterised by considerable restrictions to personal contact, often replaced by digital tools.

To support development activities, in line with the strategy of previous years, efforts were made, in concert with the Parent Company, to create opportunities to meet potential customers through several local events; given the health emergency, these initiatives were limited to the first few months of the year.

In line with Banco BPM's commercial development plan, which envisages an approach with a greater focus on cross-selling, the year saw the full achievement of collaboration with the Corporate Department (at Markets level and at central structures level, namely Origination and Structured Finance), with which a synergic plan was set out for the development of family-owned businesses, which took shape through the engagement of all Corporate Centres; this activity was combined with the structured collaboration of the Investment Banking division of Banca Akros. This series of activities generated a significant increase in volumes and of the customer base.

To confirm the central role of resources in the Bank's business model, during the year training was boosted considerably (mostly through digital tools): 2020 saw the continuation of the significant amount of training given in the previous year, and focused on two main areas within the Aletti Academy.
Area and Unit Managers were able to benefit from a number of training days; in addition all Network Managers participated, together with the Managers of Central Structures, in a managerial workshop.
In line with last year, training continued throughout the network on the topic of applied behavioural finance. In addition, various training sessions were dedicated to strengthening specific skills in the areas of wealth management and family business.
In total, over 2,100 man-days of training were provided, of which around 930 relating to Technical/Commercial/Soft Skills areas and around 450 to the Managerial sphere.

As at 31 December 2020, Banca Aletti's network was comprised of 11 Areas, 45 Units, 10 remote branches, 262 Private Bankers and 13 Financial Advisors.

Investment Banking

	2020	2019	absolute change	% change
Net interest income	73,213	83,409	(10,196)	(12.2%)
Financial margin	**73,213**	**83,409**	**(10,196)**	**(12.2%)**
Net fee and commission income	41,651	38,821	2,830	7.3%
Other net operating income	253	787	(534)	(67.9%)
Net financial result	10,327	19,340	(9,013)	(46.6%)
Other operating income	**52,231**	**58,948**	**(6,717)**	**(11.4%)**
Operating income	**125,444**	**142,357**	**(16,913)**	**(11.9%)**
Personnel expenses	(25,293)	(29,516)	4,223	(14.3%)
Other administrative expenses	(58,953)	(56,044)	(2,909)	5.2%
Net value adjustments to property, plant and equipment and intangible assets	(345)	(1,105)	760	(68.8%)
Operating expenses	**(84,591)**	**(86,665)**	**2,074**	**(2.4%)**
Profit (loss) from operations	**40,853**	**55,692**	**(14,839)**	**(26.6%)**
Net adjustments to loans to customers	3	181	(178)	(98.3%)
Net adjustments to securities and other financial assets	78	664	(586)	(88.3%)
Net provisions for risks and charges	286	(861)	1,147	
Gains (losses) on disposal of interests in associates and joint ventures and other investments	-	80	(80)	
Profit (loss) before tax from continuing operations	**41,220**	**55,756**	**(14,536)**	**(26.1%)**
Taxation charge related to profit or loss from continuing operations	(13,495)	(16,744)	3,249	(19.4%)
Profit (loss) after tax from continuing operations	**27,725**	**39,012**	**(11,287)**	**(28.9%)**
Charges related to company restructuring, net of taxes	(602)	-	(602)	
Charges related to the banking system, net of taxes	(2,911)	(963)	(1,948)	202.3%
Parent Company's profit (loss) for the year	**24,212**	**38,049**	**(13,837)**	**(36.4%)**

Economic performance of the segment

The trend in the main income statement items marks a decrease in net interest income (-10.2 million), due to the decrease specifically recorded in the contribution from the securities portfolio, especially within the intragroup component. The bond component underlying the certificates issued by Banca Akros had a significant impact on the latter, as from the end of June 2020, they were limited to those placed by third-party networks (the certificates placed by the Group network are issued by the Parent Company). The net financial result benefited from this specularly, but nevertheless was negatively impacted by lower product structuring activity, bringing the item in question to 10.3 million (down 9.0 million compared to 2019).

Operating expenses recorded an overall decrease of 2.1 million, due to the fall of personnel expenses.

Restructuring charges and banking industry charges, net of the relative taxes were also charged to the income statement of the segment in question, amounting respectively to 0.6 million and 2.9 million, bringing the net profit for the year to 24.2 million.

The "Investment Banking" segment includes the structuring of financial products, access to regulated markets, and the support and development of specialised financial services, carried out by the subsidiary Banca Akros. More information on the activities managed by the business segment in question are provided below.

Trading and market making activities on own account

Trading in securities, derivatives and exchange rates on own account was able to positively tackle the effects of the economic and financial crisis generated by the Covid-19 pandemic. 2020, which started with the same "risk-on" approach as the previous year, was characterised, from mid-February, by a sudden collapse of market sentiment and by consequent negative changes in the prices of financial instruments, the worst seen in a decade. Between 21 February and mid-March, the stock market recorded reversals of close to 40%, experienced a rise in share volatility, for example, measured by the VIX rise to around 80 against the current 25, a fall in the yields of the safest government securities (Bund and Treasury) of almost 100 basis points, a rise of the credit spreads of high-rating 5-year corporate securities of 100 basis points and of over 400 basis points for those retained less solvent. These changes and the significant reduction of market liquidity were countered by the positive response firstly, of the main central banks (on all of them FED and ECB), which injected record amounts of liquidity, followed by the governments of the countries involved, with fiscal expansion measures and support measures for households and businesses to tackle the economic recession which the pandemic was expected to cause. The forecasts of the Bank of Italy indicate a collapse of Italy's GDP of over 9% in 2020.
The subsequent months were characterised by a recovery of the financial markets, of stock prices and of yields towards pre-crisis values, thanks above all to the rapidity and the size of the above-cited measures, leading to an inversion of the trend recorded by the leading indicators of the confidence of consumers, businesses and investors. More specifically, the European and US stock markets started to grow from the end of March to the end of the year, with the exception of a slight hiccup in October, with the US ones closing 2020 at values higher than those of the beginning of the year. Share volatility progressively stabilised, although it did not fully return to pre-crisis levels. The yields of Government securities also gradually stabilised.

In this exceptional scenario, market making activities for customers suffered an overall reduction, which lasted from the end of February to the end of April, while proprietary trading had to cope with the above-described price fluctuations and with the practically total absence of market liquidity. The spread of the Covid-19 pandemic led to a series of unforeseeable circumstances, unequalled since last century's Second World War. The financial market therefore suffered a disruption, with a generalised and material loss of value and wealth and above all a regime of market dislocation, which significantly compromised its functioning. In fact, the volatility of risk premiums rose substantially and did not just affect the weaker economies, but significantly impacted quasi-core countries such as Italy and France. In these circumstances, in addition to the directionality of market factors, the correlations between these also broke down, which compromised numerous diversification decisions. In this context, the positive and effective management of the Bank's "position book" substantially enabled it to maintain competitive prices for customers in terms of the hedging of their financial risks, the structuring of products for the Group network and the purchase and sale of financial instruments with market counterparts.

Fixed-income trading/market making with professional customers recorded significantly higher volumes compared to 2019, particularly as regards Italian government securities. Fixed-income activities were characterised by a good recovery in terms of revenues in the second half of the year and, overall, above expectations.

Customer forex trading recorded low volumes, confirming a trend that had already emerged in 2019, while proprietary forex trading produced results above expectations, also by virtue of the successful interpretation of market conditions.

On the stock markets, revenues from trading were substantially in line with expectations, benefiting above all from the defensive strategies implemented in the first half of the year.

With regard to hedging and investment product structuring, the financial engineering department successfully assisted the commercial activity of Corporate & Institutional Banking. Based on customer requests, 2020 was

characterised by an extension of the range of investment certificates, of insurance policies and of SICAVs, also in terms of indexing product performance (pay-off). The certificates issued by the Parent Company and by third parties (Banca Intesa, Mediobanca and Unicredit) were also structured, and offered, as an alternative to the Group's sales networks.
The failed placement, in March, of over 300 million certificated with full capital protection, must also be mentioned, mainly due to the sudden closure of numerous branches of the Parent Company Banco BPM following the restrictive measures adopted due to the Covid-19 crisis. Banca Akros therefore had to recognise the losses generated by the unwinding of the hedges made (damages incurred), without, in addition, considering the failed recognition of the relative revenues (loss of profits).

The capital absorption of trading activities on own account against market risk recorded an increase against the same period of last year, in the face of both an increase in the historical volatility of the major markets, caused by the pandemic crisis, and a change in the validation perimeter of the internal model, following the authorisation of the ECB to extend the model to the specific risk of debt securities which, for this type of risk, is more penalising than the standardised method previously adopted.

Brokerage activities

Despite the violent stock market sell-off that characterised the first phase of the pandemic crisis, with the FTSE Mib which plummeted at the end of March (during the lockdown) by -27.5%, the Italian Stock Exchange was able to contain losses, recording a fall in the index at year-end of -5.4% compared to the closing figure as at 31 December 2019. The positive performance of the FTSE Italia Star index went against the trend, and gained +14.1% from the end of 2019.
Share trading on the Stock Market recorded a positive trend if compared with the volumes traded during 2019, showing an increase over the year of +10.5%, directly correlated to higher market volatility, especially in the first half of 2020 (source: Borsa Italiana).
Instead, despite the aforementioned increase in volatility, in the equity derivatives market, the number of contracts traded fell by -18.21% against 2019; the reasons that led to this fall in trading no doubt include the restrictive measures imposed by the Supervisory Authorities on short selling, which were then withdrawn in June 2020.
The bond market also reflected the repercussions of the Covid-19 crisis, especially in the first half of 2020, after which time it regained the confidence of investors, also thanks the extraordinary fiscal and monetary policy measures set in place at international level by the European Central Banks and the Italian Government. Trading on the MOT recorded a positive trend in 2020 for the retail bond segment, overall corresponding to +7.75% compared to 2019.
In this context, the Bank confirmed and strengthened its undisputed leading position in third-party brokerage on the listed fixed-income market, with total trading volumes representing 21.02% (19.67% in 2019) of the market total. The classification made by Assosim places Intesa Sanpaolo in second place, with a market share of 17.49%. More specifically, in 2020, the value of bond brokerage on behalf of third parties sees Banca Akros in first place on the following markets: DomesticMOT, EuroMOT, ExtraMOT and Hi-MTF, with market shares of 20.39%, 28.61%, 27.07% and 31.72% respectively.

The results achieved by Banca Akros in share brokerage on behalf of third parties in domestic markets were also positive, where the Bank holds fourth place among Italian and foreign brokers active in the Electronic Equity Market (Mercato Telematico Azionario - MTA) managed by Borsa Italiana (as in 2019), with a market share of 9.1%, against 10.72% recorded in 2019, also due to the sharp increase in "brokers on line" businesses, a direct consequence of the modus operandi imposed by the pandemic (Source: Assosim). Banca Akros holds second place on the ETF (ETFPLUS) market and third place on the Certificates (SEDEX) market, with a market share of 13.03% and 19.88% respectively (10.37% and 25.47% in 2019). The excellent performance on the ETF market was achieved also due to the contribution of SABE ETF, the proprietary system for the automatic search for dynamic best execution, which complies with the dictates of MiFID II, at the service of banking and institutional customers.
On the AIM-Italia Market, the SME market, which has grown significantly in the last few years, Banca Akros is in fourth place for trading on behalf of third parties, with a market share of 10.85% (fifth place in 2019).
With regard to the Italian stock market as a whole, Assosim places Banca Akros in fourth position overall for trading countervalues, with a market share of 8.51%.
Business also continued positively on the Equiduct market, managed by the Böerse Berlin, where Banca Akros continues to be the leading Italian operator.
In specialist and corporate broker activities for issuers listed on the Borsa Italiana, at the end of 2020, 35 mandates were recorded, 6 of which were new. At the end of 2019, 40 mandates had been concluded.

The role of financial research played by the Bank was fundamental, particularly in the share segment, in terms of generating ideas and proposals for investment allocations to SGRs, Insurance companies, Family Office and Institutional Investors, which were not only Italian. Also thanks to the ESN Llp network, the share research company, whose equity is held by four European banks and brokers, the impartial opinions and the quality of the recommendations have made Banca Akros' financial analysis a benchmark in terms of supporting brokerage activities, corporate brokerage and, in general, all of the Bank's commercial activities.

In brokerage on behalf of third parties on the regulated derivatives markets managed by Borsa Italiana, Banca Akros ranks third in the FTSE MIB Index Options, with a market share of 6.16% (first place in 2019), and sixth place in share options, with a market share of 2.57% (eighth place in 2019), and tenth place in the Futures market on the index (third place in 2019). The restrictive measures on net short position in place from March to May 2020, as already mentioned, limited trading by customers on these financial instruments.

Trading on the German market for EEX energy derivatives continued positively, with an uptrend in volumes traded on behalf of customers active in trading and risk hedging in the relative sectors.

Investment Banking

In the Debt Capital Market (DCM), the Bank participated in the placement of numerous Corporate bond issues with institutional investors.
More specifically, as Joint Lead Manager, it participated in the placement of Webuild SpA, a fixed-rate Senior Bond maturing in 2027, for a total of 250 million.
As Joint Bookrunner, it participated in the following: Inwit SpA, a fixed-rate Senior Bond maturing in 2026 for a total of 1 billion and the reopening of GPI SpA, a fixed-rate Senior Bond maturing in 2025 for a total of 20 million (total nominal amount issued 50 million).
As Other Bookrunner, it participated in: Leonardo SpA, a fixed-rate Senior Bond maturing in 2026, for a total of 500 million; Inwit SpA, a fixed-rate Senior Bond maturing in 2025 for a total of 750 million and Autostrade per l'Italia SpA, a fixed-rate Senior Bond maturing in 2028 for a total of 1.25 billion.

In the Financial Institutions segment, Banca Akros participated, as Joint Bookrunner, in the placement of bond issues by the Parent Company, Banco BPM, targeted to institutional customers: the fixed-rate Senior Non-Preferred Bond maturing in 2025, for a total of 750 million and the fixed-rate Subordinated AT1 Bond for a total of 400 million; again for Parent Company issues targeted to institutional customers, the Bank handled two fixed-rate Subordinated T2 bond transactions, maturing in 2030 and 2031, for a total, respectively, of 500 and 350 million.
In this segment, it is also noted that, as Other Bookrunner, the Bank handled the issue of the fixed-rate Subordinated AT1 bond, for a total of 100 million, for Cassa di Risparmio di Asti SpA.
It should also be noted that the Bank participated as Dealer Manager in the Tender Offer by Anima SpA on its own 2019-2026 bond issue.

In the ESG segment (Green, Social and/or Sustainable bonds), the Bank participated as Joint Bookrunner, in the placement of Terna SpA, a fixed-rate Senior Green Bond maturing in 2032, for a total of 500 million.
The Bank was also involved in over thirty issues by leading Italian and foreign issuers, including the European Investment Bank (EIB) and the German bank, Kreditanstalt Für Wiederaufbau (KFW).

In Equity Capital Market (ECM) trading, Banca Akros participated as Joint Book Runner in the placement of the senior unsecured equity-linked bond of NEXI which, with an amount of over 500 million, represented one of the two largest equity-linked placements on the Italian market in 2017. Banca Akros also acted as Sponsor for the transfer of SALCEF from AIM Italia to the Electronic Equity Market (Mercato Telematico Azionario - MTA).

Even in a market context significantly influenced by the health emergency, Banca Akros maintained the necessary focus on its M&A/Corporate Finance activities, acquiring various "sell side" and "buy side" assignments, with family-run businesses and Private Equity funds; in particular, (i) with regard to "sell" transactions concluded, assistance was provided to the shareholders of Profiltubi for the sale of a majority holding in the share capital of the same to the Auctus Capital Partners fund, advisory services provided to the shareholders of E2E for the sale of a portfolio of photovoltaic systems to the Danish fund Obton S/A, as well as acting as financial advisor to Rekeep for several activities aimed at selling the subsidiary company Sicura to the Argos Wityu fund; (ii) with regard, instead to the "buy" transactions concluded, it provided assistance to the Capvis AG fund in the acquisition of a majority

interest in Arag, to the Adon Capital fund in the acquisition of a majority interest in the share capital of Sicurezza e Ambiente, to the Tikehau Capital fund in the acquisition of a non-controlling interest in Euro Group Laminations and to the Metrika fund in the acquisition of an interest in the share capital of Allegrini.
Cross-selling activities within Banca Akros continued and with the Parent Company Banco BPM, in particular with Structured Finance, Lending Corporate Origination, Corporate Centres, Territorial Departments, Third Sector Department, as well as with Banca Aletti; in particular it should be noted that Banco BPM made a package of acquisition financing available in the above-mentioned transactions, for the Capvis, Argos Wityu, Auctus and Adon funds.

In the segment of performing securitisations, the Bank managed, as Joint Arranger, a "STS" securitisation of consumer loans originated by Agos Ducato, for 1.2 billion. Banca Akros also managed, as Joint Arranger a "STS" securitisation of a lease portfolio originated by Alba Leasing for a total of 1.3 billion.
In the segment of synthetic securitisations, as Financial Advisor, Banca Akros assisted Banca Agricola Popolare di Ragusa in closing a transaction with the European Investment Fund (EIF) and the European Investment Bank, as part of the SME "Initiative Italy" programme, regarding a portfolio of loans to SMEs previously disbursed, for around 200 million.
In the non-performing securitisation segment, the Bank managed: i) as Joint Arranger, a multi-originator securitisation of a portfolio of non-performing lease loans and relative assets and legal relations belonging to Alba Leasing, Banco BPM and Release for a total of 335 million, for which the GACS guarantee was requested on the senior notes ("Project Titan"); ii) as Co-Arranger, a multi-originator securitisation of a portfolio of non-performing mortgage and unsecured loans sold by leading cooperative and territorial banks (Banca Popolare di Sondrio, Cassa di Risparmio di Asti, Biver Banca, Cassa di Ravenna, Banca di Imola, Banca Agricola Popolare di Ragusa, Banca Popolare di Puglia e Basilicata, Banca di Credito Popolare, Banca di Cividale, Banca di Piacenza, Banca Popolare di Fondi, Banca Popolare del Frusinate, Solution Bank, Banca Popolare del Cassinate and Banca del Sud) of around 920 million, for which the GACS guarantee was requested on the senior notes.

Corporate & Institutional Banking

During the year, despite the health emergency under way, the coverage and development of Corporate & Financial Institutions customers for the specialist financial products and services offered by Banca Akros continued successfully, in coordination with the other areas of the Bank and with the Parent Company (corporates, businesses and financial institutions, entities and third sector).
In particular, following the centralisation of all sales of hedging products for corporate and business customers of Banco BPM Group within Banca Akros, activities on hedging and financial risk management instruments were efficiently managed, also provided as part of cross-selling with the Parent Company, focusing on the specific target represented by the Mid Corporate segment. During the year, cash flows on interest rate, exchange rate and commodities risk derivative products amounted to a total, in notional value of around 4.4 billion for exchange rate and commodity risk hedges and around 5.3 billion for interest rate risk hedges on the underlying loans.
Banca Akros has continued to develop new products and services this year as well, confirming its status as a benchmark in terms of innovation to the benefit of its customers.
Thanks to its sales staff and specialists located in Corporate Centres, the structure has forged, together with the Group, solid commercial relationships with its customers, providing services with high added value, even in an increasingly challenging market context.
The prices, provided by the Bank's Global Markets structure, have proven to be competitive despite the high level of competition in the segment from Italian and foreign banks.

With regard to the structuring and issue of Certificates, the year was conditioned by the spread of the pandemic and the resulting economic scenario: following the good start to the first two months of the year, the placement activities of the sale networks were interrupted for the whole of March and the first half of April due to the lockdown imposed by government measures and internal regulations. Placements gradually recovered in May, although accompanied by higher volatility in the financial markets, a wider credit spread and the consequent increase in the cost of funding. This latter aspect conditioned the funding policies of the various issuers, creating the opportunity for the Bank to meet the demand for protected capital investment, from customers and Group networks, also through the structuring of the products of third-party issuers.
From the second half of 2020, the Parent Company Banco BPM started to directly issue Investment Certificates, with Banca Akros again acting as structurer.

In the latter part of the year, positive expectations regarding the possible evolution of the pandemic and global economic recovery led to a significant narrowing of credit spreads, particularly for issuing banks, also following high expectations of a new consolidation of the sector.
The Group's funding policy limited the term of the products requested, which was reduced to a range of 3/4 years, with respect to the approx. 5 years of 2019.
Over the year, the total Investment Certificates structured by Banca Akros amounted to around 1.9 billion, of which around 470 million issued by Banca Akros and placed both on the Group's networks and those of third parties, 690 million by third-party issuers and 740 million issued by Banco BPM (around 1.6 billion Banca Akros issues in 2019).
Banca Akros also intervened in the structuring of asset management investment products, with quantitative components, intended for management and insurance company customers, for around 1.3 billion (1.6 billion in 2019).

As regards core business of trading in the secondary bond market, the cash flows from customers, in the segments of government, supranational and agency securities, as well as on corporate and financial issuers, amounted in total in 2020 to around 17.3 billion, significantly higher than the previous year (13.9 billion in 2019). The positive contributions of the "flow business" of operations in the equity and FX segments were confirmed.

Distribution on the primary bond market to institutional investors is of note, with the participation in the placement of issues of primary issuers (as illustrated in the Investment Banking section above); the placement of the 16th edition of the BTP Italia issued by the MEF in May, and two issues of BTP Futura, in July and November, made a significant contribution, with Banca Akros acting as subscriber and Co-dealer for these highly successful issues.
In terms of the diversification of sources of funding for businesses, the Bank continued to develop these activities, with a view to acquiring new equity funding assignments with specialist operators in the private debt and Eltif sector.

Strategic Partnerships

	2020	2019 (*)	absolute change	% change
Net interest income	(8,801)	(11,672)	2,871	(24.6%)
Gains (losses) on interests in associates and joint ventures carried at equity	129,385	131,439	(2,054)	(1.6%)
Financial margin	**120,584**	**119,767**	**817**	**0.7%**
Net financial result	11,671	8,948	2,723	30.4%
Other operating income	**11,671**	**8,948**	**2,723**	**30.4%**
Operating income	**132,255**	**128,715**	**3,540**	**2.8%**
Personnel expenses	(1,853)	(1,947)	94	(4.8%)
Other administrative expenses	(713)	(624)	(89)	14.3%
Net value adjustments to property, plant and equipment and intangible assets	-	(200)	200	
Operating expenses	**(2,566)**	**(2,771)**	**205**	**(7.4%)**
Profit (loss) from operations	**129,689**	**125,944**	**3,745**	**3.0%**
Net provisions for risks and charges	(26,000)		(26,000)	
Gains (losses) on disposal of interests in associates and joint ventures and other investments	-	(775)	775	
Profit (loss) before tax from continuing operations	**103,689**	**125,169**	**(21,480)**	**(17.2%)**
Taxation charge related to profit or loss from continuing operations	10,409	4,389	6,020	137.2%
Profit (loss) after tax from continuing operations	**114,098**	**129,558**	**(15,460)**	**(11.9%)**
Charges related to company restructuring, net of taxes	(226)	-	(226)	
Parent Company's profit (loss) for the year	**113,872**	**129,558**	**(15,686)**	**(12.1%)**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the segmentation criteria used for 2020.

The contributions to the consolidated financial statements of the interests held in Vera Vita, Vera Assicurazioni, Bipiemme Vita, Agos Ducato, Alba Leasing, SelmaBipiemme Leasing, Factorit, CF Liberty Servicing and Anima Holding are included within the Strategic Partnerships segment.

Economic performance of the segment

Operating income for the segment in question amounted to 132.3 million, with an increase mostly due to higher dividends collected by Anima Holding, which brought the net financial result to 11.7 million against 8.9 million in 2019. Gains on interests in associates and joint ventures carried at equity were down slightly. More specifically, despite the solidity of the contribution of the insurance Joint Ventures, the contribution of Agos Ducato fell (from 103.1 million in 2019 to 89.2 million in 2020), only partly offset by the contribution of Anima Holding, of 12.0 million, following the valuation of the investee with the equity method.

Leases

	2020	2019 (*)	absolute change	% change
Net interest income	24,358	29,322	(4,964)	(16.9%)
Financial margin	**24,358**	**29,322**	**(4,964)**	**(16.9%)**
Net fee and commission income	(979)	4	(983)	
Other net operating income	(1,945)	(1,837)	(108)	5.9%
Other operating income	**(2,924)**	**(1,833)**	**(1,091)**	**59.5%**
Operating income	**21,434**	**27,489**	**(6,055)**	**(22.0%)**
Personnel expenses	(6,467)	(5,479)	(988)	18.0%
Other administrative expenses	(26,583)	(29,591)	3,008	(10.2%)
Net value adjustments to property, plant and equipment and intangible assets	-	(25)	25	
Operating expenses	**(33,050)**	**(35,095)**	**2,045**	**(5.8%)**
Profit (loss) from operations	**(11,616)**	**(7,606)**	**(4,010)**	**52.7%**
Net adjustments to loans to customers	(106,248)	(95,597)	(10,651)	11.1%
Fair value gains (losses) on property, plant and equipment	(13,008)	(78,219)	65,211	(83.4%)
Net provisions for risks and charges	(409)	(697)	288	(41.3%)
Gains (losses) on disposal of interests in associates and joint ventures and other investments	1,340	(5,187)	6,527	
Profit (loss) before tax from continuing operations	**(129,941)**	**(187,306)**	**57,365**	**(30.6%)**
Taxation charge related to profit or loss from continuing operations	34,540	38,459	(3,919)	(10.2%)
Profit (loss) after tax from continuing operations	**(95,401)**	**(148,847)**	**53,446**	**(35.9%)**
Charges related to company restructuring, net of taxes	(585)	-	(585)	
Purchase Price Allocation net of taxes (**)	686	4,443	(3,757)	(84.6%)
Profit (loss) for the year attributable to non-controlling interests	4,674	15,376	(10,702)	(69.6%)
Parent Company's profit (loss) for the year	**(90,626)**	**(129,028)**	**38,402**	**(29.8%)**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the segmentation criteria used for 2020.
(**) PPA relating to receivables and client relationships, net of related tax effects.

The Leases segment includes finance lease operations of the former Banca Italease, incorporated in the Parent Company, as well as the operations of Release. Outstanding lease contracts are managed with a view to run-off, as neither the contracting of new operations nor the disbursement of new financing on those running off is envisaged.

Therefore, the leases segment mainly handles administrative activities or those connected with after-sales management, relating both to the loans and to the assets under finance lease.

With regard to lease contracts with unpaid rentals, operations in the leases segment, specifically of Release, is, instead, focused on ensuring that payments return to normal status and, where this is not possible, to pursue the recovery of the loans, minimising the risks and costs of outstanding disputes, also by repossessing the assets. In those cases, operations in the segment aim for the best exploitation of the value of the repossessed assets, specifically properties, through their sale or use for income generation.

Economic performance of the segment

The Leases segment, which includes the subsidiary Release and the contribution of the Parent Company's lease management entity (former Banca Italease), recorded total Operating Income of 21.4 million. The fall of 6.1 million compared to the 27.5 million recorded last year is due to a fall in net interest income of 5.0 million, caused by the decrease of interest-bearing assets (due to the run-off of the segment in question), and to negative net fee and commission income of around 1.0 million due to the fee paid by Release to the Parent Company for the issue of guarantees to cover "large risk" positions.
Operating expenses of 33.0 million against 35.1 million last year, recorded a decrease substantially due to the improvement in "Other administrative expenses", which fell by 3.0 million, from 29.6 million in 2019 to 26.6 million in the current year, mainly due to lower indirect taxes on Release real estate.
The above-illustrated impacts led to a Loss from operations of -11.6 million, against -7.6 million last year.
The cost of credit recorded an increase of 10.7 million, rising from 95.6 million to 106.2 million, mainly due to the sale ("Titan Transaction") of a portfolio of NPL, both Release and the former Banca Italease, made in the fourth quarter of 2020.
Fair value gains (losses) on property, plant and equipment showed a loss of 13.0 million compared to 78.2 million in 2019, related entirely to Release.
Gains (losses) on disposal of interests in associates and joint ventures and other investments amounted to +1.3 million, due to gains made by Release on sales of properties finalised in the fourth quarter; in the previous year, losses of 5.2 million were recorded, relating to the sale of a property in Rome owned by Release.
Restructuring charges of 0.6 million, net of the relative taxes, were charged to the income statement of the segment in question, while the contribution of the PPA fell to +0.7 million (4.4 million the previous year).
Considering the share of the result relating to non-controlling interests of 4.7 million, against 15.4 million last year, the leases segment reported a loss for the year of -90.6 million.

Corporate Centre

	2020	2019 (*)	absolute change	% change
Net interest income	442,787	392,854	49,933	12.7%
Gains (losses) on interests in associates and joint ventures carried at equity	1,414	(184)	1,598	
Financial margin	**444,201**	**392,670**	**51,531**	**13.1%**
Net fee and commission income	(14,544)	(19,149)	4,605	(24.0%)
Other net operating income	45,295	52,854	(7,559)	(14.3%)
Net financial result	259,625	336,971	(77,346)	(23.0%)
Other operating income	**290,376**	**370,676**	**(80,300)**	**(21.7%)**
Operating income	**734,577**	**763,346**	**(28,769)**	**(3.8%)**
Personnel expenses	(403,523)	(449,960)	46,437	(10.3%)
Other administrative expenses	325,012	354,862	(29,850)	(8.4%)
Net value adjustments to property, plant and equipment and intangible assets	(119,737)	(136,498)	16,761	(12.3%)
Operating expenses	**(198,248)**	**(231,596)**	**33,348**	**(14.4%)**
Profit (loss) from operations	**536,329**	**531,750**	**4,579**	**0.9%**
Net adjustments to loans to customers	(18,111)	25,887	(43,998)	
Fair value gains (losses) on property, plant and equipment	(23,713)	(80,314)	56,601	(70.5%)
Net adjustments to securities and other financial assets	(1,108)	5,095	(6,203)	
Net provisions for risks and charges	2,564	(11,774)	14,338	
Gains (losses) on disposal of interests in associates and joint ventures and other investments	(150)	339,033	(339,183)	
Profit (loss) before tax from continuing operations	**495,811**	**809,677**	**(313,866)**	**(38.8%)**
Taxation charge related to profit or loss from continuing operations	(101,263)	(115,156)	13,893	(12.1%)
Profit (loss) after tax from continuing operations	**394,548**	**694,521**	**(299,973)**	**(43.2%)**
Charges related to company restructuring, net of taxes	(47,992)	-	(47,992)	
Charges related to the banking system, net of taxes	(26,491)	(15,074)	(11,417)	75.7%
Goodwill impairment	(25,100)	-	(25,100)	
Change in own credit risk on Certificates issued by the Group, net of taxes	(11,739)	(23,273)	11,534	(49.6%)
Purchase Price Allocation net of taxes (**)	(13,181)	(19,383)	6,202	(32.0%)
Profit (loss) for the year attributable to non-controlling interests	(426)	188	(614)	
Parent Company's profit (loss) for the year	**269,619**	**636,979**	**(367,360)**	**(57.7%)**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the segmentation criteria used for 2020.
(**) PPA relating to receivables and client relationships, net of related tax effects.

Contributions to the consolidated financial statements that are not represented in the other lines of business are included within the Corporate Centre business line. Specifically, the Corporate Centre includes the financial contributions of the Finance of the Parent Company Banco BPM, of the subsidiary ProFamily, of the Group's real estate companies, as well as the centralised management of functions for the entire Group (such as cost management, personnel, etc.).

Economic performance of the segment

The total operating income of the Corporate Centre amounted to 734.6 million, down by 3.8% against the figure for 2019 of 763.3 million. Within this aggregate, net interest income performed well, up against last year by 49.9 million. The increase in net interest income of the Corporate Centre is mainly due to the substantial fall in the cost of funding in currency, made against the investment in securities, and to the share of the benefit of the TLTRO III due to the Corporate Centre, which offset the smaller contribution of the securities portfolio (with -107.8 million lower interest), which suffered from a substantial fall in yields, and the higher charges of institutional funding, due to the new issues made during the year of around 1,600 million (of which 850 million Tier 2).
Net fee and commission income (+4.6 million) improved, due to the higher fees and commissions on Treasury activities, while other operating income fell (-7.6 million) due to lower rental income and the impact resulting from the closure of some transactions.

The net financial result fell significantly (-77.3 million), where the contribution of the securities portfolio fell from 283.2 million to 105.9 million, only partly offset by the positive contribution of the valuation of the interests held in Nexi and SIA (+158.6 million).
Even with a substantial improvement in personnel costs (which fell by 46.4 million), Operating expenses recorded lower recovery for services rendered to the Group's other business lines, following a more attentive cost policy.
The cost of credit, of -18.1 million, rose with respect to the +25.9 million recorded last year, which had benefited from recoveries on several credit positions.
Fair value gains (losses) on property, plant and equipment reported losses of 23.7 million compared to 80.3 million last year.
Net provisions for risks and charges recorded reallocations of 2.6 million, compared to allocations of 11.8 million last year.
In 2020, there were no Gains (losses) on disposal of interests in associates and joint ventures and other investments of a significant amount; last year, instead, gains were recorded resulting from the reorganisation of the consumer credit segment (189.5 million) and establishment of the partnership with Credito Fondiario to manage recovery activities for non-performing loans (142.7 million).
Company restructuring charges of 48.0 million, net of the relative taxes, banking industry charges of 26.5 million (15.1 million in 2019) and goodwill impairment, following impairment testing, of 25.1 million were charged to the income statement of the segment in question.
The impact of the change in own credit risk on Certificates issued by the Group, net of taxes, shown in a separate item of the reclassified income statement, was a negative 11.7 million (-17.5 million before taxes) compared to a negative figure of -23.3 million (-34.8 million gross) in the previous year.
Considering the impact of the PPA, of -13.2 million (-19.4 million in 2019), and the result attributable to non-controlling interests of -0.4 million, (+0.2 million in 2019), the income statement of the Corporate Centre reported a net result of 269.9 million.

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

Group Finance

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

Funding and Capital Management

The Group's liquidity position remained extremely strong throughout 2020; during the year, liquidity indicators LCR and NSFR remained well above the Group's Risk Appetite Framework objectives.

The overall medium/long-term position of ECB funding (TLTRO III), following the changes made by the Central Bank to tackle the consequences of the Covid-19 pandemic, was increased during the year and amounted to 27.5 billion as at 31 December 2020.
During the year, the TLTRO II was fully replaced by the new TLTRO III, mainly to exploit the benefits in terms of both rate and longer maturities.

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

With regard to public issues, four placements were made totalling 2 billion.
More specifically, the Group's first Senior Non Preferred bond was issued in February 2020 for 750 million, with a 5-year maturity and a coupon of 1.625%.
In addition, during the year the following placements were made: (i) in January, an AT1 for 400 million and coupon of 6.125%, (ii) in September, a Tier II in 10NC5 format for 500 million and coupon of 5% and (iii) in December,

another Tier II in long 10NC5 format for 350 million and coupon of 3.25%, which represents preview of the funding envisaged by the 2021 plan.

Lastly, regarding the optimisation of RWA, in December a synthetic securitisation with the EIF (European Investment Fund) was concluded, acquiring a guarantee on the mezzanine tranche of a portfolio of around 1.9 billion in performing loans disbursed to SMEs.
This is the second operation of the Group in this type of instrument.

Banking Book and ALM

ALM

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

Management of Proprietary Portfolios

Regarding the management of financial instruments under assets, in 2020 the strategies briefly described below were followed.

Positions in the HTCS category
The increase in the HTC portfolio was partly counterbalanced by a fall in the HTCS portfolio, which fell from a nominal 11 billion to 9.4 billion in 2020.
The government share of both Italian and foreign securities is the main reason for this decrease, with net falls of around 300 million relating to the former and 1.3 billion for the latter.
Although the non-government bond component did not change in terms of total amount, its risk profile improved, with a reduction of Italy's weight and greater geographic and sector-based diversification. The widening of spreads in March, when tension was extremely high, enabled investment to be made in companies with a high standing and in anti-cyclical sectors, mainly pharmaceuticals, utilities and communications.
The indirect exposure in mutual investment funds (FVTPLM) was substantially unchanged over the year.

Positions in the HTC accounting category
In 2020, the HTC portfolio of the Parent Company Banking Book increased from a nominal 16.7 billion to 20.7 billion (+18.8%), driven by a net increase of 3.8 billion in the government bond segment and of around 180 million in the non-government bond one. In the first half of the year, characterised mainly by the Coronavirus crisis, positions in Italian Government bonds increased steadily, concentrated in the medium-short term part of the curve alongside a slight fall in US Treasury positions in view of the elections. At the end of the third quarter, given the significant tightening of spreads, reducing Italian country risk was considered a priority, achieved through forward sales of positions with longer durations, amounting to around 1.3 billion, which will be finalised over the course of 2021.

Trading and Funds

Positions in the HFT category
As regards trading, note that the strategies implemented in 2020 did not result in a substantial break in trading activities from that carried out last year. More specifically, investments in bond instruments continued to be focused on the government component and on risk free rates through IRS. As regards Government bonds, activity focused on flattening and country spread strategies. Due to the extremely high level of volatility in the reference market particularly between March and May, their management was conditioned by stringent risk limits, due to which the

relative yield positions and the various long/short exposures had to be withdrawn and rebalanced to national credit risk levels on several occasions.
On the other hand, the equity component was used for tactical investment purposes, which led to a greater overall contribution to P&L generated by trading activities as a whole.

Alternative Investments and Funds
In 2020, investments in Alternative Funds continued, prioritising Private Equity as in previous years. With a view to obtaining a lower level of risk and market diversification, investments also regarded other asset classes, such as private debt, venture capital and infrastructure. Promotion of the new Due Diligence and Mediation service continued, addressed to institutional customers that invest in the private market.

Group Treasury

The Covid-19 pandemic, which exploded in 2020, provoked a serious recession in the Eurozone; consequently the policies of the European Central Bank were particularly accommodative, providing great support to the monetary and payments system for European financial institutions.
Due to the prudent approach to investment of the majority of business operators given the uncertain future scenario, Banco BPM recorded a decisive rise in the demand deposits of its customers, which at year end saw the maintenance value of the Minimum Reserve set at over one billion.
Money Market activity, also facilitated by the introduction of a tiering system for deposit remuneration, therefore saw daily liquidity management characterised by the search for the efficient use of the excess liquidity, which led to the need to find arbitrage opportunities with other currencies, achieved successfully.
From the beginning of October, the European Central Bank Deposit Facility was used to optimise liquidity management as the market rates of investment repos with underlying Italian government securities gradually fell below the remuneration level of the Deposit Facility (corresponding to -0.50%).

With regard to funding, the optimisation of available collateral enabled revenue to be increased due to highly negative interest rates; at the end of 2020, asset funding in Euro (mainly Italian government and Eurozone securities) was positioned at lower levels than the General Collateral curve. In terms of investing excess liquidity, efforts were made to mitigate the cost of funding by seeking the best market conditions. The secured financing of proprietary assets reported average funding of approximately 9.4 billion (of which around 5.5 billion through Cassa Compensazione & Garanzia), while average lending, excluding long-term operations, was approximately 5.1 billion (of which around 3.7 billion through CC&G), while bilateral operations in the interbank market targeted mainly European government bonds and was made above all in funding.
As regards the dollar, in 2020, following the monetary policy manoeuvres made by the Fed in response to the recession caused by the Covid-19 pandemic, the USD interest rate curve recorded significant volatility in the first half of the year, then stabilised in subsequent months. A strategy of diversifying maturities was adopted, in order to quickly capture any sudden falls in interest rates due to monetary policy intervention by the Fed, guaranteeing significant efficiency in funding the portfolio.
The consolidation of non-collateralised securities lending transactions in the international interbank market benefitted from a strong liquidity position and made it possible to optimise the economic return on High Quality Liquid Assets. The maximum outstanding amount of transactions concluded reached approximately 2.3 billion, to then stand at around 1.9 billion at the end of the 4th quarter.
Trading in medium-term repos with underlying government bonds only changed slightly over the year. Overall, the amount financed, for all the above types, at the end of 2020, recorded a total outstanding amount of approximately 3.1 billion.
Efforts to improve liquidity indicators continued also through collateral switch with an outstanding amount of around 250 million at the end of 2020.
With a view to boosting access to additional circuits for securities financing for the purpose of funding liquidity and to cover short positions in securities through repo transactions in clearing, in 2020, the membership with Central Counterpart Eurex Clearing AG was completed and that with LCH SA was started (which will be completed during the first quarter of 2021). The advantages of these memberships, which will become a reality in 2021, can mainly be found in the reduction of operational risk and of counterparty risk as well as, consequently, capital absorption, the opportunity to achieve more effective market pricing and benefits in terms of the Bank’s reputation.

The rise in volatility in the Forex market, caused by the pandemic from March 2020, did not coincide with higher volumes, on the contrary, the slight downward trend that had already been recorded in 2019, continued. Although it gradually dampened, in any event, market volatility stabilised at higher levels than last year, causing customers to wait for monetary policy moves able to provide market direction. With regard to commercial activity in particular, the restrictions on personal movements generated a significant decrease, particularly in foreign banknotes, although the bank's market share did not change.

Portfolio Management

The Corporate Centre also comprises the activities relating to portfolio management by Banca Aletti, whose net fee and commission income from trading and performance, based on a logic of allocating resources to the different segments, and analysing the relative performances defined by the Group, is not allocated to the Private Network.

The Covid-19 pandemic and the consequent widespread economic recession also had a significant impact on the management policies and the results of the segment in question.
In the portfolios managed, exposure to the equity asset class was reduced in the first few months of the year, as news regarding the pandemic spread, and then gradually increased until it held an overweight positioning. The negative yields offered by the curves of European governments made assets on the government bond asset class unattractive, while a selective and prudent approach was maintained for the corporate segment, taking a constructive approach with a view to seizing market opportunities. Currency diversification in the portfolios, also based on the risk spread was also managed using a more tactical approach.

The results for the year were overall positive, with the exception of the management mandates more focused on European equity, with yields in line/higher, on average, than the reference parameters and/or different contractual parameters.
As at 31 December 2020, assets under management totalled 3.2 billion, substantially in line with the figure at the end of 2019.

Real Estate Sector

Operations in the real estate sector involve both the management of the Group's operating properties and the enhancement and disposal of non-operating properties; at organisational level, these activities are carried out by separate structures.
With regard to the management and maintenance (both technical and administrative) of Banco BPM Group's operating properties, the activities carried out in 2020 were geared towards increasing the efficiency of the spaces occupied and reducing the management costs of the same, continuing with the plan for streamlining locations, which entails leaving owned properties and those of third parties that are empty or only partially occupied: as a result, a saving on the lease payments is obtained for the third party properties, while owned properties become available for sale or lease to third parties, with savings on fixed management costs.
To date, the moves from Via Carucci, Rome to Parco dei Medici, Rome and in Bologna from Via Bovi Campeggi to Via Don Minzoni have been completed, operations that generated total annual savings of approximately 3.6 million, and the properties have been returned to their respective owners.
The renegotiation of the lease payments of branches rented from third parties continued, also due to the crisis generated by the pandemic, which when completed will generate annual savings of around 3.9 million.
With regard to the Eracle Fund, to which a part of the Group's operating properties had been transferred in the past, a new agreement was signed, which changes the rules of participation in said Fund and the lease contracts of the properties in the portfolio, with specific regard to the rules on flexibility for closures, especially as regards branches that have already been closed or are due to be closed soon. The new rules, together with a reduction of the lease payments for a large share of the portfolio, will lead to a significant saving in terms of lease costs of, on average, around 15 million per year in the 2021-2026 period.

With regard to the management of non-operating assets, this is entrusted to two structures:

- Property Enhancement and Valuable Works of Art: which is in charge of the management and enhancement of the value of owned properties, with a specific focus on big ticket items;
- Advisory Secured NPE, which manages the activities relating to the marketing of real estate resulting from the collection of receivables.

The technical and legal management of all non-operating assets of the Group continues to be assigned to Bipielle Real Estate. The activity also includes properties deriving from defaulted lease contracts, which continues from year to year, albeit with a slowdown compared to the previous year.

Activities relating to the enhancement of non-operating assets encountered an Italian real estate market that was, obviously, significantly influenced by the pandemic that hit the country from March 2020, even though it proved to be more resilient than expected.
Over the course of 2020, the corporate segment shifted in terms of the type of real estate bought and sold and the origins of investors, which enabled the effects of the pandemic on turnover and values to be mitigated. In fact, the drastic fall in interest for the hotel and commercial real estate sector was partly offset by the leap forward taken by logistics and the substantial resilience of the management sector. However, the difficulties that the core segments are facing (management, commercial and hotel) cannot be fully offset in the next two years by the dynamism of alternative segments (logistics first and foremost, as well as the different categories of residential property), limiting the volume of investments to substantially lower levels (around -30% in 2020 and around -20% in 2021 with reference to the scenario that today appears the most plausible) compared to those achieved in 2019.

In this context, also marked by the slowdown of decision-making on building and town-planning projects by the Public Administration, in any event, deeds of sale were entered for around 86 million, while several purchase and sale agreements have been postponed to next year, which resulted in commitments to sell or in the assessment phase totalling around 100 million.
One of the most important operations was the disposal of properties underlying NPL positions as part of the sale of a portfolio of bad loans to Doria Leaseco-Illimity for the ACE Leasing project (72 properties) and Prelios for the so-called Titan project (24 properties).

The commercial lease segment instead experienced serious economic difficulties as regards countless commercial and tourist activities, reflected by lease payments; in 2020, almost all lessees in the tourism, hotel and many other retail sectors that were most affected by the pandemic, requested payment postponements or temporary reductions of lease payments.
The Group met these requests, both by signing new settlement agreements and by accepting part payment through the tax credit accrued on lease payments. The overall economic impact was in any event modest, even though new requests are expected to be received in the first half of 2021.
The special purpose companies Lido dei Coralli, Terme Ioniche and Sagim were the worst hit, as their management was completely blocked by the pandemic. Nevertheless, urban development activities continued as well as work for the structural improvement of the building complexes managed by them.

At Group level, work also continued on "generating income" from free spaces, including those resulting from recent branch closures and, in this regard, new lease contracts were signed for total annual payments of around 3.6 million.

The real estate development sector also showed signs of recovery in the logistics area, while new projects in the residential and hotel sector were significantly affected by the pandemic.
The most important cases include:

- a preliminary contract of sale was signed for a piece of land in Chivasso (TO) owned by the subsidiary Bipielle Real Estate with a French operator interested in building an important logistics hub with a covered surface area of over 120 square metres;
- the new Urban Development Plan for the municipality of Cologno Monzese is at the approval stage; this should enable the land owned by the subsidiary Bipielle Real Estate to be sold, even in separate lots, as the due diligence exercises of two operators who had sent a statement of interest are nearing completion, although dependent on whether the land is to be used for logistics, residential or services purposes;
- a framework agreement was signed for the sale of land in Lodi (former ABB area), split into lots, for the construction, over the next few years, of residential buildings extending over 70 thousand square metres;
- the initial draft of an innovative project has been submitted to the Town Council of Collegno, which envisages a more modern conception of agricultural use, entailing the development of more sustainable production processes and with higher added value, and the simultaneous use of the land by citizens through the offer of topic-based services. This project is related to a dispute with the Town Council, which has been dragging on for a number of years, with a view to preserve the value of the land, without totally losing the size of the buildable portion;
- regarding the subsidiary BRF Property, which owns a former industrial area in Parma, the redevelopment process continues, both by studying residential solutions that include services for the elderly, and through the recovery of the buildings with construction restrictions, which have already been partially carried out.

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 Regulator 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 Supervisory Authority. 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, as well as their consistency with the thresholds established in the Risk Appetite Framework (RAF). The RAF is the instrument which makes it possible to establish, formalise, communicate and monitor in a unitary and synergistic manner the consistency of the risk profile of the Group with the risk appetite approved by the Board of Directors 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. Preventing exposure to risks that are inconsistent with the risk appetite is also carried out in the process of managing ST - Significant Transactions (relating to credit and finance transactions, sales of impaired receivables, purchases or sales of owned assets or other significant transactions), and in leveraged transactions, which involve in the first place the Risk Function, which is required by law to express a prior, non-binding opinion on all transactions categorised as significant.
One of the ways in which risk exposure is managed is an effective integrated risk reporting system, which enables all risk measurements and the main risk factors to which the Group is exposed to be closely monitored; this reporting system is also regularly accompanied by a positioning analysis, which compares the Group to the European and Italian banking system, based on a sample of Italian and European banks, selected according to the reference source, also on the basis of qualitative/quantitative criteria. The purpose of the positioning analysis is to provide in-depth information on at least the following areas of interest: Capital Adequacy & and Capital Structure, Liquidity Adequacy, Profitability and Efficiency, Asset Quality and market share, Risk-weighted assets and RWA Density and Credit Risk Parameters, adopting the perspective of the Regulator, and making use of the quarterly publication of the "EBA Risk Dashboards" and Public Disclosure documents (Pillar 3) of the main competitors.
In 2020, quarterly monitoring of Group capital adequacy (ICAAP) was set in place, with a long-term view, based on the most up-to-date baseline and adverse scenarios presented to the Scenario Council. The latter is a team responsible for defining and updating or confirming the macroeconomic scenarios adopted in the Group's strategic processes in light of external events or specific vulnerabilities of the Bank. It is also responsible for identifying the specific processes impacted and their potential updating. The team is comprised by the Chief Financial Officer and the heads of the Planning and Control, Risk and Administration and Budget Functions, with the participation of the Head of the Audit Function as auditor.
In 2020, the Scenario Council met 14 times to continuously assess the changes in the external macroeconomic scenario and the impacts on the Bank's strategic and management processes. 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 risk is managed by means of a portfolio risk estimation model, VaR, which is a default model, applied on a monthly basis mainly to credit exposures of Group banks. This model enables operating capital absorption 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. The use of management models that are not based on specialist resources is limited to positions classified as Past Due and Unlikely to Pay, for amounts under the thresholds established by internal procedures.
The monitoring, management and assessment of non-performing loans is supported by structured processes and by a specific management procedure.
More specifically, value adjustments are quantified by applying the LGD grids estimated by the Risk Function on a flat-rate basis to Past Due positions regardless of their amount and to those classified as Unlikely to Pay or Bad Loans for amounts below a materiality threshold, while for amounts over said threshold, they are quantified analytically by the manager. Value adjustments valued analytically by the managers are periodically reviewed.
Note that, with regard to the cost of credit for the purposes of the financial statements, analytical valuation is used for defaulted positions attributable to the perimeter of Banca Akros, given the very small number of positions in this category.

With regard to counterparty risk, defined as the risk that the counterparty in a transaction defaults before the final settlement of the cash flows of said transaction (EU Regulation no. 575/2013), for management purposes, the Parent Company and Banca Akros use internal methods to estimate exposures to the risk of possible default of counterparties in OTC derivative transactions.
This method entails a simplified approach to estimate the exposure to counterparty risk in derivatives, with regard to existing positions with counterparties who have a signed "collateral agreement" (Credit Support Annex – CSA); the above approach, known as the "Shortcut Method", entails assessing possible changes of the Mark to Market for 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 lending process chains of the Parent Company and of Banca Akros, with a daily monitoring and reporting system.
For the remainder of the positions in OTC derivatives, Repurchase Agreements, Securities lending and medium/long-term loans, the amount of exposure is calculated using the standardised approach, also adopted for Supervisory Reporting.

In accordance with the Basel 3 Framework Regulation, additional capital requirements regarding the following are to be calculated:

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

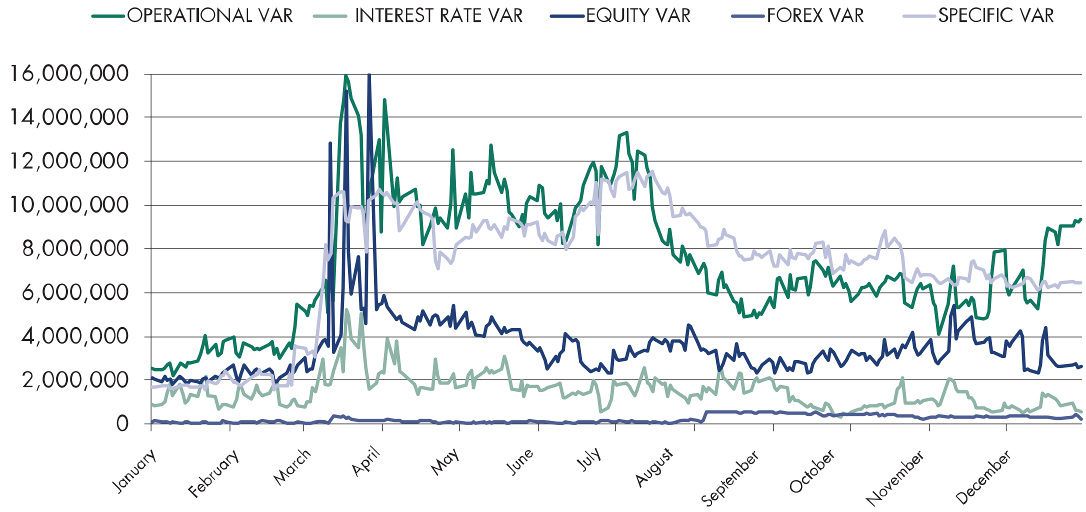
European legislation (Delegated Regulation (EU) 2016/2251) obliges banks that have bilateral agreements, for CSA (Credit Support Annex) relations with counterparties, to establish an Initial Margin arrangement. The deadline, initially set as September 2020, has been postponed to September 2021, due to the Covid-19 emergency.
This regulation obliges banks to exchange initial margins for non-centrally cleared OTC derivative contracts, to provide additional protection in the event that one of the two counterparties is unable to honour its commitments during the period of validity of the contract.
To facilitate the fulfilment of the requirements regarding Initial Margins by counterparties, differentiated phase-in periods are envisaged, based on aggregate average notional amounts of non-centrally cleared OTC derivatives and the type of OTC derivative instrument.
Two possible methods to calculate the initial margin are envisaged, to be agreed with each counterparty: SIMM (Standard Initial Margin Model) and Schedule/Grid.
Banco BPM Group intends to adopt the SIMM method as much as possible, the calculation of which is more risk-sensitive and appears to be advantageous as it entails a lower margin payment. This method, proposed by the market (ISDA), applies an aggregate sensitivity-based calculation by risk and product category, based on differentiated weights by risk factor and tenor and generates benefits in the diversification between asset classes.
A specific project has been set in motion with a dedicated Team (Banca Akros Trading participates in addition to Parent Company structures) with the support of external consultants. The calculations will be made using Numerix software.

Regarding the control of financial risk management, the identification, measurement and operating control of the risk positions of Group Banks are conducted using a sophisticated 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 Board 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 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 historical scenarios applied to estimate the empirical distribution of values in the trading book.

Following the request submitted in 2019, in the Internal Model Decision document dated 16 November 2020, the Supervisory Authority granted the authorisation to extend it to the specific risk of debt securities, therefore from the reporting date of 31 December 2020, Banco BPM Group had to use the extended model to calculate the capital requirement for Market Risk.
This measurement is therefore calculated on the basis of the VaR, Stressed VaR – including the specific risk of debt securities - and of the IRC recorded from 6 October 2020 (last 60 working days).
The ECB eliminated the previous limitation referred to in the Final Decision dated 14 March 2017 (Add-On of 1 to the multiplication factors for VaR and SVar), but introduced a new limitation relating to the calculation of the IRC: Add-On of 10% on an individual and consolidated basis until several methodological findings have been resolved.
The performance graph containing the Operational VaR figures for 2020 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



The relevant risk component is that relating to the specific risk of debt securities, due to the presence of positions in Italian financial and government securities. Changes in these securities can be attributed to the Group's overall risk trend. More specifically, the portfolio shows a lower level of risk in the second half of the year, due to the significant reduction of the exposure in Italian government securities in the latter half of the year.

With regard to operational risk, from the date of the merger, Banco BPM Group was authorised by the European Supervisors to temporarily use, for regulatory purposes, a combination of the three regulatory methods, specifically the AMA (Advanced Measurement Approach), relating to the validated scope of the former Banco Popolare Group (former Banco Popolare segments of the Parent Company and Banca Aletti), the TSA (Traditional Standardised Approach) on the scope of the former Banca Popolare di Milano Group (segments of the former Parent Company BPM S.c.a r.l., former BPM S.p.A., ProFamily and Banca Akros) and the BIA (Basic Indicator Approach) for the other remaining companies making up Banco BPM Group. After the transition period for the above ECB authorisation ended, from the Reporting date of 31/12/2020, the Supervisory Authority asked the Group to fully adopt the Traditional Standardised Approach to calculate capital requirements for all companies that make up the Supervised Group, while with regard to the other qualitative-quantitative elements envisaged by Supervisory Regulations, to fulfil all of the requirements of the CRR 575/2013 for the TSA as well as those envisaged by the above-mentioned AMA in Articles 321 (points b-e) and 322 (points b-f).
To ensure a more accurate measurement of exposure to these risks, the improvement of management practices and risk measurement techniques, the achievement in the medium term of reduction in the frequency and the severity of operational loss events and the adoption of solutions in line with industry best practices, Banco BPM Group developed a measurement and management system (standards and processes, actors, roles and responsibilities and IT models and applications) in line with the regulatory requirements for advanced AMA models. This model is continuously used at management level and for Pillar 2 purposes.
Risk measured using AMA methods is conducted by means of an internal method based on a quantitative and qualitative analysis along VaR logic. The quantitative assessment is based on internal loss data, gathered through a loss collection process and combined with external loss data pertaining to the Italian banking scenario (inbound flows of the DIPO consortium, set up by the major Italian Banking Groups within the ABI - Italian Banking Association), and on data deriving from the Risk Self Assessment, in which also qualitative information resulting from the ongoing assessment of the internal and external operational context are used.
In line with mission of Banco BPM Group, the main risk impacts regard the "Commercial practices" category, followed by "Processes", which together represent the predominant portion of total risk and which, for the most part, arise in the Group's sales networks.

With reference to the category of "External Fraud", given the tendency for criminals to adopt increasingly sophisticated techniques (e.g. identity theft, IT fraud 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 measures established in the mitigation plan (e.g. training, implementation of applications processes/procedures etc.) as protection against the main risk factors that arise.

Regarding liquidity risk, in 2020 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 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) basis, for both regulatory metrics (LCR, NSFR, ALMM) and metrics developed internally.
In 2020, 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 chapter 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.

Outlook for Group risks and objectives

At present, the macroeconomic scenario envisaged for 2021 forecasts an increase of Italy's GDP, recovering from the negative values recorded at the end of 2020 due to the pandemic underway. In economic terms, the Gross Domestic Product is expected to continue to be weak at the beginning of 2021, and to then rise at a significant pace from summer 2021, due to the expected improvement in the health situation and the impact of domestic and European tax policy measures.
For this reason, it is not easy to classify the outlook for risks. Thus, the Group's objectives are to take a prudent approach and to continuously monitor activities with a view to limiting the impact of potential adverse changes that are difficult to expect in the economic scenario. The capital ratios of Banco BPM Group are actually much higher than the minimum levels set by the Supervisory Authorities, and this guarantees adequate coverage of risks also in worsening macroeconomic conditions.

Having said that, as regards credit risk, the Group intends to continue in the direction it has taken in previous years, with a view to reducing the proportion of non-performing loans, alongside the objectives pursued in terms of the breakdown of loans by sector. For this reason, it is reasonable to expect that the risk profile will prudently improve, with regard to both performing loans, due to provisioning and guarantee policies, and to the portfolio of non-performing loans.
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, which are currently at very negative levels, would allow for an improvement in the net interest income to be achieved. During the year the Group's overall risk profile appeared to be adequate and consistent with the approved risk thresholds, 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.

On 18 December 2019, the EBA published the final draft of the Regulatory Technical Standard (RTS) relating to the new standardised approach for counterparty risk SA-CCR, which was introduced as part of the CRR2. Project work started on the implementation of the new regulatory requirements, which should be applied from June 2021.

The Risk Function coordinated the renewal of insurance coverage relating to the protection of both assets used in operations of the Group, both property, plant and equipment and intangible assets, and assets used to guarantee business transactions, 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. At the time of renewal, a comparison with the insurance markets took into account the new risks linked to pandemic events.

SUPERVISORY, CONTROL AND SUPPORT ACTIVITIES

Human resources

Appreciating and listening to people, developing and recognising skills acquired and professional aspirations are fundamental to creating a positive working atmosphere, and essential to motivating people and achieving an adequate level of performance, particularly in current circumstances, characterised by complexity, uncertainty and new ways of working.
With a view to encouraging change and to safeguarding the health of everyone, Banco BPM increased the number of employees authorised to work remotely, known as smart working.
In addition, during the most critical periods, it adopted strict measures to contain the spread of the virus, by temporarily closing numerous branches, reducing the opening times and days of others and asking employees to work in shifts; customers were received on appointment.
These new ways of working contributed to personnel growth, as they acquired new knowledge and skills, both digital and organisational.
With a view to improving the quality of the work-life balance, taking the company's needs and the professional expertise acquired into account, the Company arranged for its employees to work on a daily basis at the branch/office closest to their homes.
Furthermore, an important support project was launched (the "Being there" project) for colleagues who found themselves having to manage dramatic situations of confinement, solitude, illness and in the most serious cases, bereavement, during the pandemic.

The breakdown of personnel by category and gender as at 31 December 2020 is shown in the table below:

Category	Men			Women			Total
	Full-time	Part-time	Total	Full-time	Part-time	Total	
Executives	291	-	291	31	-	31	322
Middle Managers	5,750	37	5,787	2,195	409	2,604	8,391
Professional Areas/Other Personnel	5,638	166	5,804	4,194	2,934	7,128	12,932
Companies abroad	11	-	11	7	-	7	18
Total workforce	**11,690**	**203**	**11,893**	**6,427**	**3,343**	**9,770**	**21,663**
of which:							
Apprentices	72	-	72	78	1	79	151
Permanent contracts	11,618	203	11,821	6,349	3,342	9,691	21,512
Supply contracts	-	-	-	-	-	-	-

Planning and Development

The personnel development model was renewed, which, in line with that already adopted in previous years, promotes professional growth, aligning the company's needs with individual ambitions.
Methods and tools were redesigned and greater emphasis was placed on listening to people when appraising their performance by introducing a Development section to record individual professional aspirations in a structured way.
A first application of the Model is the Gender Program, a programme to promote women in the workplace, which encourages the development of female managers and professionals, with a view to guaranteeing a greater presence of women in managerial positions, which will be launched in 2021.

The 2019 performance assessment was concluded at the beginning of the year, with the consequent return of feedback and the establishment of the development objectives for 2020. At the end of the year, around 21,000 resources took part in the 2020 self-assessment. The system, applied to all Group companies, promotes empowerment at all levels 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.
Furthermore, the assessment system for top management was updated by introducing a reference to ESG objectives.
In the first half of 2020, the identification of the skills of IT and Data Governance and IT Security functions was undertaken as part of a Project called "Accelerate IT transformation and improve the Group's Data Quality".

Selection and Assessment

Selection and Assessment together with Planning and Development have extended Banco BPM's ties with local communities by implementing Education schemes and makes the know-how of the company's professionals available to schools and universities. Webinars, university testimonials and seminars to examine the technical side of banking professions were planned and conducted, professional orientation and career days were held with a view to improving the students' knowledge of the company, providing support as they approach the world of work, for the purpose of strengthening partnerships with the Placement offices of Universities and with local training entities. All of these initiatives were carried out remotely (the majority in the second half) and involved a total of around 2,300 young people.

In addition, Banco BPM continued to provide assistance to students of Universities it works with, who were writing their dissertations and/or developing specific research projects and, despite the difficulties related to health restrictions, internships continued to be offered to young university undergraduates and graduates (partly physical presence and partly remote). In 2020, 20 interns from various universities were hosted.
In addition, the process of selecting and hiring young graduates continued for head office structures and the commercial network, as well as professionals mainly for Banca Aletti, Banca Akros, Risk Department, IT and IT Security.

Training

The table below shows the hours of training provided in 2020, broken down by the various types of training course and the level of attendees.

2020	Man-days/ Hours provided
Training days	118,825
Training hours	891,188
of which in % by training area:	
Mandatory	18.8 %
Technical - professional	22.0 %
Qualifying technical - professional	53.3 %
Relational/ skills development/ Commercial	3.3 %
Managerial	2.6 %

In 2020, in a highly complex context characterised by technological and legislative change, training was called on to support the strategies of the 2020/2023 Business Plan, to implement the People Strategy, to enable personal growth, and to sustain the development of skills in line with business requirements, through an internal reorganisation (new training methods, new teaching projects and the use of new tools).
The main training initiatives implemented in 2020 were:

- the "Being there" project: to develop and promote a leadership style that facilitated a new way of working even remotely and in disruptive contexts;
- "Remote Leadership": to capitalise on the experience gained during the Covid-19 experience, with a view to building new ways of working, both within the company and with customers, encouraging active collaboration, sharing knowledge and the awareness of the value of teamwork and a sense of belonging;
- IT for People: to enable a new approach, for the purpose of developing collaboration and simplifying communication through the use of new Microsoft tools;
- strengthening skills in financial consultancy: to enhance the level and the value of the advisory service, developing increasing qualified expertise (license certification for financial advisors);
- "SalesForce" project: to encourage cultural exchange and mindset, and encourage cooperation between the different parties involved in the sales process, and to publicise the new platform for the Corporate and Business sphere;
- #Respect programme: to encourage deep reflection on the topic of respect in the company, seeking to promote virtuous behaviour;
- ESG programme: to promote awareness of the dimensions of sustainability and how they translate into the Group's strategies, and to introduce the Group's new Green products in terms of benefits for the customer and the tools made available by the bank to support the product range;

- credit culture: to promote a new company-wide credit culture by launching a specific project to assess the consistency of the model according to which credit is disbursed, managed and monitored in compliance with EBA Guidelines, and to promote credit risk assessment rationale such as the business governance pillar;
- "Digital Academy": to represent new digital transformation trends, consistent with the releases of applications under the .DOT programme for business customers, to provide support to resource during the digital transformation of the Bank by acquiring new digital skills and developing a new smart-working approach;
- Control Function Programme (Audit, Risk Management, Compliance): to guarantee the oversight and development of key skills; to intervene in the event of "priority" gaps in skills that emerged during the survey of technical skills concluded in 2019; to increase the number of people certified to consolidate the specific skill level and align with the top industry standards; to meet Supervisory requirements;
- Skills in risk prevention and control programme: to develop skills and greater awareness of the importance of proper risk management; to promote and spread a culture and awareness of operational risk;
- Group Bank Academies: to develop the specialist skills of Banca Aletti and Banca Akros;
- on-the-job training for the Retail and Corporate commercial network: to encourage the professional growth of resources; also in this case the training courses have been completely re-organised so that they can be provided in a virtual classroom and through e-learning.

Lastly, in 2020, the structure set 3 Smart Learning projects in motion and launched the new training app FORmYOU.

Remuneration Policies

With regard to the implementation of remuneration policies, the short-term incentive scheme was particularly important, as it represents a way to encourage the involvement and participation of personnel in the objectives of the company and of the Group as a whole.
The short-term incentive scheme is a useful management tool for the company to recognise the contribution of its personnel and reward individual merit.

Detailed information concerning the Group's remuneration and incentive policy can be found in the "Policy-on-remuneration report and payouts awarded of Banco BPM Banking Group's staff", which was drawn up in accordance with the applicable provisions of the Italian and European supervisory authorities and approved by the Bank's Corporate Bodies.
The Report is presented at the annual Ordinary Shareholders' Meeting and is published on the Group's website www.gruppo.bancobpm.it (section Corporate Governance - Remuneration Policy).

Industrial Relations - Agreements relating to employees

In 2020, the company's management of the health emergency triggered by the Covid-19 pandemic required systematic and continuous dialogue with the Social Partners, particularly with regard to measures to increase working flexibility, as well as the effectiveness of measures to prevent and contain the spread of the virus to guarantee the health and safety of the workplace by restricting the number of employees physically at work.
The dialogue with the Social Partners also enabled important agreements to be reached, regarding the repercussions on personnel resulting from the launch of the branch closure plan, on the use of the extraordinary resources of the industry's Solidarity Fund, as well as additional measures, such as payments in the form of company bonuses, professional re-training schemes, and provisions to combat harassment in general in the workplace.
The main trade union agreements reached in 2020, which regarded personnel of Group companies that apply the credit workers' contract, are summarised below.
As regards interventions on work flexibility and support for personnel, within the context of the pandemic emergency, the following measures were implemented:

- extension of the smart-working approach, consistent with legislative provisions relating to preventing the spread of the virus due to the state of emergency, and taking into account the need to continue to provide essential banking services to customers;
- confirmation for the two-year period 2020-2021 of the individual right to take advantage of the company plan to voluntarily suspend working activities, also due to the need to look after children - which was already operational in the three-year period 2017-2019, and has a maximum ceiling of 200,000 partially-paid working days - until the funds of said platform are exhausted;

- company application for the ordinary resources of the Solidarity Fund for the industry, due to the activation of two periods of mandatory suspension of working activities, without affecting or damaging the levels of pay or social security contributions of the employees in question;
- paid permits for parental leave, in certain periods during 2020 for employees applying, with children between 0 and 12 years and between 0 and 14 years.

With regard to the envisaged closure, in the first half of 2021, of 300 branches of the Parent Company Banco BPM's sales network, and the simultaneous need to sustain business growth by transitioning towards professional qualifications that better suit the changed conditions of the economic scenario and operating context, the following was established:

- for a maximum of 1,200 workers who, by 31 December 2026, meet the requirements for retirement, the voluntary use of the extraordinary resources of the Solidarity Fund for the industry, moreover with 85% of the net standard pay of each applicant guaranteed by the company;
- for a maximum of 300 workers who, by 31 December 2021, meet the requirements for early retirement (requirements of the so-called "100 quota"), the consensual and incentivised termination of the employment contract, as an alternative to the extraordinary resources of the Solidarity Fund;
- the activation, in correlation with the number of agreed terminations, of a generational turnover plan, which envisages hiring 750 young people between 2021 and 2023.

The above-illustrated measures, which sought to achieve a high level of social sustainability, also entailed confirmation, until the end of 2022, of agreements relating to second-level bargaining, as well as an agreement relating to providing training activities outside of company premises (Smart Learning) and one regarding Commercial and Labour Organisation Policies, with a view to consolidating the positive climate of internal relations and constantly promote sustainable business growth.
With regard to the company bonus and welfare, to acknowledge and enhance the commitment of its employees in supporting - even when faced with the serious difficulties of the health emergency - continuity in terms of the services provided to customers, in accordance with the provisions of Art. 48 CCNL (National Collective Labour Agreement), a bonus will be paid in 2021, which will take the usual forms of welfare or cash, as well as an amount that only applies to welfare.
With regard to personnel training and re-training, to confirm that training plays a key role as a tool for integration and cultural change, in 2020, agreements were drawn up for access to the loan of the Joint Inter-professional Training Fund (Fondo Paritetico Interprofessionale - a Fund for Banks and Insurance Companies), and to that of the New Skills Fund established by the National Agency of Active Labour Policies (in this case regarding employees whose branches are involved in the closure plan).
Lastly, in 2020, for employees that subscribe to the Group's supplementary pension funds, Banco BPM Group entered into a specific agreement regarding the conditions and the procedures for transferring the existing individual position to the pension fund belonging to the employee severance pay accrued in the company before 31 December 2006.

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 structure and other components of the internal control system, presenting possible improvements in the risk management, measurement and control process to the corporate bodies and taking an active part in their implementation.
The Audit Function is responsible for the internal audit activities of all the central and peripheral structures of the Italian companies of the banking Group. It also provides guidance, coordination and control to the structures assigned the audit activities for the only foreign entity belonging to the Group (Banca Aletti Suisse).
When performing its duties, the Audit Function takes the provisions of the widely accepted professional standards into account.

The audits conducted in 2020 regarded the following areas:

- Governance Processes;
- Risk Control and Management Processes;
- Finance;
- Commercial;
- Loans;
- Support processes;
- Banking networks

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

The most significant activities involving the Audit Function in 2020 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, projects for the application of the new Definition of Default and on the measures for development of the risk measurement processes (with specific regard to the areas interested by 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).
Audits were also conducted on the processes adopted by the Group for the award of the supporting credit measures to business operators in the context of the Covid-19 pandemic.

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.

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.
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.

In the reference year, work continued to develop the IT processes, methods and tools adopted, specifically to obtain benefits in the identification, measurement, assessment and reporting of compliance risks.

With a view to enhancing the process of integration and coordination between the corporate control functions, the Compliance Function participated in the creation of an "Integrated Tableau de Bord", for management reporting, to provide the Top Management Bodies with a summary of the progress of the corrective measures taken as a result of the findings reported by the corporate control functions during their audits, showing the relative envisaged implementation time-frames.

In 2020, the Compliance Function worked on identifying the applicable regulations and assessing their impacts on company processes, models and procedures, providing consulting on compliance (mainly for the regulatory areas of Transparency, Payment Services, Distribution of non-IBIPS Insurance Products, Corporate Governance, Remuneration systems, MiFID, ICT compliance and prudential supervision), 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 bank's corporate structures on all topics where compliance risk is important, particularly as regards preparatory work relating to the issue of internal regulations and sales proposals. This work was particularly important in 2020, with regard to implementing the government provisions directed towards tackling the Covid-19 pandemic emergency.

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 Bank, adequate knowledge of the regulations and the relative responsibilities, as well as ensure full awareness of the supporting instruments and procedures in the fulfilment of obligations.

The most important activities involving the Compliance Function in 2020 included certain internal innovations of the same. Note, in particular:
- the preparation of the three-year Compliance Plan for ex-post audits;
- the definition of new criteria for the assignment of scores to findings and the priorities of corrective measures;
- the launch of the Compliance Universe review project, to rationalise the legislative frameworks in the scope, and associate the same to the taxonomy of the Group's business processes;
- the continuation of support activities to the updating and adjustment of the governance model on privacy and data processes, and the promotion and application of the culture of privacy by design and by default;
- the review of management reporting;
- the launch of the refresher training course addressed to the Function's internal resources, with a view to achieving increasingly higher levels of expertise, consistent with current and future changes in laws, regulations and technologies.

The Compliance Function also supported the implementation of important projects. Among these, we would like to mention the inter-functional project to implement the safety requirements envisaged by the PSD2 regulation, as well as the continuation of work on the DOT project relating to omnichannel digital transformation undertaken by the Bank, the projects relating to MiFID II and Systematic Internaliser, and on Product Governance, as well as that on the product catalogues of Group companies.

The Parent Company's Anti-Money Laundering function, part of the Compliance function, has full autonomy to oversee the risk of money-laundering and terrorist financing, as well as the reporting of suspicious transactions, and has direct access to the Corporate Bodies, communicating with them without any restrictions or intermediation; it also performs the tasks entrusted by law to the head of the Anti-Money Laundering function and the Suspicious Transaction Reporting Officer (SOS).

The Anti-Money Laundering function conducts its activities for the Parent Company and for Group companies who have awarded it the service on an outsourcing arrangement, according to a risk-based approach, conducting audits and checks in order to assess exposure to the risk of money laundering the terrorist financing, the effectiveness of the organisational and control oversight measures, both when setting them in motion and when established, and any corrective measures to be implemented to remediate the issues found.

Among the findings of the Anti-Money Laundering function in 2020, the following are of note:
- the revision of the organisational structure. The objective of this revision was to guarantee the diversification and the specialisation of "ex ante" from "ex post" activities and the concentration of data and information storage processes (Centralised Computer Archive) and relative Threshold-based Communications and SARA Flows on the Suspicious Transactions Reporting structure;
- the launch of the project to replace the GIANOS 3D application (an essential tool in assessing AML risk related to customers) with the new GIANOS 4D platform, which will not become operational before the end of 2021. This initiative is one of the 10 main projects that are monitored with regard to the Risk Appetite Framework defined in the Group's strategic plan;
- the adoption by the function, from September 2020, of an analysis tool with access to integrated databases, useful for AML assessments (i.e. personal information from General Registers, processed by the GIANOS Risk profile, from income statements and balance sheets, from the Centralised Computer Archive/Threshold-based Communications);
- the definition of standardised reporting to present the results of its control activities, with the aim of both more effectively reporting anti-money laundering risk and the vulnerability of the measures in place to mitigate it, and of introducing elements that are linked to the Self-Assessment Exercise, as a central requirement of the Anti-Money Laundering 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 the reference Indices
European Regulation 1011/2016 (Benchmark Reform, BMR), which came in effect in 2018, established the new regulatory framework for the benchmark indices - which included those widely used, namely Euribor, Libor and Eonia - with the objective of bringing the market indices and the relative calculation methods in line with international standards, ensuring the accuracy and the integrity of the same. These interventions seek to increase the confidence of capital market participants in the rates used as benchmark parameters in the European Union, by improving their integrity and representativeness, both put at risk by several episodes of Libor rate manipulation around a decade ago, and by the significant fall in interbank market trading.
The Regulation contains the provisions regarding the supply, the contribution and the use by supervised entities, including banks, of the benchmark indices and the rules that all parties involved must comply with as a function of their role. For the most widely used indices (defined as critical benchmarks), more prescriptive measures are envisaged, which take their systemic importance into account.
More specifically, the users of the benchmark indices, including Banco BPM Group, are obliged to draw up and maintain an Internal Plan (known as a "Robust written plan"), which specifies the actions to be taken in the event of the cessation and/or substantial change of a benchmark index. This plan should envisage one or more alternative benchmark indices (known as "fallback clauses"), to which reference could be made to replace the indices whose supply has been suspended, indicating the reasons.
The reform of the monetary market benchmark rates, launched in this way, has therefore entailed a gradual process of revision and/or replacement of the main financial benchmarks with alternative risk-free interest rates (Risk-Free Rates, RFR), based on effective transactions concluded in the market, with consequent availability only the next day ("T+1" rates).
From the end of 2021, the reform envisages the cessation of important market indices, such as for example EONIA and LIBOR, and potentially other indices, such as the Euribor, which during 2019 underwent significant changes to its calculation method (known as the hybrid method), with a view to maintaining its use beyond 2022. With regard to the Euribor, the cited method envisages that the index is calculated on the basis of a three-level hierarchy, represented by the use of market transaction data from the previous day (level 1), the interpolation of data in the event of the temporary unavailability of market data (level 2), and expert opinion as occurred prior to the reform (level 3). At present, there is no assumption to discontinue the "hybrid" Euribor, which could nevertheless be ceased, as the ECB emphasises, if retained too dependent on the subjective valuations of intermediaries.
The complex reform process of the indices, consequent to the BMR Regulation in question and the subsequent recommendations of the Financial Stability Board, has therefore led to the establishment of numerous working groups to identify possible alternative rates with respect to those widely used today, in the event that they should be ceased or no longer used. In Europe, the working group comprised by financial institutions, the ECB and the European Commission, adopted the risk-free €STR rate from 2 October 2019, recalibrated considering the EONIA plus a spread of 8.5 bp until 3 January 2022; the FED adopted the new SOFR, while the Bank of England adopted the SONIA.
In the light of the above, it is clear that the transition to the new benchmarks will be complex due to the extensive and widespread use of these indices in the international financial system. In Italy, the benchmark rates are used for a wide range of financial instruments (e.g. derivative contracts, CCTs, corporate bonds) and to index bank loans to

consumers and businesses. Therefore, bank and financial intermediaries must undertake initiatives to ensure a smooth transition to the new benchmark rates, with regard both to customer relations and to their own organisational and operational structures.
To this end, from 2019, Banco BPM Group launched a project called "IBOR Transition", through the creation of a working group, which involves the main structures in the organisational, accounting, financial, legal and IT areas, with a view to analysing the legislative changes of the reform under way and assessing their impact on the Group. In 2020, the activities undertaken as part of the project regarded the following areas:

- completion of the transition from the EONIA rate to the €STR rate, consequent to the transition by Clearing Houses to the €STR discount curve, from July 2020;
- transition from the FED FUNDS rate to the SOFT rate, for some financial instruments denominated in USD, consequent to the transition by Clearing Houses to the SOFR discount curve, from October 2020;
- definition of the scope of action, consequently mapping the products contained in the commercial catalogue, in order to identify the rates applied and any contractually defined fallback clauses;
- management of the substitute rate for active contracts indexed to the Euribor (around 280,000 contracts) and for new ones. More specifically, it was found that the majority of active contracts envisaged the 3-month LIBOR as the substitute rate, which is set to disappear from the end of 2021; therefore we are assessing how to use the "forward €STR" rate as the substitute rate, when the same becomes officially available and is published by the ECB;
- management of active contracts indexed to the ceasing indices EONIA and LIBOR, whose expiry dates are after 31 December 2021. Considering the limited number of contracts, efforts will be directed at renegotiating the same, rather than following the provisions of the ISDA protocol for the derivative contracts covered by the same;
- preparation of the "Robust written plan" envisaged by the BMR Regulation, with a view to incorporating the "Plan to Substitute indices in financial products" and the "Catalogue of Indices";
- information to customers, according to criteria of clarity, transparency and completeness, when the statements are sent on 31 December 2020;
- identification of IT implementations to manage the new contractual formats, of new "forward" indices for loans (forward €STR and forward SOFR), of information on the "contractual substitute rate" and the management of the cessation of the index and the activation of the substitute rate.

New Definition of Default – DoD

On 4 March 2015, the European Banking Authority (EBA) issued a discussion paper ("*Future of the IRB approach*") in which it provided information on the regulatory changes under way to harmonise the approaches used to estimate internal risk and to calculate the capital requirements of European Banking Institutes.
In this context, the EBA identified a significant differentiation in the application of regulatory requirements with reference to the definition of default, to the calibration of PD and LGD and to the application of the IRB model.
For this reason, the EBA issued the following two directives:

- "Final Report on Draft Regulatory Technical Standards" (RTS) regarding the materiality threshold for credit obligations past due under Article 178 of Regulation (EU) 575/2013, which specifies the conditions on the basis of which a competent Authority establishes the materiality threshold for credit obligations past due in order to guarantee consistency of the establishment of the threshold at European level;
- "Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013".

With a view to assessing the "Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013", Banco BPM Group conducted a gap analysis, which enabled it to identify the relative requirements/interventions on systems, processes and internal regulations.
Also with a view to completing various operations to streamline the Group's structure (merger of BPM S.p.A.) and to complete the derisking plan, the Parent Company decided to adopt the New Definition of Default using the so-called "single step approach" from 1 January 2021.
The New Definition of Default enables the criteria to identify past due receivables, the way in which the indicators to be considered to identify likely default, the specific aspects of retail exposures and the definition of criteria for the return of a position to a non-defaulted status to be standardised.
More specifically, the main changes introduced with respect to current legislation regard the following areas:

i. new definition of past due:

- lowering of the "relative" materiality threshold from 5% to 1% (threshold calculated as the ratio of the amount in arrears to the customer's total exposure, both determined at Banking Group level without offsetting with any margins available on other lines of credit);
- introduction of an "absolute" materiality threshold differentiated by type of exposure;
- classification of a debtor in default status (NPE) when both materiality thresholds have been breached for 90 consecutive days;

ii. introduction of an observation period of at least 3 months before reclassification to performing status for debtors previously classified as defaulting (NPE) who rectifies his position;

iii. classification of a debtor as defaulted in a harmonious way at Banking Group level, namely on all credit obligations active at Group companies;

iv. classification of a debtor as defaulted in the event in which the distressed restructuring is likely to imply a Reduced Financial Obligation (i.e. Δ NPV > 1%);

v. introduction of new rules of propagation/assessment of propagation of the defaulted status of a position on the basis of the link with other positions that have become non-performing.

In order to apply the above-cited legislative criteria envisaged by the New Definition of Default, a number of interventions have been set in motion which have regarded:

- the area of processes, mainly relating to the processing of granting, classifying and monitoring credit;
- the area of models, limited to the technical calibration of the risk parameters (whilst waiting to develop new estimating models);
- the IT area, with regard, in particular, to application to support the processes of granting forbearance measures, of classifying and monitoring credit, as well as the architecture to produce regulatory reports.

In terms of processes, the "single step" approach, with envisages a single authorisation step, was characterised by:

- the creation of a "parallel" environment to identify default according to the New Definition of Default and to recalibrate the internal rating system;
- the flanking of said "parallel" environment with current processes and procedures, maintaining the previous definition of default for them until the end of 2020.

The adoption of this environment enabled data to be recovered to recalibrate the IRB models and to provide the Group with prior awareness as to the impacts of the New Definition of Default, in particular enabling the credit processes and the relative conduct to be effectively guided consistently with the new legislation.
All interventions to progressively update processes, performed during the course of the project, also by adapting the supporting IT procedures, were meticulously defined and implemented with a view to guaranteeing the effectiveness of developments, with respect to the pre-existing company processes. Furthermore, said development work was accompanied by the provision of training in the classroom and of a specific on-line course for Network and head office colleagues. Lastly, during the course of the project, appropriate credit and commercial measures were implemented, to manage the impact of the application of the new legislation and to gradually consolidate the change in operational behaviour in keeping with the new rules.

The implementation of the effects of the New Definition of Default into the AIRB framework was performed through a "technical calibration" approach of the risk parameters by adjusting the main components of internal models. This activity entailed:

- the historic reconstruction of the information needed for the technical calibration and for the future development of new AIRB models;
- calculating the impacts on expected loss and RWA through the determination of a final scaling factor applied to the estimates of PD and LGD obtained through the application of the models.

With regard to IT systems, the activities performed by the IT function with regard to the project developed to achieve the established objective regarded the following project work:

- development of the calculation engine for days past due according to the new rules of default;
- development of an application to calculate the NPV delta and to intercept any losses higher than the threshold, leading to classification as UTP;
- integration of these new implementations with the systems and the procedures of the Bank involved in or impacted by the New Definition of Default (e.g. Electronic Loan Application, Management of Conditions, segment-based procedures, such as mortgage loans and current accounts) as well as with the systems that use the default data for management and regulatory reporting purposes.

The adoption of the criteria envisaged by the New Definition of Default took effect, as already mentioned, from 1 January 2021; following the application of these criteria, credit exposures amounting to a total of 113.4 million gross, together with value adjustments relating to them of 16.2 million were classified as Non Performing credit exposures. Even though, consistent with the criteria in force as at 31 December 2020, these credit exposures were classified as performing loans, the higher value adjustments corresponding to the economic impact resulting from the first-time adoption of the new definition, of 12.3 million, were charged to the income statement of the fourth quarter of 2020.

Italian Legislative Decree 231/01 - Administrative liability of Companies
Banco BPM has continuously updated 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.
More specifically, in 2020, the legislative changes made (i) by Italian Law 157/2019 of 19 December 2019 regarding tax offences and (ii) by Italian Legislative Decree of 14 July 2020 no. 75 which implements Directive (EU) 2017/1371 (PFI Directive - Protection of Financial Interests) relating to the fight against fraud to the Union's financial interests by means of criminal law.
At the same time, the map of "231/01 risks" within the company's corporate functions was updated.
Furthermore, the Model was updated in 2020 with the new provisions introduced by the revision of the Articles of Association and by internal provisions issued such as, by way of example, those on anti-corruption and promotional and sponsored events. In addition, the internal process to assess the controls set in place to protect against these offences being committed was strengthened.

Italian Legislative Decree 231/07 – Anti-money laundering and the prevention of terrorist financing
In 2020, Banco BPM updated its operational and regulatory structure to transpose the main changes introduced by external legislation or regulations, and specifically, (i) by the measure of the Bank of Italy "Provisions for storing and making available documents, data and information to combat money laundering and terrorist financing", (ii) by the anomalous behaviour patterns relating to transactions connected to tax offences published by the FIU, (iii) by the synthetic indicator to identify so-called "shell" companies, prepared by the Bank of Italy.

Technological projects and investments

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

DOT – Digital Omnichannel Transformation
In 2020, Banco BPM continued with the development of the digital omnichannel of its service and distribution models.
The most important progress entailed the introduction of the Digital Identity service, which enables customers to interact with the bank in the new omnichannel context, which is being developed, and has led to the dramatic dematerialisation of paper documents in branches.
Processes to subscribe to products and receive services remotely have been made available, which represents an important milestone in the development of the channel, which will result in a targeted solution being identified for the range of products sold remotely.
Over the year, the range of products that customers could subscribe to on their own through the internet banking channel, was extended, and work to attract new customers through digital online processes to open accounts, subscribe to products and services on a paperless basis, the completion of which is envisaged by the end of 2021.
2020 marked the evolution of digital platforms, with the redesign of public websites and the release, for all Banco BPM and Banca Aletti customers, of the new APP which, with improved functions and new graphics and navigation processes, will be further developed in 2021.
The internet banking service for businesses, YouBusinessWeb, was improved by the addition of new functions, new graphics and better navigation processes.
Considerable progress was made towards the industrialisation of customer contact, and a Customer Feedback Management platform was introduced to acquire instant feedback from customers and enable them to receive faster responses.
The credit card sector was the subject of specific attention, where checks to improve the safety of transactions were strengthened, particularly for on-line purchases, in compliance with PSD2 regulations and considering the more widespread use of the same. In addition, an entirely on-line process was designed for the issue of Nexi credit cards.

Loans to customers
The main focus was the area of customer loans. The introduction of loans secured by a State guarantee, and of those related to the ecobonus for building renovation work, which entailed creating new commercial products and developing new functions, while complying with new rules regarding the suspension of payments, through changes in and implementations of applications software.

Smart Working
With regard to ways of working adopted for Group employees, extensive use was made of Smart Working, which led to the need to adapt structures to enable remote connection through the company VPN, as well as the allocation of laptops; consequently, significant use was made of collaboration platforms such as Microsoft Teams.

Risk Management projects and investments

Banco BPM Group aims to guarantee the development and the continuous improvement of the models and of risk measurement metrics, also through projects addressed at implementing advanced models, at aligning with standards that are, over time, introduced at international level and at implementing Supervisory regulations and directives, as well as at developing increasing effective oversight.

In this regard, the main activities performed by the Group are illustrated below.

2nd level controls
In 2020, Enterprise Risk Management (ERM) worked specifically on improving 2nd level controls, with a view to promoting synergy in the context of the Covid-19 pandemic, by conducting the traditional checks on portfolio performance and the analysis of samples with the Credit File Reviews (CFR) alongside aggregate analyses on the performance of the Key Risk Indicators (KRI), as well as regular checks on the measures taken by the bank to provide support to its customers hit by the pandemic. ERM also continued to issue "ex ante" non-binding opinions on Significant Transactions in the credit area, in the prior assessment of credit cases authorised by the Non-Performing Committee, as well as reviewing the framework of the controls in place.
In 2021, a follow-up will be made of the ex-post controls by reviewing specific positions, also assessing the robustness of the underlying credit processes, and the scope of ex-ante assessments will be extended. With regard to portfolio assessments, the KRI system will be updated, assessments of the process to monitor problem loans will be conducted, as well as of the robustness of the Early Warning system in use by Credit functions, and the effectiveness of credit mitigation tools.

Investment Services Control Framework
With regard to checks implemented on Investment Services – MiFID, during 2020 the implementation of the controls attributable to macro-processes of Advisory, Product Governance, Pricing, and Best Execution continued.

Data Quality Aggregation
With the consolidation of interest rate risk and operational risk controls, the extension of the data quality framework to all the main areas of risk was completed. Furthermore, additional data quality checks were made, both to support the main projects of the Risk function (e.g. Definition of Default - DOD, establishment of new stable and operational deposits), and to meet regulatory or audit requirements (e.g. liquidity, market risk). Work continued on the BCBS 239 project (circular 239 of the Basel Committee for the quality control of risk data), which enables data lineage coverage to be completed, and around 70% of the metrics in the project's scope to be covered. In addition, the automation of control activities continues, and training sessions were held on Data Governance for various Bank functions.
Following the pandemic events, in collaboration with the Liquidity Risk structure, over the course of 2020, specific controls were conducted to support the generation of new reports to the regulator.
Work on the BCBS 239 project will continue in 2021, with a view to completing that envisaged by the current plan and keeping the information map of elementary risk data updated.
In 2020, the analysis method for 2nd level controls of IT Risk was established, and will start to be applied in 2021. This will be followed by the identification and creation of 2nd level controls of data relating both to risks that are already covered (market, credit, liquidity risk, etc.) and to other areas of risk (e.g. second pillar), adopting, where possible, new and more effective analysis tools and methods (e.g. machine learning, python). 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.

Credit risk
- Activities linked to the AIRB application of 2019 still in progress, containing new Corporate and Retail LGD/PD/EAD models;
- activities linked to the application of 2020 and to the implementation of the new DoD (Definition of Default) containing the adaptation of the IT systems, procedures, internal processes and risk parameters by means of a technical calibration to the new definition of default, as illustrated in detail above;
- implementation in operations of the DoD (FTA); the new definition of default became operational by law, with the start-up on 1 January 2021 (FTA);
- activities linked to building the databases necessary for the re-valuation of the PD, LGD and EAD models, requested by the Supervisory Authorities also in view of the implementation of the new DoD (Definition of Default) for both regulatory and management purposes. Completion of the quarterly Monitoring template;
- activities linked to updating the time series of the models in production (PD/LGD/EAD);
- the revision of the models used to estimate SICR thresholds, in order to identify a Significant Increase of Credit Risk to take into account the impact of Covid-19 on the performing perimeter;
- updating of the forecast PD curves and the calculation model for forecast LGD for provisioning purposes for Banco BPM Group perimeter, with a view to IFRS 9;
- activities related to building the Reference Data Set which enables the Loss Given Default (LGD) risk parameter to be estimated with the one step approach;
- preparation of the Group Credit Risk report on a quarterly basis.

Market risk
- On 16 November 2020, the Supervisory Authority gave Banco BPM Group authorisation to extend the specific risk of the debt securities of the trading book;
- in the context of the reform of benchmark rates, the transition of the risk-free rates is underway, with a view to making the calculation more robust. In Europe, the €STR was identified as the replacement of the EONIA rate. From 27 July 2020, in concert, the Centralised Counterparties (CCP) replaced the EONIA rate with the €STR as the rate of return on margins in Euro. At the same time the curve indexed to the €STR became the risk-free curve for discounting forward flows of derivatives in Euro. The impacts in terms of value and of capital absorption were negligible. In the US, on 17 October 2020, a similar change took place: the SOFR (Secured Overnight Financing Rate) replaced the FedFund as a risk-free rate. Also in this case, the impacts were negligible. The Bank is engaged in the renegotiation of bilateral collateral contracts with individual counterparties and is preparing to manage the change of existing derivative contracts, in view of the interruption of the publication of EONIA and LIBOR rates envisaged at the end of 2021.

FRTB (Fundamental Review of the Trading Book)
In recent years, bank regulation regarding the assessment of market risk is undergoing a thorough review.
In this regard, in 2012, the Basel Committee launched a consultation process to review the risk framework of the trading book (Fundamental Review of the Trading Book - "FRTB"). The consultation ended with the adoption by the Basel Committee on Banking Supervision ("BCBS"), of the "Minimum capital requirements for market risk" (January 2019).
On 7 June 2019, the "Banking Package" was published in the Official Journal of the European Union, represented by the CRR2, CRD5, BRRD2 and SRMR2, which, inter alia, incorporate the initial rules for the implementation of the FRTB defined by the Basel Committee. The package came into force on 27 June 2019.
To guarantee an adequate level of capitalisation of banks against market risk and to take a structured approach to resolving several shortcomings of current legislation that emerged during the crisis, the FRTB Framework has set out the following objectives:
- clear definition of the distinction between the prudential portfolios (trading and banking book) with more stringent restrictions on movement between portfolios;
- radical change of the metrics to measure the capital requirement for market risk according to a more prudent and risk-sensitive approach, distinguishing, inter alia, between the Standardised Approach – SA and the Internal Model Approach - IMA, subject to the approval of the Regulator. Note that the banks authorised to adopt the IMA are required, in any event, to calculate the capital requirement with the SA model and, therefore the IMA should be considered an alternative to the SA and not an alternative;
- at regulatory level, boosting the monitoring and the management of market risk at trading desk level.

Lastly, the Regulator has set September 2021 as the reporting date for the calculation of market risk according to the SA, preliminary to the actual future calculation of the SA capital requirement according to that envisaged by the new

FRTB regulation (the application timeframes for capital provisions according to the FRTB will be indicated after the publication of the CRR3).
In 2020, Banco BPM Group therefore launched a project on the Fundamental Review of the Trading Book ("FRTB"), with the assistance of an external consulting company.
The organisation of the project, established at Group level, (the project manager is the head of the Risk Models function) and which also encompasses representatives from Banca Akros, envisages 4 main areas of focus (Standardised Model, Internal Model, Operating Model, Reporting) as well as some across-the-board activities (IT implementations and activities that fall within the scope of the Internal Validation and Audit functions). The main bodies involved in the exchange of information are represented by the Steering Committee (members include the CFO, Head of Risks, Finance, Organisation, IT, MD of Banca Akros, other first-line managers, and the external consulting company), which is tasked with identifying strategic decisions, as well as Project / Focus Area and internal alignment Committees, the purpose of which is to report on the state of progress of the project / work and to address priorities at various levels.
The aim of this project organisation is to ensure robust governance, which guarantees continuous monitoring and alignment between the functions involved and an activity plan with clear allocation of ownership.
The regulatory timeline for FRTB implementation covers a time horizon that is likely to end in 2023, with the first regulatory deadline for reporting obligations according to the standardised approach envisage for the third quarter of 2021.

Interest rate risk

- Extension of the application of the full evaluation to all contractual options;
- introduction of the quarterly measurement of net interest income sensitivity according to a dynamic approach to financial reporting.

Reputational risk

- The process to enhance the Web Sentiment Reputation process with a view to increasing the accuracy and the timeliness of the overall monitoring of reputational risk has been completed, simultaneously achieving the full integration between the model's traditional and social components. The Machine Learning & Artificial Intelligence algorithms were developed on the basis of Banco BPM Group's specific profile, training the classification engines on the main newsfeeds originating from the WEB;
- introduction of the residual ICT risk component relating to reputational risk, measured with relation to the outcome of the Risk Self-Assessment campaigns periodically conducted by the Operational Risk organisational unit.

Strategic Risk

- Re-estimate of nodes of the experiential function, used to quantify the amount of capital allocated to cover unexpected potential losses related this specific type of risk;
- inclusion in the estimation method of the impacts relating to the residual ICT risk component that influence the pursuit of the Group's strategic objectives.

Partial automation of IRR reporting

In 2020, requirements relating to Credit Risk, Market Risk, Liquidity Risk and Operational Risk were consolidated. Efforts are underway to automate integrated reporting through a system that automatically imports the data flows from the risk systems in the perimeter, and at the same time conducts automatic controls on the consistency of said data. On one hand, the purpose of this automation is to make integrated reporting compliant with the best practices envisaged in the BCBS 239 regulation and, on the other hand, to make the process of generating reports more efficient, reducing the time of processing and circulating the information within the Organisation.

EBA EU-Wide Stress Testing

During the first few months of the year, the Group launched the EU-wide Stress Test 2020 exercise led by EBA/ECB aimed at testing the business model and the resilience of banks on the basis of 2 scenarios, baseline and adverse, developed by the Regulator. Following the Covid-19 pandemic, the EBA decided to suspend the exercise, postponing it until 2021, in order to allow banks to focus their efforts on business continuity. Therefore, the exercise ended with the "Advanced Data Collection" phase, in which banks provided the Regulator with the Starting Points for the year, which formed the basis for the "Vulnerability analysis" carried out by the ECB between April and July in order to estimate the impact of the Covid-19 crisis on the banks' financial and equity position. The aggregated results for that year were published by the ECB on 28 July.

In the last quarter of 2020, activities were begun to prepare for the EU-Wide Stress Test 2021 exercise, which will be carried out in the first half of 2021 and will conclude on 31 July 2021 with the presentation of the results to the market.

Risk-based incentive system

The 2020 Incentive System of the Group and the individual companies was defined on the basis of the new Supervisory provisions concerning "Remuneration and incentive policies and practices" issued by the Bank of Italy (Circular 285/2013 and subsequent updates). In this regard, the conditions for activating the 2020 incentive system were aligned with the Group's RAF framework and, more generally, with the risk appetite approved by the Parent Company's Board of Directors.

Internal Model Inventory & Model Risk Management

In 2019 the internal model inventory was populated with all the internal models, with full mapping of the models in the risk area, the uploading of the related methodologies and the creation of the project flows, launching a risk management model pathway applied to the entire portfolio of models via the identification of a few risk indicators.

Related Party Exposures 33rd update Circ. 285/2013

In the second half of the year, following the update of Circ. 285/2013 dated 23 June 2020, the Group set up a specific project to render the rules for Supervisory Reporting on Related Party Exposures, which are still based on Basel II principles, consistent with the principles of Basel III. To this end, the Risk Function assisted the Group's internal working group, launched by the Supervisory Reporting and Summary Systems and Risk Control function, whose task is to analyse and transpose this update by the envisaged deadline (December 2020).

Communication

On a global scale, 2020 was the year of permanent emergency, first of all mainly health related and then economic and social. Consequently, the Communication structure of Banco BPM was engaged, more than ever in the past, in a number of activities that enabled the Bank to operate in synergy with its local communities and to understand their real needs.

The Covid-19 situation was tackled by promptly informing and updating its customers on national legislation and on the safety procedures to adopt. Communication took the form of e-mails, posters in branches, social networks, websites and specific advertising.

All employees were informed, through the company Intranet, on the decisions adopted by the company in implementation of the government decrees and on useful recommendations to protect their safety and that of others.

There was more room for new institutional and commercial activities in the second half of 2020. The Brand identity partnership and sponsorships structure continued to oversee communication at both central and local level.

A project called "Language R-Evolution" was launched, part of the business plan relating to ESG dimensions (Environmental, Social, Governance), the objective of which is to re-assess communication between the Bank and customers, with a view to providing greater transparency and simplifying information.

The five-year partnership agreement with the AIRC Foundation (Foundation for Cancer Research) continued in a wider view of social responsibility. Through this partnership Banco BPM assists the Foundation as an institutional partner to raise funds for scientific research and the dissemination of useful information on the prevention, diagnosis and treatment of cancer.

The Community Report was also produced in 2020. This is a communication and information instrument that collects, documents and testifies to the Institute's role as a "Community Bank". A map for orientation in a virtuous, detailed process, guided by the 17 Sustainable Development Goals set by the UN in the 2030 Agenda.

The Corporate Relations structure further boosted the Schools project by focusing attention on the needs dictated by the health emergency. Conducted with the collaboration of local partners and institutions, it involved 50 Italian Municipalities that needed help in adapting the school equipment of over 160 schools at all levels and of all types.

In 2020, sponsorships also focused mainly on supporting social and inclusion schemes, identifying almost 30 projects that deserved its attention.

Despite the restrictions imposed by social distancing and the relative reduction of activities relating to the organisation of events, 12 very successful online workshops entitled "Financial Awareness" were organised on economic and financial topics, focused in particular on the female world. In the first few months of the year, the

"Meet the Author" event was successfully held again, which saw the Bank host 12 book presentations by leading Italian authors at its offices, with over 2,600 people participating. During the same period, the organisational and management coordination of over 50 events and conferences to be held at Banco BPM's representative offices went ahead.

During the year, the Media Relations and Institutional Events structure focused on increasing the opportunities for discussions with national and local newspapers.
In 2020, 134 press releases were published and, in addition to institutional and industrial topics (derisking, ECB communications on capital requirements, resolutions of the Board of Directors), they regarded the attention paid to local communities through the specific schemes mentioned above, which encompass various areas: from school to sport, from financial education to opportunities for dialogue and exchange.
Another area that Media Relations focused on was enhancing the efforts of the various structures of the Bank in setting up important projects, by working on significant deals and launching new products.
This was all accompanied by a full programme of web presence, through dedicated interviews, presentations of public events and participation in conferences, mostly on-line, organised or sponsored by Banco BPM directly or in cooperation with other entities that operate locally in different business areas.
On the social networks, Banco BPM's institutional communication focused on topics that were closely tied to the schemes set in place for local communities to overcome the Covid-19 health emergency, by providing support to businesses and helping households.

The ordinary tasks of disseminating and sharing the company's objectives and strategies performed by the Communication structure contributed to consolidating the cultural identity of Banco BPM, making all information accessible to colleagues.
More specifically, the function worked on sharing important moments of company life, implementing focuses on current topics that are important to the Bank, submitting projects, sharing objectives and strategies, promoting company values and initiatives stemming from the latter (ESG, #Respect, Learning R-Evolution, the AIRC partnership, financial awareness for women, etc.).
From March, internal events were also necessarily interrupted, but were gradually resumed "remotely". The regular appointment called "Lunch with the CEO" evolved into "In Teams with the CEO", periodically offering a number of colleagues that applied, an opportunity for dialogue and an exchange of ideas with Giuseppe Castagna, using the Microsoft Teams platform.
In addition, 15 "virtual" meetings were organised, which enabled first-line management to share objectives and strategies with company employees: from Management events (e.g. Banca Aletti Workshops, Corporate Workshops, Enterprise Workshops and Business Workshops) to meetings with the CEO and meetings organised for the Network in collaboration with the Product Companies (e.g. Agos)
Numerous videos, news and dedicated sections were broadcast through the Corporate TV platform, launched on the Intranet through carousel: these included a video dedicated to the Salesforce (the platform created to encourage collaboration between customer relations managers and product specialists), the promotion of ESG values and of dedicated projects such as Superbonus 110%, and the values of Banca Aletti.
During the year the Brand Ambassadors (colleagues suitably prepared to represent the Bank and operate in the local area, promoting the brand and the values that it represents) were involved in making video-selfies to illustrate their contribution and to internally promote "#SOStegnostraordinario", the campaign to raise funds through colleagues to provide support to those that had suffered social exclusion during Covid-19. In addition, 50 Brand Ambassadors were established, with the necessary expertise to provide information on economic-financial issues, acting as external speakers and trainers in the education and financial awareness sessions promoted by Banco BPM at its branches and in schools (primary schools, middle and high schools), also remotely.

Investor Relations

In 2020, the Investor Relations team managed 83 events overall, generally with the involvement of the Group's top management, which led to dialogue with 320 investment companies (both on the stock and fixed income markets), financial analyst firms, rating agencies and other institutional entities. These events were supplemented by 5 telephone conferences held with audio webcasts over the year to present the Group's financial performance to the market (results as at 31 December 2019, 31 March 2020, 30 June 2020 and 30 September 2020) and the 2020-2023 Strategic Plan.

	No. of events	% of total	no. of companies met with	% of total
Industry conferences (stock market)	2	2.4%	17	5.3%
Industry conferences (fixed income market)	4	4.8%	72	22.5%
Roadshows & Reverse Roadshows (stock market)	6	7.2%	106	33.1%
Roadshows & Reverse Roadshows (fixed income market)	5	6.0%	23	7.2%
Other individual and/or group meetings, telephone conferences and video conferences (stock market)	45	54.2%	81	25.3%
Other individual and/or group meetings, telephone conferences and video conferences (fixed income market)	8	9.7%	8	2.5%
Other assets	6	7.2%	6	1.9%
Meetings/calls with rating agencies	7	8.5%	7	2.2%
Total	**83**	**100.0%**	**320**	**100.0%**
Presentation to the financial market with conference calls/webcasts	5			

On the stock market front, participation in the 2 industry conferences and the 6 Roadshows and Reverse Roadshows organised by leading research and brokerage companies, was significant. Together, these resulted in meeting 123 counterparties, equal to 38.4% of the total reached overall during the year.
Similarly, in the fixed income market, BANCO BPM participated in 4 industry conferences and 5 Roadshows and Reverse Roadshows, meeting 95 counterparties (29.7% of the total) in various European cities.
The remaining 31.9% of the institutional parties involved had the opportunity to dialogue with the Group on a further 66 occasions (individually and/or as a group).
Note that from March 2020, given the situation of national and international health crisis, the Roadshows, the Reverse Roadshows, the conferences and, in general, all of the above-illustrated meetings were held virtually, enabling the Group to maintain constant and productive contact with its stakeholders in the financial market and, at the same time, safeguard the health and safety of all parties involved.

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 2020, the shareholders of the Bank broke down as follows:

- approximately 210,000 depositors at Banco BPM Group;
- around 125,000 depositors with other brokers. This figure represents the situation on the share exchange date (2 January 2017) after the merger between Banco Popolare Soc. Coop. and BPM S.c.a r.l., as no accounting transactions regarding the entire share capital were subsequently recorded.

Pursuant to Art. 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 2020, according to the information published on the CONSOB website, parties which have declared an interest of over 3% in the share capital of Banco BPM are the following:

- Capital Research and Management Company with a 4.99% interest;
- G.g.g. S.p.A. with a 4.98% interest.

Banco BPM stock

In 2020, the value of Banco BPM shares fluctuated between a minimum closing price of 1.043 euro on 21 May 2020 and a maximum closing price of 2.456 euro on 19 February 2020.

From the beginning of the year, Banco BPM shares recorded a negative performance of 10.8%. During 2020, average daily volumes were approximately 30 million shares.

In addition, it should be noted that at the end of 2020, the Banco BPM share was "covered" by 16 equity research companies (of which: 5 with positive recommendations, 8 neutral and 3 negative), with which continuous dialogue was maintained during the year.

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

- consultation agreement signed on 21 December 2020 among various Italian Foundations, shareholders of Banco BPM that hold a total of 5.498% of share capital;
- consultation agreement signed on 18 January 2021 among other shareholders of Banco BPM that hold a total of 6.683% of 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 Group ratings

Rating Agency	Type of Rating	31/12/2020	31/12/2019
Moody's Investors Service	Long Term on Senior Unsecured Debt	Ba2/Negative Outlook	Ba2/Negative Outlook
	Issuer Rating	Ba2/Negative Outlook	Ba2/Negative Outlook
	Long Term on Deposits	Baa3/Negative Outlook	Baa3/Stable Outlook
	Short Term on Deposits	P-3	P-3
	Baseline Credit Assessment	ba3	ba3
	Counterparty Risk Assessment	Baa3 (cr)/P-3 (cr)	Baa3(cr)/P-3(cr)
DBRS Morningstar	Long-Term Issuer Rating	BBB (low)/Negative Trend	BBB (low)/Stable Trend
	Short-Term Issuer Rating	R-2 (middle)/Negative Trend	R-2 (middle)/Stable Trend
	Long Term on Senior Debt	BBB (low)/Negative Trend	BBB (low)/Stable Trend
	Short Term on Debt	R-2 (middle)/Negative Trend	R-2 (middle)/Stable Trend
	Long Term on Deposits	BBB/Negative Trend	BBB/Stable Trend
	Short Term on Deposits	R-2 (high)/Negative Trend	R-2 (high)/Stable Trend
	Intrinsic Assessment	BBB (low)	BBB (low)
	Support Assessment	SA3	SA3

Summary table of Banca Akros ratings

Rating Agency	Type of Rating	31/12/2020	31/12/2019
DBRS Morningstar	Long-Term Issuer Rating	BBB (low)/Negative Trend	BBB (low)/Stable Trend
	Short-Term Issuer Rating	R-2 (middle)/Negative Trend	R-2 (middle)/Stable Trend
	Long Term on Senior Debt	BBB (low)/Negative Trend	BBB (low)/Stable Trend
	Short Term on Debt	R-2 (middle)/Negative Trend	R-2 (middle)/Stable Trend
	Long Term on Deposits	BBB/Negative Trend	BBB/Stable Trend
	Short Term on Deposits	R-2 (high)/Negative Trend	R-2 (high)/Stable Trend
	Support Assessment		

In 2020, the following actions on ratings took place:

- Moody's, on 26 March 2020, as part of a rating action on 15 Italian banks as a reflection of the crisis triggered by Covid-19, confirmed all Banco BPM's ratings, changing the Outlook for the Long Term Rating on Deposits from Stable to Negative;
- DBRS Morningstar, on 2 April 2020, as part of a rating action on Italian banks as a reflection on the crisis triggered by Covid-19, confirmed all the ratings of Banco BPM and its subsidiary Banca Akros, changing the Trends on the long and short term ratings of Banco BPM and Banca Akros from Stable to Negative. Subsequently, on 20 November 2020, DBRS Morningstar confirmed the ratings of Banco BPM Group.

PERFORMANCE OF THE MAIN GROUP COMPANIES

A summary of the main equity interests in Group companies is presented below, with an indication of the most significant balance sheet, income statement and operating balances as at 31 December 2020.

Banca Aletti

(millions of euro)	2020	2019 (*)	Change
Income statement figures			
Net interest income	(0.2)	(1.2)	(83.63%)
Net fee and commission income	92.6	96.2	(3.71%)
Operating income	103.9	96.3	7.93%
Operating expenses	(73.1)	(70.9)	3.13%
Profit (loss) from operations	30.8	25.4	21.34%
Profit (loss) before tax from continuing operations	42.2	8.8	381.78%
Profit (loss) for the year	23.0	(31.4)	(173.42%)

(*) The figures for the previous year have been restated taking into account the new way in which the PPA is represented.

	31/12/2020	31/12/2019	Change
Balance sheet figures *(millions of euro)*			
Total assets	2,808.1	2,734.9	2.68%
Loans to customers (net)	257.9	155.6	65.75%
Financial assets and hedging derivatives	50.0	9.4	431.91%
Shareholders' equity	368.3	345.4	6.63%
Customers' financial assets *(millions of euro)*			
Direct funding	2,282.8	2,170.7	5.16%
Indirect funding	22,126.0	21,863.2	1.20%
- Asset management	10,448.7	10,302.0	1.42%
- Mutual funds and SICAVs	5,296.2	5,198.2	1.88%
- Securities and fund management	3,355.3	3,240.5	3.54%
- Insurance policies	1,797.2	1,863.3	(3.55%)
- Administered assets	11,677.3	11,561.2	1.00%
Information on the Organisation			
Average number of employees	477.9	473.7	0.89%
Number of bank branches	55	55	-

	31/12/2020	31/12/2019 (*)	Change
Alternative performance measures			
Profitability ratios (%)			
Financial margin / Operating income	(0.2%)	(1.2%)	(83.33%)
Net fee and commission income / Operating income	89.1%	99.9%	(10.81%)
Operating expenses / Operating income	70.4%	73.6%	(4.35%)
ROA	0.8%	(1.1%)	(172.73%)
ROE	6.3%	(9.1%)	(168.85%)
Operational productivity figures			
Loans to customers (net) per employee (thousands of euro)	540	329	64.29%
Operating income per employee (thousands of euro)	218	203	6.98%
Operating expenses per employee (thousands of euro)	153	150	2.20%
Capitalisation ratios			
Common Equity Tier 1 ratio	58.9%	73.5%	
Tier 1 capital ratio	58.9%	73.5%	
Total capital ratio	58.9%	73.5%	
Leverage ratio	64.7%	85.6%	
Other Ratios			
Net loans / Direct funding	11.3%	7.2%	

(*) The figures for the previous year have been restated taking into account the new way in which the PPA is represented.

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

Banca Akros

(millions of euro)	31/12/2020	31/12/2019	change
Income statement figures			
Net interest income	73.2	83.4	(12.2%)
Net fee and commission income	41.8	38.8	7.5%
Operating income	125.4	142.4	(11.9%)
Operating expenses	(84.6)	(86.7)	(2.4%)
Profit (loss) from operations	40.8	55.7	(26.6%)
Profit (loss) before tax from continuing operations (*)	41.2	55.8	(26.1%)
Net profit for the period	24.2	38.0	(36.4%)

(*) also gross of contributions to guarantee schemes

(millions of euro)	31/12/2020	31/12/2019	change
Balance sheet figures			
Total assets	7,905.8	9,803.9	(19.4%)
Loans to customers (net)	694.8	819.1	(15.2%)
Financial assets	6,425.2	8,234.3	(22.0%)
Shareholders' equity	735.6	748.1	(1.7%)
Customers' financial assets			
Direct funding	980.5	1,337.8	(26.7%)
Information on the organisation			
Average number of employees and other staff	212	210	
Number of bank branches	1	1	

	31/12/2020	31/12/2019
Alternative performance measures		
Profitability ratios (%)		
ROE	3.40%	5.36%
RORAC	9.04%	21.33%
Profit (loss) before tax from continuing operations (*)/Operating income	32.86%	39.17%
Annualised Return on assets (ROA)	0.31%	0.39%
Net interest income/Operating income	58.36%	58.59%
Net fee and commission income/Operating income	33.28%	27.27%
Operating expenses/Operating income	67.43%	60.88%
Operational productivity figures (thousands of euro)		
Loans to customers (net) per employee	3,277.5	3,900.4
Annualised operating income per employee	591.7	677.9
Annualised operating expenses per employee	399.0	412.7
Annual average operational VAR (99%, 1 day)	4,800	2,200
Other ratios		
Financial assets/Total assets	81.27%	83.99%
Derivative assets/Total assets	19.45%	16.54%
- trading derivatives/total assets	19.45%	16.54%
Net trading derivatives/total assets	3.47%	7.89%
Net loans/Direct funding	70.86%	61.23%
Regulatory capitalisation ratios		
Common Equity Tier 1 ratio (CET1 capital ratio)	24.46%	28.57%
Tier 1 capital ratio	24.46%	28.57%
Total capital ratio	24.46%	28.57%
Leverage ratio	23.62%	13.53%

(*) also gross of contributions to guarantee schemes.

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

Other equity interests

(millions of euro)	Total assets	Shareholders' equity (*)	Direct Funding	Indirect Funding	Net loans	Profit (Loss)
Banks						
Banca Aletti & C. (Suisse)	120.4	27.4	91.7	285.4	11.3	(1.3)
Bipielle Bank (Suisse)	26.9	21.0	4.2	-	-	(0.5)
Financial companies						
Aletti Fiduciaria	9.7	7.4	0.2	976.6	1.3	(0.1)
Release	1,487.1	538.3	6.7	-	600.6	(57.6)
ProFamily	1,396.7	96.8	2.2	-	1,385.9	11.9
Other companies						
Bipielle Real Estate	1,272.4	1,213.1	12.4	-	7.1	23.4
Tecmarket Servizi	46.6	25.2	-	-	-	8.7
Ge.Se.So.	1.2	0.1	-	-	-	(0.1)

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

Relations with subsidiaries and associates

The disclosure on related party transactions and the description of the significant transactions concluded with related parties during the financial year, as provided for by the Regulation adopted by CONSOB through resolution no. 17221 dated 12 March 2010 and subsequently amended with resolution no. 17389 dated 23 June 2010, are included in the Notes to the Consolidated Financial Statements, Part H, to which reference should be made.

Own shares of the Parent Company and of subsidiaries

Please refer to section 13 - Group Shareholders' Equity in Part B of the Notes to the Consolidated Financial Statements.

Consolidated non-financial statement

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

Report on corporate governance and ownership structure

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

Remuneration report

Banco BPM Group prepares the Policy-on-remuneration report and payouts awarded of Banco BPM Banking Group's staff pursuant to the Supervisory Regulations of the Bank of Italy (Circular no. 285/2013, 25th update, Part I, Title IV, Chapter 2 "Remuneration and incentive policies and practices"), of Art. 123-ter of Italian Legislative Decree 58/1998 as amended, and of Art. 84-quater of the Issuers' Regulation (CONSOB resolution no. 11971/1999 as amended) in a separate document, published on the website www.gruppo.bancobpm.it, in the "Corporate Governance – Remuneration Policies" section.

Preparation of the financial statements in XBRL format

The Regulation of the European Commission no. 815/2019 (European Single Electronic Format – ESEF Regulation) envisages the obligation, for listed companies, to draw up and publish their financial reports in "eXtensible HyperText Markup language" (XHTML) format, using "Inline Extensible Business Reporting Language (iXBRL)" to map the main items of consolidated financial statements.
The adoption of a harmonised electronic format, in the opinion of the EU legislator, will facilitate the communication of information, improving the accessibility, analysis and comparability of annual financial reports with evident benefits for issuers, investors and the Supervisory Authorities.
The ESEF Regulation envisages a level of mandatory mark-ups in accordance with the following two timelines:

- from the financial year beginning on 1 January 2020, issuers must mark-up all numerical values contained in the schedules relating to the consolidated financial statements (balance sheet, income statement, statement of comprehensive income, changes in shareholders' equity and cash flow statement);
- from the financial year beginning on 1 January 2022, issuers must mark-up all information - both text and/or numbers - provided in consolidated financial statements.

The information in ESEF format must be made public within the terms envisaged in Art. 154 of the Consolidated Finance Law, namely within 120 days from the end date of the financial year.
On 11 December 2020, the European Parliament and Council reached an agreement to extend the entry into force of the ESEF Regulation by one year, thus launching the legislative process that will enable Member States to communicate their intention to apply the one-year extension of the application of said Regulation.

OUTLOOK FOR BUSINESS OPERATIONS

The outbreak of the Covid-19 pandemic has obviously had far-reaching effects on the global and national economic scenarios, and therefore on the operating context of the domestic banking system, as discussed in the section on the economic scenario.
Prospects of the relaxing, and subsequent elimination of the social distancing and preventive measures of the pandemic, following the progressive vaccination of the population, support the scenario of a gradual return to business as usual in 2021. Monetary policy will continue to sustain economic growth as the programmes set in motion in 2020, especially TLTRO operations, move forward. In addition, strong fiscal stimulus will be provided by the measures launched both at EU level - EU Budget and NGEU programme (Next Generation EU) - the funds of which are expected to be available during the course of the year, and at national level with the previously cited provisions to provide immediate relief to economic and production activities.
In this context, total loans to businesses will continue to increase in 2021 as well, although at a slower pace than in 2020, while those to households are expected to pick up speed. This will take place in the presence of disbursement conditions that are still particularly relaxed and favourable, both due to the extensive liquidity guaranteed by the Central Bank and to the low cost of funding, as the financial support measures granted by the Government have been extended for several more months. The increase in customer deposits will slow down significantly with respect to 2020, but will still be positive and its cost will continue to be stable. Overall liquidity will continue to be high, thanks to the fundamental role played by ECB funding, with even more favourable conditions granted by TLTRO III operations. The combined effect of higher deposits and stable unit margins on loans to households and businesses is expected to trigger a slight improvement of the customer margin. Despite the lower contribution of interest from securities, net interest income will record a further improvement. Net fee and commission income is expected to benefit from a return to normal as regards household and business transactions, especially in the second half of the year, while with regard to financial investments, the stabilisation of the market, although still prone to a certain volatility, is expected to return a certain vigour to fee and commission flows. On the other hand, operating income is expected to fall slightly due to the decrease in other revenues from services. Operating expenses should fall significantly, also thanks to the continuous evolution of the service model, with the speed-up in digital transformation driven by the pandemic. The above trends are expected to lead to higher profit from operations. The negative economic effects of the second wave of the pandemic and the consequent social distancing measures, and the progressive expiry of the moratoria provisions for loans, are expected to provoke an increase in the default rate of loans, despite the economic recovery. The percentage represented by non-performing loans of total loans is expected to rise, although it will be less robust due to the pace of NPL disposals, which will be even faster; the cost of risk is also expected to rise.

With regard to the operating performance of the Group in 2021, the external context will inevitably continue to represent an important influence.
At present, core revenues, represented by net interest income and net fee and commission income are expected to increase against the figures for the previous year, due above all to the contribution margin of TLTRO financing operations and by the placement of investment products.
Efforts will continue on curbing the trend of operating expenses, with a view to mitigating the negative impacts resulting from the uncertain repeatability of certain recoveries and cost reductions that characterised last year, above all as regards personnel expenses, in addition to the increases relating to the application of the national contract for the industry and the increase in IT investments.
As regards the cost of credit, we believe that we can confirm the level achieved in 2020, net of the effects of the crisis triggered by Covid. On the other hand, at present, giving the continuing uncertainty of the external context and the confirmation of a conservative approach to the forward-looking valuation already adopted in 2020, it cannot be ruled out that also in 2021 an additional "non-core" component linked to the ongoing emergency may be reflected, although estimated at a lower level than the 50 bp recorded in 2020.
Unless the scenario worsens again to a significant extent, which, given the exceptional nature and uncertainty of the current environment, cannot be ruled out, the Group's robust capital position, combined with its ability to generate capital organically, should not preclude shareholder remuneration, subject to the new guidelines that are to be provided by the Supervisory Authorities with regard to the distribution of dividends.
With regard to the evolution of operations in the medium-long term, over the next few months, the Group will prepare new three-year forecasts, taking the developments of the ongoing pandemic context into account, so that they can be based on new and more updated assumptions, both in macroeconomic and industry terms.

SIGNIFICANT EVENTS OCCURRING AFTER THE END OF THE FINANCIAL YEAR

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

Verona, Italy, 9 February 2021

The Board of Directors

Consolidated financial statements

CONSOLIDATED BALANCE SHEET

Assets	**31/12/2020**	**31/12/2019**
10. Cash and cash equivalents	8,858,079	912,742
20. Financial assets at fair value through profit and loss	9,043,525	7,181,477
a) financial assets held for trading	7,248,348	5,726,814
c) other financial assets mandatorily measured at fair value	1,795,177	1,454,663
30. Financial assets measured at fair value through other comprehensive income	10,710,796	12,526,772
40. Financial assets at amortised cost	141,801,931	133,147,117
a) loans to banks	11,974,822	10,834,518
b) loans to customers	129,827,109	122,312,599
50. Hedging derivatives	75,046	103,614
60. Fair value change of financial assets in macro fair value hedge portfolios (+/-)	52,288	29,161
70. Interests in associates and joint ventures	1,664,772	1,386,079
90. Property, plant and equipment	3,552,482	3,624,312
100. Intangible assets	1,218,632	1,269,360
of which:		
- goodwill	51,100	76,200
110. Tax assets	4,704,196	4,619,636
a) current	236,993	159,845
b) deferred	4,467,203	4,459,791
120. Non-current assets and disposal groups held for sale	72,823	131,082
130. Other assets	1,930,612	2,106,849
Total assets	**183,685,182**	**167,038,201**

Liabilities and shareholders' equity items	31/12/2020	31/12/2019
10. Financial liabilities at amortised cost	151,420,894	138,333,959
a) due to banks	33,944,598	28,523,335
b) due to customers	102,915,666	94,099,912
c) debt securities in issue	14,560,630	15,710,712
20. Financial liabilities held for trading	12,687,544	10,366,668
30. Financial liabilities designated at fair value	955,781	420,561
40. Hedging derivatives	585,680	552,761
50. Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	130,912	62,299
60. Tax liabilities	464,570	619,269
a) current	5,672	9,235
b) deferred	458,898	610,034
70. Liabilities associated with assets classified as held for sale	-	5,096
80. Other liabilities	3,797,227	3,303,823
90. Provisions for employee severance pay	369,498	384,886
100. Provisions for risks and charges	1,045,975	1,101,797
a) commitments and guarantees given	127,442	115,990
b) post-employment benefits and similar obligations	133,654	150,910
c) other provisions	784,879	834,897
120. Valuation reserves	310,412	164,836
140. Equity instruments	695,417	298,112
150. Reserves	4,112,500	3,512,575
170. Share capital	7,100,000	7,100,000
180. Own shares (-)	(14,002)	(11,518)
190. Non-controlling interests (+/-)	1,894	26,076
200. Profit (loss) for the year (+/-)	20,880	797,001
Total liabilities and shareholders' equity	**183,685,182**	**167,038,201**

CONSOLIDATED INCOME STATEMENT

Items	2020	2019
10. Interest and similar income	2,416,605	2,513,924
of which: interest income using the effective interest method	2,280,772	2,468,870
20. Interest and similar expense	(460,005)	(515,972)
30. Net interest income	**1,956,600**	**1,997,952**
40. Fee and commission income	1,765,869	1,870,979
50. Fee and commission expense	(123,996)	(133,875)
60. Net fee and commission income	**1,641,873**	**1,737,104**
70. Dividends and similar income	42,015	69,611
80. Net trading income	16,912	(178,416)
90. Fair value gains/losses on hedging derivatives	(7,657)	7,497
100. Gains (losses) on disposal or repurchase of:	(149,126)	337,551
a) financial assets at amortised cost	(271,534)	76,510
b) financial assets measured at fair value through other comprehensive income	124,311	265,432
c) financial liabilities	(1,903)	(4,391)
110. Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss	133,747	109,668
a) financial assets and liabilities designated at fair value	14,235	2,965
b) other financial assets mandatorily measured at fair value	119,512	106,703
120. Operating income	**3,634,364**	**4,080,967**
130. Net credit impairment losses/recoveries relating to:	(1,049,430)	(721,953)
a) financial assets at amortised cost	(1,049,211)	(724,741)
b) financial assets measured at fair value through other comprehensive income	(219)	2,788
140. Gains (losses) from contractual modification without derecognition	(1,256)	(1,997)
150. Net income from financial activities	**2,583,678**	**3,357,017**
180. Net income from financial and insurance activities	**2,583,678**	**3,357,017**
190. Administrative expenses:	(2,897,178)	(2,739,685)
a) personnel expenses	(1,836,216)	(1,692,122)
b) other administrative expenses	(1,060,962)	(1,047,563)
200. Net provisions for risks and charges	(57,625)	(107,038)
a) commitments and guarantees given	(11,464)	7,832
b) other net provisions	(46,161)	(114,870)
210. Depreciation and impairment losses on property, plant and equipment	(165,437)	(197,689)
220. Amortisation and impairment losses on intangible assets	(112,122)	(110,039)
230. Other operating expenses/income	329,188	337,674
240. Operating expenses	**(2,903,174)**	**(2,816,777)**
250. Gains (losses) of associates and joint ventures	130,799	130,441
260. Fair value gains (losses) on property, plant and equipment and intangible assets	(36,721)	(158,533)
270. Value adjustments to goodwill	(25,100)	-
280. Gains (losses) on disposal of investments	1,190	333,965
290. Profit (loss) before tax from continuing operations	**(249,328)**	**846,113**
300. Taxation charge related to profit or loss from continuing operations	265,960	(64,676)
310. Profit (loss) after tax from continuing operations	**16,632**	**781,437**
320. Profit (loss) after tax from discontinued operations	-	-
330. Profit (loss) for the year	**16,632**	**781,437**
340. Profit (loss) for the year attributable to non-controlling interests	4,248	15,564
350. Parent Company's profit (loss) for the year	**20,880**	**797,001**
Basic EPS (euro)	0.014	0.525
Diluted EPS (euro)	0.014	0.525

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Items	31/12/2020	31/12/2019
10. Profit (loss) for the year	**16,632**	**781,437**
Other comprehensive income after tax without reclassification to the income statement	**(133,680)**	**334,319**
20. Equity instruments designated at fair value through other comprehensive income	(126,130)	119,809
30. Financial liabilities designated at fair value through profit and loss (changes to its own credit risk)	(11,900)	(6,583)
50. Property, plant and equipment	(2,732)	249,658
70. Defined benefit plans	7,174	(28,296)
90. Share of valuation reserves related to interests in associates and joint ventures carried at equity	(92)	(269)
Other comprehensive income after tax with reclassification to the income statement	**96,116**	**192,440**
100. Foreign investment hedges	(7)	(845)
110. Exchange rate differences	256	2,497
120. Cash flow hedges	2,618	129
140. Financial assets (other than equity instruments) at fair value through other comprehensive income	84,958	178,775
160. Share of valuation reserves related to interests in associates and joint ventures carried at equity	8,291	11,884
170. Total other comprehensive income after tax	**(37,564)**	**526,759**
180. Comprehensive income (Items 10+170)	**(20,932)**	**1,308,196**
190. Consolidated comprehensive income attributable to non-controlling interests	(4,242)	(15,563)
200. Consolidated comprehensive income attributable to the Parent Company	**(16,690)**	**1,323,759**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

31 December 2020	Balance as at 31/12/2019	Changes in opening balances	Balance as at 01/01/2020	Allocation of profit from previous year		Changes in the year									Shareholders' equity as at 31/12/2020	Group shareholders' equity as at 31/12/2020	Non-controlling interests as at 31/12/2020
							Operations on shareholders' equity										
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of own shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on own shares	Stock options	Changes in equity interests	Comprehensive income for the year			
Share capital:	**7,163,693**	**-**	**7,163,693**	**-**		**(37,944)**	**-**	**-**					**(24,439)**		**7,101,310**	**7,100,000**	**1,310**
a) ordinary shares	7,163,693	-	7,163,693	-		(37,944)	-	-					(24,439)		7,101,310	7,100,000	1,310
b) other shares	-	-	-	-		-	-	-					-		-	-	-
Share premium reserve	**-**	**-**	**-**	**-**		**-**	**-**	**-**					**-**		**-**	**-**	**-**
Reserves:	**3,490,528**	**-**	**3,490,528**	**781,437**		**(156,862)**	**(2,270)**	**-**	**-**		**-**		**4,499**		**4,117,332**	**4,112,500**	**4,832**
a) retained earnings	2,980,837	-	2,980,837	781,437		32,118	(2,270)	-	-				4,499		3,796,621	3,791,787	4,834
b) other	509,691	-	509,691	-		(188,980)	-	-			-		-		320,711	320,713	(2)
Valuation reserves	**164,830**	**-**	**164,830**	**-**		**183,146**							**-**	**(37,564)**	**310,412**	**310,412**	**-**
Equity instruments	**298,112**	**-**	**298,112**							**397,305**					**695,417**	**695,417**	**-**
Own shares	**(11,518)**	**-**	**(11,518)**			**-**	**1,596**	**(4,080)**							**(14,002)**	**(14,002)**	**-**
Profit (loss) for the year	**781,437**	**-**	**781,437**	**(781,437)**	**-**									**16,632**	**16,632**	**20,880**	**(4,248)**
Shareholders' equity	**11,887,082**	**-**	**11,887,082**	**-**	**-**	**(11,660)**	**(674)**	**(4,080)**	**-**	**397,305**	**-**		**(19,940)**	**(20,932)**	**12,227,101**	**12,225,207**	**1,894**
- of the Group	**11,861,006**	**-**	**11,861,006**	**-**	**-**	**(11,660)**	**(674)**	**(4,080)**	**-**	**397,305**	**-**		**-**	**(16,690)**	**12,225,207**		
- of non-controlling interests	**26,076**	**-**	**26,076**	**-**		**-**	**-**	**-**					**(19,940)**	**(4,242)**	**1,894**		

31 December 2019	Balance as at 31/12/2018	Changes in opening balances	Balance as at 01/01/2019	Allocation of profit from previous year		Changes in the year									Shareholders' equity as at 31/12/2019	Group shareholders' equity as at 31/12/2019	Non-controlling interests as at 31/12/2019
							Operations on shareholders' equity										
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of own shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on own shares	Stock options	Changes in equity interests	Comprehensive income for the year			
Share capital:	**7,163,927**	**-**	**7,163,927**	**-**		**-**	**-**	**-**					**(234)**		**7,163,693**	**7,100,000**	**63,693**
a) ordinary shares	7,163,927	-	7,163,927	-		-	-	-					(234)		7,163,693	7,100,000	63,693
b) other shares	-	-	-	-		-	-	-					-		-	-	-
Share premium reserve	**-**	**-**	**-**	**-**		**-**	**-**	**-**					**-**		**-**	**-**	**-**
Reserves:	**3,569,082**	**(11,912)**	**3,557,170**	**(69,119)**		**5,026**	**(1,546)**	**-**	**-**		**-**		**(1,003)**		**3,490,528**	**3,512,575**	**(22,047)**
a) retained earnings	3,064,319	(11,912)	3,052,407	(69,119)		98	(1,546)	-	-				(1,003)		2,980,837	3,002,882	(22,045)
b) other	504,763	-	504,763	-		4,928	-	-			-		-		509,691	509,693	(2)
Valuation reserves	**(346,270)**	**-**	**(346,270)**	**-**		**(15,659)**							**-**	**526,759**	**164,830**	**164,836**	**(6)**
Equity instruments	**-**	**-**	**-**							**298,112**					**298,112**	**298,112**	**-**
Own shares	**(12,610)**	**-**	**(12,610)**			**-**	**1,092**	**-**							**(11,518)**	**(11,518)**	**-**
Profit (loss) for the year	**(69,055)**	**-**	**(69,055)**	**69,119**	**(64)**									**781,437**	**781,437**	**797,001**	**(15,564)**
Shareholders' equity	**10,305,074**	**(11,912)**	**10,293,162**	**-**	**(64)**	**(10,633)**	**(454)**	**-**	**-**	**298,112**	**-**		**(1,237)**	**1,308,196**	**11,887,082**	**11,861,006**	**26,076**
- of the Group	**10,259,475**	**(9,429)**	**10,250,046**	**-**	**-**	**(10,457)**	**(454)**	**-**	**-**	**298,112**	**-**		**-**	**1,323,759**	**11,861,006**		
- of non-controlling interests	**45,599**	**(2,483)**	**43,116**	**-**	**(64)**	**(176)**	**-**	**-**					**(1,237)**	**(15,563)**	**26,076**		

CONSOLIDATED CASH FLOW STATEMENT

Indirect method

A. Operating activities	31/12/2020	31/12/2019
1. Cash flow from operations	**795,904**	**1,626,388**
- profit (loss) for the year (+/-)	20,880	797,001
- gains/losses on financial assets held for trading and on other financial assets/liabilities at fair value through profit and loss (-/+)	(231,066)	(215,314)
- capital gains/losses on hedging derivatives (-/+)	7,657	(7,497)
- net credit impairment losses/recoveries (-/+)	1,050,686	723,950
- net impairment losses/recoveries on property, plant and equipment and intangible assets (+/-)	302,659	307,728
- net provisions for risks and charges and other costs/revenues (+/-)	56,823	99,274
- net premiums not collected (-)		
- other insurance income/expenses not collected (-/+)		
- taxes, duties and tax credits not settled (+/-)	(280,936)	52,501
- net impairment losses/recoveries on discontinued operations net of taxes (-/+)		
- other adjustments (+/-)	(130,799)	(131,255)
2. Cash flow from/used in financial assets	**(9,214,583)**	**(6,428,823)**
- financial assets held for trading	(1,445,798)	(1,046,801)
- financial assets designated at fair value	-	-
- other financial assets mandatorily measured at fair value	(198,936)	(182,604)
- financial assets measured at fair value through other comprehensive income	1,815,757	2,827,577
- financial assets at amortised cost	(9,705,281)	(10,033,848)
- other assets	319,675	2,006,853
3. Cash flow from/used in financial liabilities	**16,220,648**	**4,609,673**
- financial liabilities at amortised cost	13,199,488	1,777,378
- financial liabilities held for trading	1,017,672	3,899,777
- financial liabilities designated at fair value	532,476	(278,969)
- other liabilities	1,471,012	(788,513)
Net cash flow from/used in operating activities	**7,801,969**	**(192,762)**
B. Investing activities		
1. Cash flow from:	**9,749**	**75,348**
- sales of interests in associates and joint ventures	-	1
- dividends collected on interests in associates and joint ventures		
- sales of property, plant and equipment	9,735	75,347
- sales of intangible assets	14	-
- sales of subsidiaries and business segments		
2. Cash flow used in:	**(221,106)**	**(172,385)**
- purchases of interests in associates and joint ventures	(68,240)	-
- purchases of property, plant and equipment	(66,358)	(70,263)
- purchases of intangible assets	(86,508)	(102,122)
- purchases of subsidiaries and business segments		
Net cash flow from/used in investing activities	**(211,357)**	**(97,037)**
C. Financing activities		
- issues/purchases of own shares	(4,080)	
- issues/purchases of equity instruments	358,805	280,588
- dividend distribution and other allocations	-	(64)
- third-party sales/purchases		
Net cash flow from/used in financing activities	**354,725**	**280,524**
Net cash flow from/used during the year	**7,945,337**	**(9,275)**

Reconciliation	31/12/2020	31/12/2019
- Cash and cash equivalents at the beginning of the year	912,742	922,017
- Net cash flow from/used during the year	7,945,337	(9,275)
- Cash and cash equivalents: foreign exchange effect		
Cash and cash equivalents at the end of the year	**8,858,079**	**912,742**

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

(thousands of euro)	31/12/2019	Cash flows	Non-monetary changes			31/12/2020
			Business combinations/ loss of control of companies	Fair value changes	Other	
Liabilities deriving from loan activities (items 10, 20 and 30 in the liabilities)	149,121,188	14,749,636	-	1,299,235	(105,840)	165,064,219

Notes to the consolidated financial statements

PART A – ACCOUNTING POLICIES

A.1 - GENERAL PART

Section 1- Statement of compliance with international accounting standards

These consolidated financial statements have been prepared according to the international accounting standards IAS/IFRS issued by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) endorsed by the European Commission, as established by EU Regulation no. 1606 of 19 July 2002, in implementation of Italian Legislative Decree no. 38 of 28 February 2005.

For the interpretation and application of international accounting standards, the following documents, although not endorsed by the European Commission, have been referenced:

- Conceptual Framework;
- Implementation Guidance, Basis for Conclusions and any other documents prepared by the IASB or IFRIC to complete the accounting standards issued.

The accounting standards applied in the preparation of these financial statements are those in force on 31 December 2020 (including the SIC and IFRIC interpretation documents).

For an overview of the accounting standards and the related interpretations endorsed by the European Commission, whose application is planned for 2020 or future years, refer to "Section 5 - Other aspects", below, which also illustrates the main impacts on the Group. The attachments to the financial statements contain a list of the IAS/IFRS standards endorsed (including the SIC and IFRIC interpretation documents in force on 31 December 2020).

The communications of the Supervisory Authorities (Bank of Italy, ECB, EBA, CONSOB and ESMA) and the interpretation documents on the application of IAS/IFRS prepared by the Italian Accounting Body (OIC) and by the Italian Banking Association (ABI), with which recommendations were provided on the information to be included in the Annual Report, on certain aspects of greater importance or on the accounting treatment of particular transactions have also been considered as applicable. With reference to the interpretations provided by the afore-cited Bodies, as regards the impact on the accounts of the Covid-19 health crisis, please refer to the content of the paragraph entitled "Risks, uncertainties and impacts of the Covid-19 pandemic" contained in "Section 5 - Other aspects" below.

Section 2- General preparation principles

The consolidated financial statements consist of the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the cash flow statement and the Notes to the consolidated financial statements and are accompanied by the Directors' report on operations and on the situation of all the companies included within the scope of consolidation.

The financial statements and the contents of the notes to the financial statements have been prepared in keeping with Circular no. 262 of 22 December 2005 "Bank financial statements: layouts and rules for preparation" and the subsequent updates (most recently, the 6th update published on 30 November 2018). Specifically, this was a Circular issued by the Bank of Italy in exercising its powers established by the above-mentioned Legislative Decree 38/2005 (hereinafter also referred to as "Circular no. 262"). The additional requests transmitted by said Supervisory Authority, through the communication dated 23 December 2019, were also considered. These specifically related to the disclosure on multi-originator transfers of loans to a mutual fund, assigning shares to the originator intermediaries, for which reference is made to the specific section of Part E of these Notes (Sub-section "D. Sale Transactions", point "D.3 Prudential consolidation - Financial assets sold and fully derecognised"), as well as through the communication dated 15 December 2020 entitled "Supplements to the provisions of Circular no. 262 'Bank financial statements: layouts and rules for preparation' regarding the impacts of Covid-19 and the measures to support the economy and amendments to the IAS/IFRS".

The financial statements provide, in addition to the accounting data as at 31 December 2020, comparative information relating to the last financial statements approved as at 31 December 2019.

These financial statements have been prepared using the euro as the reference currency.

The amounts of the financial statements and the data shown in the tables of the Notes are expressed in thousands of euro, unless otherwise indicated.

The consolidated financial statements are drawn up clearly and provide a true and fair view of the balance sheet and income statement result for the year of Banco BPM and its subsidiaries, as detailed in Section 3 "Scope of consolidation and methods". The financial statements used to prepare the consolidated financial statements are those prepared by the subsidiaries with reference to 31 December 2020, adjusted, where necessary, to adapt them to IAS/IFRS used by the Group.

Wherever the information required by international accounting standards and the provisions contained in the aforementioned Circular are considered insufficient to give a faithful representation, additional information required for such purpose is provided in the Notes.
Wherever, in exceptional cases, the application of a provision of international accounting standards is incompatible with a faithful representation of the equity and financial situation and economic result, it is not applied. In such case, the reasons for such possible derogation and its influence on the representation of the balance sheet and income statement result are explained in the Notes to the financial statements.

The financial statements have been prepared in accordance with the following general principles:

- *going concern*: the financial statements are drawn up with a view to the continuity of the Group's business activities: as illustrated in a more analytical way below, on the basis of the main economic and financial indicators, the directors can reasonably expect the Group to continue to operate for the foreseeable future;
- *accrual accounting*: the financial statements have been drawn up on an accruals basis with the exception of the information on cash flows;
- *consistency of presentation*: the presentation and classification of items in the financial statements is kept constant from one financial year to the next unless a standard or interpretation requires a change in presentation or another presentation or classification is no longer appropriate, taking into account the provisions of IAS 8. In the latter case, the notes to the financial statements provide information on the changes made compared to the previous year;
- *materiality and aggregation:* the balance sheet and income statement schedules are made up of items (identified by Arabic numerals), sub-items (identified by letters) and by additional detailed disclosure (the "of which" captions of the items and sub-items). The items, sub-items and related information details constitute the financial statement accounts. The layouts comply with those defined by the Bank of Italy in Circular no. 262 of 22 December 2005 and subsequent updates. New items may be added to these layouts where the content of such is not attributable to any of the items already provided in the layouts and only if they are significant amounts. The sub-items provided in the layouts may be grouped together when either of the following conditions is met:
  a) the amount of the sub-items is irrelevant;
  b) the grouping adds to the clarity of the financial statements; in this case, the Notes to the financial statements contain the grouped sub-items shown separately.

  The balance sheet, the income statement and the statement of comprehensive income do not include accounts with no amounts for either the financial year to which the financial statements relate or the previous financial year;
- *predominance of substance over form*: the transactions and other events are recognised and stated in compliance with their substance and economic entity and not just their legal form;
- *offsetting*: assets and liabilities, income and costs are not offset, unless permitted or required by an international accounting standard or its interpretation or by the provisions of the Bank of Italy Circular;
- *comparative information:* comparative information relating to the previous year is provided for each balance sheet and income statement account, unless an accounting standard or interpretation does not allow for this or provides otherwise. The figures for the previous financial year may be adjusted, where necessary, to ensure the comparability of information for the current financial year. Any non-comparability, adaptation or impossibility of the latter is indicated and commented on in the notes to the financial statements.

The Notes to the financial statements are divided into parts: A - Accounting policies, B - Information on the consolidated balance sheet, C - Information on the consolidated income statement, D - Statement of consolidated comprehensive income, E - Information on risks and related hedging policies, F - Information on consolidated shareholders' equity, G - Business combinations regarding companies or divisions, H - Transactions with related parties, I - Share-based payment agreements, L - Segment reporting, and M - Disclosure on leases.
Each part of the Notes is divided into sections, each of which explains a single operational aspect.

Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated financial statements (pursuant to the provisions of IAS 1 and the recommendations contained in the Bank of Italy/CONSOB/ISVAP Documents no. 2 of 6 February 2009 and no. 4 of 3 March 2010)

The application of certain accounting standards necessarily involves the use of estimates and assumptions which affect the values of the assets and liabilities recorded in the financial statements and the disclosures made on contingent assets and liabilities.
The assumptions underlying the estimates made take into account all the information available as of the date of preparation of this annual report, as well as the assumptions considered reasonable in the light of past experience.
Due to their nature, it thus cannot be excluded that the assumptions adopted, however reasonable, might not be confirmed by future scenarios in which the Group will operate. The results, which will be achieved in the future could therefore differ from the estimates made for the purpose of drawing up this report and could consequently make adjustments necessary, which at present cannot be foreseen or estimated, with respect to the book value of the assets and liabilities recorded in the financial statements. In that regard, note that the financial statement estimates may need to be revised as a result of changes in the underlying circumstances, following new information or increased experience.

The accounting policies considered most critical for giving a faithful representation of the Group's equity, economic and financial situation, both in terms of the materiality of the values recognised in the financial statements affected by such policies and the high level of judgement required for assessments entailing the use of estimates and assumptions by the management, are illustrated below with reference to the specific sections of the Notes to the financial statements for detailed information on the assessment processes conducted as at 31 December 2020. The following analysis on the most important accounting policies will also include the main aspects of uncertainty relating to the Covid-19 pandemic that are able to influence financial statement valuations, and are the subject of a more in-depth disclosure in the paragraph entitled "Risks, uncertainties and impacts of the Covid-19 pandemic" contained in "Section 5 - Other aspects", to which the reader should therefore refer.

Determining the impairment on loans disbursed recognised in balance sheet assets

Loans represent one of the valuation items that is most exposed to the choices made by the Group in terms of disbursement, risk management and monitoring.
More specifically, the Group manages the risk of default of the borrowing counterparties by continuously monitoring any changes in customer accounts in order to assess their repayment ability, based on their economic-financial situation. This monitoring activity seeks to intercept any signs of impairment of the loans also to promptly classify them as non-performing, and an accurate estimate of the relative total value adjustments. This estimate may be made on the basis of a materiality threshold of the exposure under valuation, on an analytical basis as a function of the recoverable cash flows or on a forfeit basis, taking into consideration the losses recorded historically on loans with similar characteristics. In this regard, it should be noted that the granting of moratoria, in the context of Covid-19, could make it more difficult to identify signs of financial difficulty and lead, in the short term, to a delay in the classification to non-performing exposures, also due to the freezing of past due days during the moratorium period.

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

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

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

This means that calculating expected losses is a complex exercise that requires a substantial level of judgement and estimation, which has become even more evident given the uncertainties surrounding the development of the Covid-19 pandemic and the related containment measures. More specifically:

- the calculation of the significant deterioration in credit risk with respect to the date of initial recognition of the exposure ("SICR") is based on the identification of adequate qualitative and quantitative criteria, which also consider forward-looking information. Therefore, it cannot be ruled out that the use of different criteria may lead to the definition of a different scope of exposures to be classified as Stage 2, with a consequent impact on the expected losses to recognise in the financial statements;
- the outcome of the impairment model must reflect an objective estimate of the expected loss, obtained by evaluating a range of possible results. This implies the need to identify possible scenarios, based on assumptions on future economic conditions, to which the relative probabilities of occurrence are associated. The selection of different scenarios and probabilities of occurrence, as well as changes in the set of macroeconomic variables to be considered in the forecast time horizon could have significant effects on the calculation of expected losses. In order to appreciate the impact on the expected losses resulting from the selection of different macroeconomic scenarios, in the section on credit risk in Part E of these Notes, a sensitivity analysis is provided of the expected losses relating to performing loans to customers;
- the calculation of expected losses requires the use of estimation models:
  - for cash flows that individual debtors (or portfolios of debtors that are similar in terms of risk) are expected to be able to generate in order to satisfy, in whole or in part, the obligations undertaken with regard to the Group. With regard to non-performing loans, if there are disposal plans, a multi-scenario approach needs to be adopted, estimating the cash flows recoverable from the sale, to be considered as an alternative scenario with respect to those retained recoverable from internal management ("work out");
  - for recovery time;
  - for the estimated realisable value of property and collateral.

Given the array of possible approaches relating to estimation models permitted by the reference international accounting standards, the use of a methodology or the selection of certain estimative parameters may have a significant influence on the valuation of the loans. These methods and parameters are necessarily updated through a continuous process also in light of an historic data available, in order to best represent the estimated realisable value of the credit exposure. For updates introduced in the measurement of expected losses, primarily addressed to incorporating the effects on credit quality of the Covid-19 pandemic, please refer to the content of the specific paragraph in the section entitled "Credit risk" contained in "Part E - Information on risks and related hedging policies" of these Notes.

Given the above, it cannot be excluded that alternative monitoring criteria or different methodologies, parameters or assumptions in determining the recoverable value of the Group's credit exposures - influenced, however, also by possible alternative strategies for their recovery approved by the competent corporate bodies as well as by the evolution of the economic and financial context and reference regulations - may result in valuations different from those conducted for the purposes of the preparation of the consolidated financial statements as at 31 December 2020.

Estimated impairment losses in relation to intangible assets with an indefinite useful life and interests in associates and joint ventures

Pursuant to IAS 36, all intangible assets with an indefinite useful life must undergo impairment testing at least once a year to verify the recoverability of their value. In addition, the standard establishes that the results of the annual test may be considered valid for subsequent tests, provided that the probability, which the recoverable value is less than the book value of the intangible assets, is considered remote. This opinion may be based on the analysis of the

events, which have occurred, and the circumstances, which have changed subsequent to the most recent annual impairment test.
Based on the provisions of this standard, Banco BPM Group has chosen to carry out an impairment test on intangible assets with an indefinite useful life as at 31 December each year: the results of this test can be considered valid for subsequent interim situations, unless evidence was to emerge that would require an impairment test to be carried out in advance to ascertain the recoverability of the value of these intangible assets with an indefinite useful life. In this regard, note that said testing would have been necessary in any event for the purpose of drawing up these financial statements, as the effects of the Covid-19 crisis are considered impairment indicators, in line with the expectations of ESMA and CONSOB.

For the intangible assets of the Retail CGU, which represent around 87% of total intangible assets with an indefinite useful life recognised in these financial statements, the valuation analyses were carried out using a multi-scenario approach in order to consider the risk inherent in the actual realisation of the cash flow projections used to determine value in use, also taking into account that Covid-19 has made the forecasts and objectives of the Business Plan announced to the market on March 3 no longer current and that a new edition of the Plan can only be prepared once the prospective framework is better defined, so that it can be based on new and more up-to-date macroeconomic and sector assumptions, determining the relevant targets on the basis of reasonable assumptions.
The results of the impairment test conducted as at 31 December 2020 confirmed the recoverability of the book values of intangible assets with an indefinite useful life, with the exception of the goodwill attributed to the "Bancassurance Life" CGU, which was entirely written down for 25.1 million, as illustrated in Section 10 "Intangible assets – item 100" contained in "Part B – Information on the consolidated balance sheet" of these Notes, to which reference should be made for further details. As at 31 December 2020, the residual value of the assets in question amounted to 555.4 million, and were represented by 504.3 million of trademarks recognised following the business combination with the former Banca Popolare Italiana Group (222.2 million) and the former BPM Group (282.1 million) and 51.1 million of goodwill attributable to the "Bancassurance Protection" CGU.

In this regard, it should be noted that the verification of the recoverability of these intangible assets is a complex exercise, the results of which are affected by the valuation methods adopted, as well as by the underlying parameters and assumptions, which may need to be modified to take account of new information or developments that could not be foreseen when this Report was prepared. For this reason, a sensitivity analysis is provided in the aforementioned section of intangible assets in order to assess whether the recoverable value remains unchanged with respect to alternative assumptions and hypotheses.

As regards interests in associates and joint ventures, note that the unavailability, as at the date of preparation of the draft consolidated financial statements, of the draft financial statements of the investee companies and of their updated forecast business plans, introduces further elements of uncertainty in the process of assessing the value of said interests. In these circumstances, we can therefore not exclude the possibility that the value attributed to the interests in associates and joint ventures, based on the information available, may possibly differ from subsequent assessments made in light of different available information. For information on the book value of the main interests in associates and joint ventures, which refer entirely to companies subject to significant influence, please refer to Section 7 "Interests in associates and joint ventures – Item 70" contained in "Part B – Information on the consolidated balance sheet" of these Notes.

Determining the fair value of financial assets and liabilities

In the presence of financial instruments not listed in active markets or of illiquid and complex instruments, adequate measurement processes must be undertaken characterised by significant elements of judgement as regards the choice of the measurement models and of the relative input parameters, which on occasion may not be observable in the market.
There are margins of subjectivity in the measurement as regards the observability or not of certain parameters and in the consequent classification in correspondence of the fair value hierarchy levels.
For qualitative and quantitative information on the method adopted to measure the fair value of financial assets and liabilities, as well as for the sensitivity analysis of the fair value relating to financial instruments measured at fair value and classified as level 3 of the fair value hierarchy, please refer to the contents of these Notes, Part A.4 – "Fair value disclosure".

Estimating the recoverability of deferred tax assets

The Group has significant Deferred Tax Assets (DTA) among its significant assets, mainly deriving from temporary differences between the income statement recognition date of given business costs and the date when said costs may be deducted, and also resulting from tax losses carried forward. The recognition of these assets and subsequently maintaining them in the financial statements assumes a judgement of probability as to the recovery of the same, which must also consider the legislative provisions on taxes in force on the date of preparation of the financial statements.
More specifically, the deferred tax assets that meet the requirements of Italian Law no. 214 of 22 December 2011 can be converted into tax credits in the case of a “statutory loss”, a “tax loss” for IRES purposes and a “net negative value of production” for IRAP purposes; their recovery is therefore certain, insofar as it does not depend on the ability to generate future income.
For the remaining tax assets that cannot be converted into tax credits, the judgement of their probability of recovery must be based on reasonable income forecast taken from approved strategic plans and projections, also considering that, for IRES purposes, tax regulations permit tax losses to be carried forward without any time limit. This judgement is a complex exercise, particularly if it regards DTAs on tax losses carried forward, the existence of the same could indicate the fact that there will not be sufficient taxable income in the future for their recovery. Based on the provisions of IAS 12 and on the considerations of the ESMA in a document dated 15 July 2019, the above judgement of recoverability requires a careful recognition of all evidence supporting the probability of having sufficient taxable income in the future, also considering the circumstances that generated the tax losses, which must be linked to clearly identified causes, deemed not repeatable in the future on a recurring basis. In order to take into account the uncertainties of the macroeconomic scenario and the potential repercussions on the estimate of taxable cash flows, particularly evident in the context of the Covid-19 crisis, the probability test was carried out, in line with that carried out for the 2019 financial statements, using the "Risk-adjusted profit approach", i.e. discounting the forecasts of future taxable income on the basis of a corrective factor that is expressive of a specific risk, consistent with the risk premium used for the impairment test of intangible assets with an indefinite useful life, which pushes further back the time period of the estimate of taxable income flows. Considering that the recoverability of DTAs could be negatively influenced by a revision of the cash flows assumed as the basis of the probability test, the estimate of future taxable income was conducted on the basis of a multi-scenario approach, consistent with the projections used for the impairment testing of intangible assets with an indefinite useful life, illustrated above. In this regard, note that the use of said multi-scenario approach was necessary insofar as Covid-19 rendered the forecasts and the objectives of the Business Plan announced to the market 3 March last, no longer current, and that a new edition of the Plan is expected to be issued in the next few months, taking the evolution of the pandemic context into account, which will enable three-year forecasts to be made based on new and updated macroeconomic and sector-based assumptions.
Lastly, it should be noted that the recoverability of all DTAs could be negatively influenced by changes in the current tax legislation, which cannot be foreseen at the present time.

Section 11 - “Tax assets and liabilities” contained in Part B - “Assets” of these Notes provides information on the nature and checks carried out with regard to the recognition of deferred tax assets and the results of the sensitivity analyses relating to the time horizon of recoverability of the DTAs, based on reasonable changes in the main underlying hypotheses and assumptions.

Estimating provisions for risks and charges

The companies that belong to the Group are defendants in a wide range of legal proceedings and tax disputes and are also exposed to numerous types of contingent liabilities. The complexity of the situations and company transactions that underlie the ongoing disputes, together with issues related to the interpretation of the applicable law, require significant judgement to estimate the liabilities that could arise at the time that the pending disputes are settled. The difficulties in assessment regard both the occurrence, the amount and the timing of any emergence of liabilities, and are particularly evident when the proceeding is at the initial stage and/or the relative preliminary investigation is in progress. The specific nature of the matter in dispute and the consequent absence of case law relating to comparable disputes, as well as different approaches taken by the judicial bodies, both at the different levels of the contentious proceeding, and by bodies at the same level at different times, make the measurement of contingent liabilities difficult, even when provisional rulings are available at the first level of judgement. Past experience demonstrates that in various cases, the rulings made by the judges in the courts of first instance have then been completely overturned on appeal or at the Supreme Court, and this may be in favour or not in favour of Group companies. In this context, the classification of contingent liabilities and the consequent evaluation of the provisions needed is based on subjective judgements, which require the use of often extremely complex estimation procedures. Therefore, it cannot be ruled out that following the issue of final rulings, the provisions for risks and charges made against contingent liabilities relating to legal and tax disputes may prove to be lacking or excessive.

For information on the Group's main risk positions in relation to legal disputes (actions to void and pending lawsuits) and tax disputes with the Tax Authorities, reference should be made to Section 10 - "Provisions for risks and charges" contained in Part B - "Liabilities" of these Notes.

In addition, the provisions for risks and charges may become necessary following commitments made by the Group at the time of the sale of interests in associates or joint ventures, divisions, portfolios of non-performing loans and related partnership agreements. More specifically, the above-mentioned commitments consist essentially of providing protection and guarantee mechanisms for the investment made by the purchasing counterparties. Said mechanisms envisage the acknowledgement, in favour of the purchaser, of an indemnity in the event that specific sales objectives are not met, or the event of inconsistent declarations as to the quality of the information and the documentation on the loans with respect to that provided at the time of the sale. The likely outlay of financial resources to cover said commitments has to be estimated, based on the reasonable evolution of the sales objectives, also considering the time horizon in which the Group may take corrective action to avoid the payment of penalties. For commitments relating to the sale of non-performing loans, the quantification of the provision must instead consider the expected evolution of the outlays relating to claims received from purchasers for alleged breaches of contractual guarantees.
For a more detailed description, reference should be made to Section 10 - "Provisions for risks and charges" contained in Part B - "Liabilities" of these Notes.

Determination of the fair value of property

It should be noted that, starting from the 2019 financial statements, the Group has changed the method of valuing real estate assets from cost to fair value for property held for investment purposes (IAS 40) and restated value for property used for administrative and commercial activities (IAS 16). In relation to the application of the new valuation criteria, it should be noted that, when preparing the 2019 financial statements, the Group determined the market value of all the properties it owns, using a special appraisal issued by a leading company, on the basis of the RICS Valuation standards[1].
For properties for investment purposes, the Group's accounting policies require fair value to be updated annually, unless there is evidence that an earlier update is necessary. For properties used in operations, it is possible to update the fair value more frequently than once a year; this frequency may depend on whether there are significant deviations in property market prices, based on a scenario analysis, or on the distinctive characteristics of certain properties.
For the above-cited perimeter, the fair value is determined by using specific appraisals drawn up by qualified, independent experts. Given the array of possible valuation approaches permitted by the international accounting standards IAS/IFRS to determine the fair value, the use of a valuation methodology or the selection of certain estimative parameters may have a significant influence on the determination of the fair value of these assets, also considering the specific nature and distinctive characteristics of the asset to be valued. Margins of subjectivity are also present when identifying the perimeter of property used in operations, for which the appraisals need to be updated, based on the ability to capture significant changes in value.

For qualitative and quantitative information on the specific method of determining fair value, please refer to the contents of these Notes, Part A.4 – "Fair value disclosure".

Estimating obligations relating to employee benefits

Determining the liabilities associated to employee benefits, with specific reference to defined benefit plans and to long-term benefits, implies a certain degree of complexity; the outcome of the valuation depends, to a significant extent, on the actuarial assumptions used, both in demographic terms (such as mortality rates and rates of employee turnover) and in financial terms (such as discounting rates and inflation rates). Therefore the judgement of management is fundamental, when selecting the most suitable technical basis to evaluate the cases, which may be influenced by the socio-economic context in which the Group operates at the time, as well as the performance of the

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

financial markets. An illustration of the main actuarial assumptions, together with a sensitivity analysis of the liabilities with respect to the most significant actuarial assumptions, are provided in sections 9 and 10 of the liabilities, contained in Part B of these Notes, respectively for provisions for employee severance pay and for defined-benefit company pension funds.

The list of valuation processes shown above is included simply to provide readers with a better understanding of the main areas of uncertainty, and it should in no way be considered as implying that, to date, alternative assumptions can prove more appropriate.
In any event, as illustrated above, in order to allow for an appreciation of the effects on the financial statements related to the aforementioned factors of uncertainty, exacerbated by the ongoing Covid-19 pandemic, in this Financial Report information on the main items in the financial statements subject to estimates (recoverability of intangible assets with an indefinite useful life, recoverability of deferred tax assets, expected losses on performing exposures, fair value of level 3 financial instruments, obligations relating to employee benefits), is provided in the specific sections of the Notes, the disclosure of the main hypotheses and assumptions used in the estimate, as well as a sensitivity analysis with respect to alternative assumptions.

Declaration of going concern

With regard to that required by the Bank of Italy, CONSOB and ISVAP in the Joint Document no. 4 of 3 March 2010, the consolidated financial statements as at 31 December 2020 have been prepared on the going concern assumption: the Directors do not believe that risks and uncertainties have emerged, that cast doubt on its ability to continue as a going concern. The Directors have considered that the Group is reasonably expected to continue to operate for the enforceable future; therefore the consolidated financial statements have been drawn up on the going concern assumption.

To express this judgement, the Directors assessed the impact of the ongoing health pandemic, which could reasonably have negative repercussions on the company’s future results; nevertheless, said impact was not retained sufficient to cast doubt on the going concern, also considering the Group’s current and prospective solidity in terms of its capital and financial structure.

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

Section 3 - Scope of consolidation and methods

(A) Subsidiaries

The consolidated financial statements include the balance sheet and income statement results of the Parent Company Banco BPM S.p.A. and its direct and indirect subsidiaries, including structured entities, in accordance with that envisaged by accounting standard IFRS 10. Based on the cited standard, the requirement of control is the basis for the consolidation of all types of entity, including structured entities, and is met when an investor simultaneously fulfils the following three requirements:
- has the power to direct the relevant activities of the entity;
- is exposed to or benefits from variable returns resulting from its involvement with the entity;
- has the ability to use its power to affect the amount of said returns (link between power and returns).

IFRS 10 establishes therefore that, in order to possess control, the investor must have the ability to direct the relevant activities of the entity, by virtue of a legal right or of a mere state of fact, and must also be exposed to changes in the results that result from said power.
In light of the above-mentioned regulatory references, the Group must therefore consolidate all types of entity where all three control requirements are met.
Generally, when an entity is considered direct by virtue of voting rights, control results from holding over half of those rights.
In the other cases, establishing the scope of consolidation requires all factors and circumstances that give the investor the practical ability to unilaterally conduct the relevant activities of the entity (actual control). To this end, a set of factors has to be considered, such as, merely by way of example:

- the purpose and the design of the entity;
- the identification of the relevant activities and how they are managed;
- any right held by means of contractual arrangements which awards the power to direct the relevant activities, such as the power to establish the financial and operating policies of the entity, the power to exercise majority voting rights in the decision-making body or the power to appoint or remove the majority of the body with decision-making functions;
- any voting rights that may potentially be exercised and that are considered substantial;
- involvement with the entity in the role of agent or principal;
- the nature and dispersion of any rights held by other investors.

The following paragraphs provide further details on the scope of entities controlled exclusively as at 31 December 2020, broken down into companies controlled through voting rights and structured entities.

Companies controlled through voting rights

With reference to the Group's situation as at 31 December 2020, companies in which a majority of voting rights in the ordinary shareholders' meeting is held are considered to be exclusively controlled, insofar as there is no evidence that other investors have the practical ability to direct the relevant activities.
As regards companies in which half or a lower amount of voting rights are held, as at 31 December 2020, there are no arrangements, statutory clauses, or situations able to establish that the Group has the practical ability to unilaterally direct the relevant activities.

Consolidated structured entities

The control of structured entities, namely entities for which voting rights are not considered relevant to establish control, is retained to exist where the Group has contractual rights to manage the relevant activities of the entity and is exposed to the variable returns of the same. On this basis, the structured entities for which consolidation for the purpose of the financial statements as at 31 December 2020 is necessary, are represented by the several SPEs for securitisation transactions originated by the Group. For those SPEs, the elements deemed significant for identifying control and the resulting consolidation are:

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

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

- it has the power to direct the relevant activities when:
  - it acts as fund manager and there are no investors with substantial removal rights; or
  - it has a substantial right to remove the fund manager (external to the Group) without just cause or due to the performance of the funds; or
  - the governance of the fund is such that the Group substantially governs the relevant assets;
- it has significant exposure to the variable returns of the fund, as it directly holds a share retained significant, in addition to any other form of exposure related to the fund's economic results;
- it is able to influence said returns through exercising its powers, when:
  - it is the fund manager;
  - it has a substantial right to remove the fund manager (external to the Group);
  - it has a right to participate in the Committees of the fund, to the extent that the Group has the legal and/or practical ability to control the activities performed by the manager.

As at 31 December 2020, the analyses conducted on the investments held by the Group in mutual investment funds and similar, resulted in the exclusion of the existence of control over the same; therefore no fund is included in the scope of consolidation.

Line-by-line consolidation method

Controlled entities are consolidated from the date on which the Group acquires control, according to the purchase method, and cease to be consolidated from the moment a situation of control no longer exists, as described in paragraph "16 - Other information, Business combinations, goodwill and changes in interest holdings" below, in section "A.2 - Key financial statement items", which should be referenced.
Full consolidation consists of the "line-by-line" acquisition of the balance sheet and income statement aggregates of subsidiary entities. For consolidation purposes, the book value of the equity interests held by the Parent Company or by the other Group companies is eliminated against the acquisition of the assets and liabilities of the investees, as a balancing entry to the corresponding portion of shareholders' equity attributable to the Group and the portion held by non-controlling interests, also taking into account the purchase price allocation upon acquisition of control.
For subsidiary entities, the portion of shareholders' equity, profit (loss) for the year and comprehensive income attributable to non-controlling interests is indicated as a separate item in the respective schedules of the consolidated financial statements (respectively in items: "190. Non-controlling interests", "340. Profit (loss) for the year attributable to non-controlling interests", "190. Consolidated comprehensive income attributable to non-controlling interests").
In this regard, please note that there is no effect on the balance sheet, the profit (loss) or comprehensive income attributable to non-controlling interests resulting from the consolidation of the separate equities held by the SPEs for securitisations originated by the Group, not subject to derecognition in the separate financial statements of the assigning Group banks. For a description of the effects of the consolidation of these equities, please refer to the information contained in part "A.2. Key financial statement items" below, paragraph "16 - Other information, Securitisations - derecognition from financial statements of financial assets transferred".

The costs and revenues of the subsidiary entity are consolidated from the date on which control was acquired. The costs and revenues of a subsidiary sold are included in the income statement up until the date of the disposal; the difference between the sale price and the book value of the net assets of the same is recognised under the income statement item "280. Gains (losses) on disposal of investments". In the event of the partial disposal of a subsidiary entity, which does not result in a loss of control, the difference between the sale price and the relative book value is recognised as a balancing entry of shareholders' equity.
The assets, liabilities, off-balance sheet transactions, income and expenses relating to transactions between consolidated companies are eliminated in full.
The balance sheet and income statement results of the consolidated companies whose operating currency is different from the euro are translated based on the following rules:

- the balance sheet assets and liabilities are converted at the exchange rate in effect at the end of the period;
- the revenues and costs on the income statement are converted at the average exchange rate for the period.

All exchange rate differences originated by the conversion are recognised in a specific valuation reserve under shareholders' equity. Said reserve is eliminated through a concurrent debiting/crediting of the income statement when the interest is disposed of. Changes in value of the valuation reserve due to exchange rate differences are included in the Statement of comprehensive income.
In order to prepare the consolidated financial statements as at 31 December 2020, all of the exclusively controlled companies have prepared a balance sheet and income statement in accordance with the Group's accounting principles.
Interests in associates and joint ventures held for sale are recorded in compliance with the reference international accounting standard IFRS 5, which regulates the recording of non-current assets held for sale. In this case, the assets and liabilities held for sale are included in the balance sheet items "120. Non-current assets and disposal groups held for sale" and "70. Liabilities associated with assets classified as held for sale".
If the disposal of the interest in associates and joint ventures is classified as discontinued operations (under the terms of IFRS 5), the relative income and expenses are recognised in the income statement, net of taxes, under item "320. Profit (loss) after tax from discontinued operations". Otherwise, the contribution of the investee is shown in the income statement "line by line". For further details please refer to the content of paragraph "8 - Non-current assets and disposal groups held for sale" contained in section "A.2 - Key financial statement items" below.
If the fair value of the assets and liabilities held for sale, net of costs to sell, turns out to be lower than the book value, a value adjustment is recognised in the income statement.

(B) Interests in companies subject to joint control and subject to significant influence

Associates, i.e. companies not controlled in which a notable influence is exercised, are considered to be companies subject to significant influence. The company is assumed to exercise a significant influence in all cases where it holds 20% or more of voting rights in the investee, and, irrespective of the shareholding percentage, whenever it has the power to participate in business and financial decisions of the investees, by virtue of specific legal relations, such as shareholders' agreements, the purpose of which is to ensure that the members of the agreement are represented in the management bodies and to safeguard a consistent management approach, without, however, controlling the same.
Interests in companies subject to joint control and subject to significant influence are recognised according to the equity method. For a description of the classification, recognition, measurement and derecognition criteria, refer to part "A.2 - Key financial statement items" in section "5. Interests in associates and joint ventures" below.

1. Interests in exclusively controlled companies

The table below lists the interests in exclusively controlled companies. For information on interests in companies subject to joint control and significant influence by Banco BPM Group, please refer to "Part B - Information on the Consolidated Balance Sheet" - Section "7. Interests in associates and joint ventures" in these Notes.

	Company name	Operational headquarters	Registered office	Type of relationship (1)	Investment relationship		Available
					Holder	% held	% of votes (2)
	Banco BPM S.p.A.	**Verona**	**Milan**	**Parent Company**			
1.	Agriurbe S.r.l. in liquidation Share capital € 10,000.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
2.	Aletti & C. Banca di Investimento Mobiliare S.p.A. Share capital € 121,163,538.96	Milan	Milan	1	Banco BPM	100.000%	100.000%
3.	Aletti Fiduciaria S.p.A. Share capital € 1,040,000.00	Milan	Milan	1	Banca Aletti & C.	100.000%	100.000%
4.	Banca Akros S.p.A. Share capital € 39,433,803.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
5.	Banca Aletti & C. (Suisse) S.A. Share capital CHF 35,000,000	CH - Lugano	CH - Lugano	1	Banca Aletti & C.	100.000%	100.000%
6.	Bipielle Bank (Suisse) S.A. in liquidation Share capital CHF 25,000,000	CH - Lugano	CH - Lugano	1	Banco BPM	100.000%	100.000%
7.	Bipielle Real Estate S.p.A. Share capital € 298,418,385.78	Lodi	Lodi	1	Banco BPM	100.000%	100.000%
8.	BPM Covered Bond S.r.l. Share capital € 10,000.00	Rome	Rome	1	Banco BPM	80.000%	80.000%
9.	BPM Covered Bond 2 S.r.l. Share capital € 10,000.00	Rome	Rome	1	Banco BPM	80.000%	80.000%
10.	BRF Property S.p.A. Share capital € 2,000,000.00	Parma	Parma	1	Banco BPM	65.428%	65.428%
11.	BP Covered Bond S.r.l. Share capital € 10,000.00	Milan	Milan	1	Banco BPM	60.000%	60.000%
12.	BP Trading Immobiliare S.r.l. Share capital € 4,070,000.00	Lodi	Lodi	1	Bipielle Real Estate	100.000%	100.000%
13.	Consorzio AT01 Share capital € 100,000.00	Lodi	Lodi	1	Bipielle Real Estate	95.000%	95.000%
14.	FIN.E.R.T. S.p.A. in liquidation Share capital € 103,280.00	Rome	Rome	1	Banco BPM	80.000%	80.000%
15.	Ge.Se.So. S.r.l. Share capital € 10,329.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
16.	Immobiliare Marinai d'Italia S.r.l. in liquidation Share capital € 258,024.00	Lodi	Lodi	1	Banco BPM	100.000%	100.000%

Company name	Operational headquarters	Registered office	Type of relationship (1)	Investment relationship		Available
				Holder	% held	% of votes (2)
17. Lido dei Coralli S.r.l. Share capital € 10,000.00	Sassari	Sassari	1	Bipielle Real Estate	100.000%	100.000%
18. Meleti S.r.l. Share capital € 20,000.00	Lodi	Lodi	1	Perca	100.000%	100.000%
19. Milano Leasing S.p.A. in liquidation Share capital € 1,541,808.00	Milan	Milan	1	Banco BPM	99.999%	99.999%
20. Partecipazioni Italiane S.p.A. in liquidation Share capital € 350,000.00	Milan	Milan	1	Banco BPM	99.966%	100.000%
21. Perca S.r.l. Share capital € 50,000.00	Lodi	Lodi	1	Immobiliare Marinai d'Italia	100.000%	100.000%
22. P.M.G. S.r.l. in liquidation Share capital € 52,000.00	Milan	Milan	1	Banco BPM	84.000%	84.000%
23. ProFamily S.p.A. Share capital € 43,000,000.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
24. Release S.p.A. Share capital € 595,829,901.44	Milan	Milan	1	Banco BPM	99.907%	99.907%
25. Sagim S.r.l. Società Agricola Share capital € 7,746,853.00	Asciano (SI)	Asciano (SI)	1	Agriurbe	100.000%	100.000%
26. Sirio Immobiliare S.r.l. Share capital € 10,000.00	Lodi	Lodi	1	Bipielle Real Estate	100.000%	100.000%
27. Tecmarket Servizi S.p.A. Share capital € 983,880.00	Verona	Verona	1	Banco BPM	100.000%	100.000%
28. Terme Ioniche S.r.l. Share capital € 1,157,190.00	Cosenza	Lodi	1	Bipielle Real Estate	100.000%	100.000%
29. Terme Ioniche Società Agricola S.r.l. Share capital € 100,000.00	Cosenza	Cosenza	1	Bipielle Real Estate	100.000%	100.000%
30. BP Mortgages S.r.l. (*) Share capital € 10,000.00	Milan	Milan	4	-	0.000%	
31. BPL Mortgages S.r.l. (*) Share capital € 12,000.00	Conegliano V. (TV)	Conegliano V. (TV)	4	-	0.000%	
32. Italfinance Securitisation Vehicle S.r.l. (*) Share capital € 10,000.00	Conegliano V. (TV)	Conegliano V. (TV)	4	Banco BPM	9.900%	9.900%
33. ProFamily SPV S.r.l. (*) Share capital € 10,000.00	Conegliano V. (TV)	Conegliano V. (TV)	4	-	0.000%	

(1) Type of relationship:
1 = majority of voting rights in the ordinary shareholders' meeting
4 = other forms of control
(2) Availability of votes in the ordinary shareholders' meeting, distinguishing between actual and potential
(*) Special Purpose Entity for securitisation transactions originated by the Group.

Changes in the scope of consolidation

Changes in the scope of consolidation compared to the situation as at 31 December 2019 are shown in the tables below:

Fully consolidated companies	
Outgoing company due to corporate liquidation	
Leasimpresa Finance S.r.l. (in liquidation)	100.00%
Outgoing SPE due to closure of securitisation transactions	
Italfinance Securitisation Vehicle 2 S.r.l. (in liquidation)	-
ProFamily Securitisation S.r.l.	-
Incoming SPE due to new securitisation transaction	
ProFamily SPV S.r.l.	-

Companies consolidated with the equity method	
Incoming company due to change in shareholding	
Anima Holding S.p.A.	19.385%

It should be noted that during the year, as a change in the scope of consolidation, the subsidiary Leasimpresa Finance S.r.l. left the company following its cancellation from the competent Companies' Register upon a liquidation procedure.
The SPEs Italfinance Securitisation 2 S.r.l. and ProFamily Securitisation S.r.l. also left the scope of companies consolidated on a line-by-line basis, due to early closure of their respective securitisation transactions; furthermore, the SPE ProFamily SPV S.r.l. entered the scope of consolidation with relation to a new securitisation transaction performed by the Group.

In addition, Anima Holding S.p.A., in which Banco BPM holds a 19.385% interest, has joined the group of companies consolidated using the equity method. This interest, considered strategic and intended to be held on a permanent basis, is considered such as to constitute a situation in which Banco BPM exercises considerable influence, also in view of the changes in 2020 in the governance of the investee company.

For further details, reference should be made to the section on significant events during the year in the Report on Operations and to the paragraph "Other significant aspects relating to Group accounting policies" contained in "Section 5 - Other aspects" below.

2. Significant assessments and assumptions used to determine the scope of consolidation

Within the scope of wholly-controlled Companies, inclusion in the scope of the Group is related to the concept of majority voting rights at the shareholders' meeting without exclusion in the case of legal control.

The only exceptions are those of Special Purpose Entities for securitisation transactions. As previously explained, even in the absence of direct equity interests, the Group has contractual rights to manage the relevant activities of the entity and is exposed to the variable returns of the same.

As at 31 December 2020, there were no non-controlling interests in subsidiaries deemed significant for the Group, either individually or as a whole, as shown in the table in "Section 14 - Non-controlling interests" in part B of the liabilities of these Notes. The same is true for the financial statements as at 31 December 2019.

3. Interests in exclusively controlled companies with significant non-controlling interests

3.1 Non-controlling interests, availability of non-controlling interest votes and dividends distributed to non-controlling interests

No information is given for the reasons explained above.

3.2 Interests in companies with significant non-controlling interests, accounting information

No information is given for the reasons explained above.

4. Significant restrictions

As at 31 December 2020, there were no legal or substantial constraints or restrictions capable of obstructing the rapid transfer of capital resources within the Group. The only constraints are those attributable to the regulatory legislation, which may require the maintenance of a minimum amount of own funds, or to the provisions of the Italian Civil Code on distributable profits and reserves.
It should also be pointed out that there are no protective rights held by minorities able to limit the Group's ability to access or transfer assets between Group companies or to settle Group liabilities, in part due to the fact that there are no subsidiaries with significant non-controlling interests, as explained in the previous paragraph.

5. Other information

All the subsidiaries prepare financial statements as at 31 December 2020, the date of closure of the consolidated financial statements (and separate financial statements of the Parent Company).

Section 4 - Events subsequent to the reporting date

Illustrated below are the most significant events occurred from the reporting date (31 December 2020) to the date of approval of the draft financial statements by the Board of Directors (9 February 2021), fully attributable to the category of "non-adjusting events" pursuant to accounting standard IAS 10, i.e. events that do not entail any adjustments to the financial statement balances, as they express situations arising subsequent to the reporting date.

Completion of issue of Additional Tier 1 financial instruments

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

The transaction is part of the drive to render the capital structure more efficient and enables the Tier 1 capital target to be achieved, further strengthening the Group's capital position.

Purchase of 100% of the share capital of Release

On 15 January 2021 Banco BPM finalised the purchase of 39,923,532 ordinary shares of the subsidiary Release S.p.A. from BPER Banca S.p.A..

By virtue of this transaction, which follows the purchase of 22,981,811 ordinary shares from Banca Popolare di Sondrio S.c.p.a. finalised on 22 December 2020, the interest held by Banco BPM S.p.A. in Release is represented by 42,930,488,261 ordinary shares, corresponding to 100% of share capital.

Merger of Group companies

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

More specifically, the merger of ProFamily into the Parent Company Banco BPM is to be made in accordance with the agreements signed with the Crédit Agricole Group, with a view to further consolidating their partnership in the consumer credit sphere in Italy.
Instead, the purpose of the incorporation of Bipielle Real Estate S.p.A. is to concentrate the overall ownership of the real estate assets directly in the Parent Company, which would also control the complex of organisational structures responsible for managing said real estate.

Both of the merger transactions will be made in the simplified form envisaged for wholly-owned companies, and are expected to be finalised, subject to the authorisation of the ECB, by July 2021.

Section 5 - Other aspects

Risks, uncertainties and impacts of the Covid-19 pandemic

Among the main factors of uncertainty that could affect the future scenarios in which the Group will operate, the negative effects on the global and Italian economy directly or indirectly related to the Coronavirus pandemic (Covid-19) must be considered.

The spread of the Covid-19 pandemic and its implications for public health, economic activity and trade could, in fact, have a negative effect on the growth of the Italian and global economies. At present, the size of the phenomenon is still uncertain, insofar as it will depend on the evolution of the pandemic, in turn influenced by the rapidity and effectiveness of the vaccination campaign, and by how production activities manage to resume after the events that characterised 2020, namely the strict lockdown imposed by the Government in the first half (from March to May) and the second milder closure following the deterioration of health figures from October. This recovery will also depend on the effectiveness and time extension of the monetary, fiscal and social support measures undertaken by the competent authorities (Governments, ECB, European Union, etc.).
The vision that is consolidating as at the date of preparation of the financial statements is that the measures to contain the spread of the virus and the various state interventions set in place will allow the gradual resumption of production activities, following the increase in infections in the past few months, it is envisaged that the pandemic will gradually be under control during the course of 2021 and that the health emergency will be fully overcome by 2022. Following the collapse of Italian GDP in 2020, an inversion of the trend is predicted, with a strong recovery in 2021, as illustrated in more detail in paragraph "2.3 Measurement methods for expected losses" contained in the section on credit risk of "Part E – Information on risks and related hedging policies" in these Notes.

As long as the crisis scenario and national and European interventions do not take on more defined contours, the inclusion of the effects of Covid-19 in budgetary estimates will be a particularly complex exercise, as these effects will depend on a number of variables that cannot be predicted to date, if not with a certain margin of uncertainty.

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

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

Authority/Document Type	Date	Title
International Accounting Standards Board (IASB)		
Statement	27/03/20	IFRS 9 and Covid-19. Accounting for expected credit losses applying IFRS 9 Financial instrument in the light of current uncertainty resulting from the covid-19 pandemic
European Central Bank (ECB)		
Communication	20/03/20	ECB Banking Supervisor provides further flexibility to banks in reaction to coronavirus
ECB letter	01/04/20	IFRS 9 in the context of the coronavirus (Covid-19) pandemic
ECB letter	04/12/20	Identification and measurement of credit risk in the context of the coronavirus (Covid-19) pandemic
European Banking Authority (EBA)		
Statement	25/03/20	Statement on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in the light of Covid-19 measures
Guideline	02/04/20	Guideline on legislative and non-legislative moratoria on loan repayment applied in the light of the Covid-19 crisis (EBA/GL/2020/02)
Guideline	25/06/20	Guidelines amending Guidelines EBA/GL/2020/02 on legislative and non legislative moratoria on loan repayments applied in the light of the Covid-19 crisis (EBA/GL/2020/08)
Guideline	02/12/20	Guidelines amending Guidelines EBA/GL/2020/02 on legislative and non legislative moratoria on loan repayments applied in the light of the Covid-19 crisis (EBA/GL/2020/15)
Guideline	02/06/20	Guidelines on reporting and disclosure of exposures subject to measures applied in response to the Covid-19 crisis (EBA/GL/2020/07)
European Securities and Market Authority (ESMA)		
Recommendation	11/03/20	ESMA recommends action by financial market participant for Covid-19 impact
Statement	25/03/20	Accounting implication of the Covid-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9 (ESMA32-63-951)
Statement	20/05/20	Implication of the Covid-19 outbreak on the half-yearly financial reports (ESMA32-63-972)
Statement	28/10/20	European common enforcement priorities for 2020 annual financial reports (ESMA32-63-1041)
Commissione Nazionale per la Società e la Borsa (CONSOB)		
Notification	09/04/20	Covid-19 - Financial Disclosure Notification
Notification	16/07/20	Covid-19 - Financial Disclosure Notification
International Organization of Securities Commissions (IOSCO)		
Statement	03/04/20	IOSCO Statement on Application of Accounting Standards during the Covid-19 Outbreak

More specifically, the relevant accounting areas in the context of the Covid-19 crisis, that the above-cited documents focused on, insofar as they entail the use of subjective valuations, can be listed as follows:

- classification of loans affected by moratorium measures, based on the recommendations of the International Accounting Standards Board (IASB), the European Central Bank (ECB), the European Banking Authority (EBA) and the European Securities and Market Authority (ESMA);
- measurement of expected losses on credit exposures that incorporate forecasts of future macroeconomic scenarios and the effects of government guarantees, based on the IASB, EBA, ESMA and ECB;
- information to the market on the effects of the health crisis and on prospective effects, as well as on the measures taken and planned to tackle the crisis, based on the indications provided in the statements and warnings issued by ESMA, the National Commission for the Company and the Stock Exchange (Commissione Nazionale per la Società e la Borsa - CONSOB) and the International Organisation of Securities Commissions (IOSCO);
- measurement and determination of impairment for non-financial assets, whose expectations are contained in the ESMA and CONSOB documents.

For each of the above-mentioned accounting areas, an analysis of the impacts of Covid-19 is provided and of the relative aspects of uncertainty, based on the recommendations provided by the Authorities and by the IASB, and how Banco BPM Group has included this in the preparation of this Financial Report as at 31 December 2020, as additional information to that provided in the paragraph above "Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated financial statements", which we therefore also refer to.

Moratorium measures and relative classification

The Group has granted various measures to support households and businesses, both by virtue of that envisaged by government decrees (Italian Decree Law 18/2020 issued on 17 March 2020 "Measures to strengthen the National Health Service and economic support for families, workers and businesses related to the Covid-19 epidemiological emergency", so-called "Heal Italy", and on the basis of bilateral initiatives that are part of ABI agreements. The purpose of these measures is to provide support to parties affected by the suspension or limitation of economic activities resulting from the Covid-19 crisis, through the suspension of payments.
In light of the indications of the various Authorities (primarily the EBA, ECB) and the IASB, the aforementioned moratorium measures:

- did not generally entail classifying the exposure as forborne ("forbearance measures"), as these are interventions aimed at mitigating systemic risks and not the specific needs of an individual debtor, except in limited cases where the pre-crisis debtor's financial difficulty has been effectively established;
- did not result in an automatic classification of the exposure in Stage 2 for the purposes of IFRS 9 impairment, as these measures do not necessarily express a significant increase in credit risk, with the consequent need to measure expected losses over a "lifetime" period rather than twelve months, as is usually the case for exposures affected by forbearance measures;
- did not represent an automatic trigger for the classification as unlikely to pay; in particular, during the period of suspension, the counting of days past due is interrupted, resulting in an extension of the ninety-day period as an automatic trigger for switching between non-performing loans.

In this regard, it should be noted that, for the purposes of the aforementioned framework, the guidelines published on the subject by the EBA on 2 April 2020 (EBA/GL/2020/02), as amended, were taken into account. More specifically, the EBA specified that measures that can be traced back to "general moratoria on payment" are not classified as forborne. In that case, the suspension:

- must be based on a legislative or bilateral initiative. In the latter case, the measure must form part of a shared intervention in the banking sector such as to ensure homogeneity between the moratoria granted by the various institutions;
- must be applied to a broad spectrum of debtors, determined on the basis of general criteria (belonging to a given customer segment, production sector, geographical area affected by the crisis, etc.);
- must be applied under the same conditions to all persons benefiting from it;
- must take the form of a mere change in payment terms, and therefore not include further changes in the contractual clauses, such as a reduction in the interest rate;
- must not be granted to funding disbursed after the date of announcement of the moratorium as it must specifically regard problems related to Covid-19;
- is set in place to deal with the emergency caused by the pandemic and applied until 31 March 2021.

With regard to the latter point, note that the term initially envisaged for the application of the cited guidelines, which was 30 June 2020, was first extended to 30 September 2020 with the amendments of 25 June and following the second wave of the pandemic, until 31 March 2021 with the amendments of 2 December. More specifically, the latter amendments envisage the option to be exempted from forbearance testing for moratoria granted from 1 October 2020 until 31 March 2021, on condition that the total suspension period agreed in the context of "general payment moratoria" does not exceed nine months.
Despite the above-cited extension, from November 2020, Banco BPM prudentially reactivated the ordinary process to assess the status of financial difficulty, with a view to ascertaining whether the requirements to classify the exposure as forborne were met.

In this regard, it should be noted that the granting of the moratoria in question could make it more difficult to identify signs of impairment and lead, in the short term, to a delay in the classification as a non-performing exposure, due to the freezing of past-due days during the moratorium period, with the consequent underestimation of expected losses.
The governance of credit risk is therefore fundamental, achieved by defining adequate credit support measures for customers and by promptly intercepting counterparties that are no longer financially sustainable, to avoid an accumulation of non-performing loans when the effects of the moratoria expire (known as the "cliff effect").
In fact, the EBA draws attention to the need for banks to monitor the credit quality of exposures affected by moratoria, with a view to correctly classifying the exposure, paying particular attention to customers who, at the end of the moratorium, may show payment difficulties or other signs of impairment.

For further details on the action taken by the Group to correctly classify the forborne and unlikely to pay exposures, with regard to Covid-19, please refer to the content of the paragraph entitled "Impacts resulting from the Covid-19 pandemic" contained in the section on credit risk in "Part E - Information on risks and related hedging policies" of these Notes.
For the accounting treatment of moratoria, please refer to the content of the paragraph entitled "Contractual amendments resulting from Covid-19".
Lastly, for quantitative information on the support measures granted by the Group as at 31 December 2020, in terms of gross exposure, value adjustments (total and for the year), transfers between stages, requests of the Bank of Italy in the already cited Communication dated 15 December 2020 entitled "Supplements to the provisions of Circular no. 262 'Bank financial statements: layouts and rules for preparation' regarding the impacts of Covid-19 and the measures to support the economy and amendments to the IAS/IFRS", please refer to the following tables:

- "4.4a Loans at amortised cost subject to Covid-19 support measures: gross value and total value adjustments" in "Section 4 - Financial assets at amortised cost" contained in "Part B – Information on the Balance Sheet" of these Notes;
- "8.1a Net credit impairment losses related to loans at amortised cost subject to Covid-19 support measures: breakdown" in "Section 8 - Net credit impairment losses/recoveries" contained in "Part C – Information on the Income Statement" of these Notes;
- "A.1.3a Loans subject to Covid-19 support measures: transfers between the different credit risk stages (gross values)" and "A.1.5a Loans subject to Covid-19 support measures: gross and net values", contained in the quantitative information of the section on credit risk in "Part E – Information on risks and related hedging policies" of these Notes.

Reference is also made to the disclosure envisaged by the "Guidelines on reporting and disclosure of exposures subject to measures applied in response to the Covid-19 crisis", published by the EBA (EBA/GL/2020/07), contained in the document "Disclosure to the Public by Entities (Pillar III)" of Banco BPM, available on the website www.gruppo.bancobpm.it.

Measurement of expected losses on credit exposures

For the purposes of measuring expected losses on credit exposures, the various competent authorities (ECB, EBA) and the IASB highlight the need to incorporate the deterioration in the economic situation caused by the Covid-19 scenario but, at the same time, given the situation of uncertainty, point out the need to take advantage of the flexibility margins provided for by IFRS 9. Said margins would allow - where there is no supporting evidence for macroeconomic forecasts - expected losses to be estimated by giving a greater weight to past information on long-term macroeconomic forecasts. In addition, where reasonable estimates are available, the Authorities highlight the need for expected losses to be able to reflect the positive effects of the support measures granted by the public sector.
In more detail, the IASB in its document of 27 March 2020 does not introduce any amendment to IFRS 9 but states that, using the elements of judgement allowed by that standard, an entity should adjust the approach used to determine expected losses in accordance with new and different circumstances, without applying the existing methodology mechanically. While being aware of the difficulty of this estimation exercise, the IASB notes that the quantification of expected losses must take into account historical, current and prospective information and accepts the possibility of resorting to post-model overlays or adjustments, if the models are not able to fully reflect the effects of the Covid-19 crisis and related government support measures.
In order to improve comparability between banks and avoid pro-cyclical effects, the ECB also recommends that the ECB's own macroeconomic projections, published on a regular basis, be considered as a reference point for model calibration. In particular, taking into account the uncertainty of the context and the difficulty of formulating reasonable and demonstrable forward-looking forecasts on the impact of Covid-19, the ECB:

- encourages banks to give greater weight to long-term forecasting expectations, considering all historical evidence covering one or more entire economic cycles;
- expects the recent macroeconomic projections published on 10 December 2020 provide a solid reference for the inclusion of so-called forward looking factors in the estimate of expected losses as at 31 December 2020, also with a view to promoting consistency among banks.

Finally, ESMA provides clarifications as to whether sovereign State guarantees, provided in conjunction with moratoria or other support measures, should be taken into account when measuring expected losses. In this regard, it notes that stated in the "Transitional Resource Group for Impairment" document of December 2015, according to which the guarantee does not need to be explicitly established in the contractual clauses.

In this context, in 2020, Banco BPM has introduced several changes to the method to calculate both performing and non-performing credit exposures, with a view to more accurately reflect the expected losses resulting from the economic disruption caused by Covid-19 and to avoid any effects of unexpected shocks (known as the "cliff effect"), also by post model adjustments, in line with the interpretations provided by the various Authorities.
More specifically, the basic method for calculating expected losses, both with reference to the framework for the identification of the significant increase in credit risk (SICR) and with reference to the calculation model based on risk parameters (PD, LGD, EAD) is that adopted for the 2019 financial statements. Nevertheless, the pandemic has made it necessary to revise the models used to incorporate forward-looking economic scenarios into the estimate of the lifetime probability of default (Lifetime PD), to quantify expected losses and identify the SICR.
In particular, the approach followed by the Group up to 31 December 2019 envisaged the use of so-called "satellite" models, developed internally, able to estimate, using statistical regression techniques, the relationship between a limited number of macroeconomic variables detained significant and the default rates of a limited number of sectors of activity (e.g. "industrial", "financial companies", "consumer households").
Already from 30 June 2020, the use of these models was abandoned because it was considered that they were not sufficiently granular to reflect the effects of Covid-19, which differ considerably depending on the different sectors of economic activity of the customers ("geo-sector" approach). Furthermore, the inclusion of forward-looking factors in the Lifetime PD parameter was made through satellite models that are not proprietary, able to link the macroeconomic forecasts to the rates of default related to the Italian banking system, differentiated on the basis of the specific economic sectors in which the Group operates.
The (forward looking) Lifetime PDs calculated in this way have in turn conditioned the staging, insofar as based on the definition of specific thresholds of increase in the Lifetime PD, considered to express a SICR, corresponding to migrations of rating classes observed between the origination and reporting dates. When these thresholds are exceeded, the individual position is classified as Stage 2.
In this regard, note that the method of the quantitative model of the SICR was also changed, with a view to making the staging system more reactive with respect to the macroeconomic scenarios, by redefining new materiality for the transfer between the various stages, related to the change in the rating for each counterparty segment. More specifically, this change has impacted counterparties belonging to the economic sectors that were worst hit by the economic crisis, as a function of the envisaged evolution of the macroeconomic scenarios.
In addition, for counterparties belonging to the Small Business and Private Customers segment, which during the course of the second half of 2020 showed an improvement in their stages (Stage 2 to Stage 1), from a conservative perspective, a managerial correction of the results of the model, returning the position to Stage 2, when said migration is retained to be exclusively due to the government support measures.
With regard to macroeconomic scenarios, note that the forward-looking measurements for the estimates of expected losses as at 31 December 2020 have been made on the basis of the information provided by leading providers and available in November 2020, based on three different scenarios ("baseline", "adverse" and "favourable") approved by a specific Scenario Council of Banco BPM, based on policies in place. The use of this information was necessary as the timing for the publication of the macroeconomic scenarios of the ECB and the Bank of Italy expected respectively on 10 and 11 December 2020, would have created delays in the process of preparation of the financial statements. In any event, considering the ECB recommendation to anchor the macroeconomic scenarios to the forecasts published by the ECB, on 16 December 2020, the Scenario Council compared the forecasts produced by the bank with the new scenarios published by the ECB and by the Bank of Italy, to assess any implications on the scenarios prepared by the Group. In this light of said comparison, the macroeconomic forecasts approved in November were confirmed, insofar as retained to be substantially in line with the recommendations provided by the Regulators, or with certain conservative margins particularly for 2022 and 2023.
Lastly, from 30 June 2020, the calculation of expected losses has been refined in order to enhance the value of the credit support actions introduced by the Italian Government towards businesses and households, through the banking system, in favour of which first application guarantees on loans granted to businesses are provided (art. 13 of the Liquidity Decree, converted with Law no. 40/2020) rather than subsidiary guarantees on 33% of the suspended instalments (art. 56 of the Heal Italy Decree, converted with Law no. 27/2020). More specifically, to calculate expected losses, the cash flows resulting from the enforcement of the above-cited state guarantees were taken into account.

On the whole, the above-cited measures, together with the update of the historic series of risk parameters, led to a higher level of provisions to the Group's performing loan portfolio, also following an increase in exposures classified as Stage 2. Said adjustments could however be significantly influenced by any different developments of the pandemic with respect to that estimated on the date of preparation of the financial statements, also with regard to the effectiveness of the government support measures.

With regard instead to non-performing exposures under the materiality threshold (all non-performing past-due, bad loans and unlikely to pay with an exposure not exceeding one million), subject to measurement on the basis of a lump-sum calculation model (known as the "automated gone" model), in 2020, a series of refinements were introduced in the cited model to include, from a forward-looking perspective, the expected impacts of Covid-19.
These methodological refinements, together with the revision of the expected losses of exposures above the materiality threshold enabled the level of coverage to be increased with respect to last year, despite the sales of non-performing loan portfolios made during 2020.

For further details on the revisions introduced during 2020 to the calculation of impairment losses on loans and on the update of macroeconomic forecasts according to a multi-scenario approach, in order to incorporate the Covid-19 effects, please refer to the paragraph "2.3 Measurement methods for expected losses" contained in the section on credit risk in "Part E - Information on risks and related hedging policies" of these Notes.

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

Note that, given the complexity and the pervasiveness of the changes made to the estimation models, it was not possible to isolate the impacts that the same generated with respect to the estimation models used previously.

Financial information

CONSOB, noting the ESMA statements of March, May, July and October, and the IOSCO document of April, published two notifications in April and July 2020, aimed at underlining the importance of providing updated information on the risks related to Covid-19 that may have an impact on the economic and financial situation, on the possible actions taken or planned to mitigate these risks and on the potential significant impacts for the estimation of future trends. Directors' attention is also drawn to carefully assessing the impact, including future impact, of Covid-19 on strategic planning and plan targets, economic performance, financial position and cash flows, as well as on the going concern assumption.
To this end, reference should be made to the paragraphs "Banco BPM's initiatives to deal with the international Covid-19 emergency" and "Outlook for business operations" contained in the Group Report on Operations.
It should also be noted that CONSOB and ESMA point out that the risks related to the pandemic could jeopardise the achievement of the objectives of the plan on which the recoverability analyses of certain assets are based, such as goodwill and other intangible assets with an indefinite life and deferred tax assets. The need to carry out the recoverability checks of the aforementioned assets and to provide adequate information in the financial statements, with particular reference to sensitivity analyses, is therefore reported.
Lastly, with reference to the disclosure of the effects of the crisis, CONSOB and ESMA believe that the creation of alternative ad hoc items or performance indicators will not provide a more accurate representation of the issuer's income statement and balance sheet, given the temporary nature of the effects; instead, they believe it is necessary to focus the reporting on the impact of the epidemic on the economic results for the year, including quantitative information, in a single note to the consolidated financial statements. To this end, an ad-hoc paragraph "Covid-19: effects on the economic results of the year" has been included in the Report on Operations, to which reference is therefore made. With reference to alternative performance measures, in line with the indications contained in the update of the document "ESMA 32_51_370 - Question and answer - ESMA Guidelines on Alternative Performance Measures (APMS)" published on 17 April 2020, it should be noted that the Group has not introduced any changes with respect to the indicators in use, aimed at highlighting separately the effects of the Covid-19 crisis.

Impairment of non-financial assets

As explained above, the expectation of ESMA and CONSOB is that the effects of the Covid-19 pandemic will be such as to trigger the impairment test of non-financial assets (goodwill and other intangible assets with an indefinite useful life), since their recoverability could be negatively affected by a revision of the cash flows assumed as the

basis for impairment test. Given the current uncertainty, the Authorities point out that particular attention should be paid to the estimate of cash flows, using multiple scenarios, for which it is necessary to provide detailed information on the basic assumptions used for cash flow projections and the related sensitivity analyses.
In this regard, to assess the recoverability of intangible assets with an indefinite useful life, the Group used a multi-scenario approach, based on hypotheses and assumptions that are consistent with the macroeconomic forecasts used for credit impairments, as illustrated in the paragraph above "Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated financial statements" to which the reader should refer for a full illustration of the uncertainties related to assessing the recoverability of the assets in question.
For a review of the assessments made and the sensitivity analysis of the Group's intangible assets with an indefinite useful life, reference should be made to content of "Section 10. Intangible assets – item 100" contained in "Part B – Information on the consolidated balance sheet" of these Notes.

Probability test of deferred tax assets

In the context of Covid-19, another important accounting area for the Group is represented by the assessment of the recoverability of deferred tax assets, as the update of cash flows to incorporate the new macroeconomic forecasts, according to a multi-scenario approach, to which a discounting factor is applied to reflect the uncertainties of the estimation exercise, could have a negative influence on the recoverability, as illustrated in the paragraph above "Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated financial statements" to which the reader should refer for a full illustration of the uncertainties related to assessing the recoverability of the assets in question.

For a review of the assessments made and the sensitivity analysis relating to the recoverability of DTAs, please refer to the content of Section 11 "Tax assets and tax liabilities" contained in Part B - Assets, of these Notes.

Contractual changes resulting from Covid-19

1) Contractual changes and derecognition (IFRS 9)

As previously illustrated, in response to the health emergency, the Group implemented a series of measures to support its customers, by granting moratoria on active loans (suspension of instalments and/or lengthening expirations).
With regard to the related accounting treatment, it is retained that the above mentioned measures can be classified in the case envisaged by IFRS 9 relating to the "renegotiation of financial assets", which occurs when the original contractual conditions are changed at the will of the parties. In this case, it must be verified whether the financial asset should continue to be recorded in the financial statements, or if this is not the case, the original financial asset should be derecognised and a new financial instrument recognised.
To this end, it must be assessed whether the changes to the contractual terms of the renegotiation are substantial or not. More specifically:

- if there is a material change, the entity must derecognise the financial instrument being amended and recognise a new financial asset on the basis of the new contractual provisions (derecognition accounting);
- for non-substantial renegotiations, the entity shall restate the gross value by calculating the present value of the cash flows resulting from the renegotiation, based on the original rate of exposure existing before the renegotiation. The difference between the aforementioned gross value and the gross book value prior to the change is recognised in the income statement under item 140 "Gains (losses) from contractual modification without derecognition" (modification accounting).

The contractual amendments in question, involving a mere deferment of payments, are to be considered as non-substantial and therefore to be treated on the basis of "modification accounting".
In this regard, it should be noted that the moratoria granted by the Group provide for the application of interest charged on the residual debt for the entire period of suspension of payments. Interest shall be paid on expiry of the original instalment, in the event of suspension of the principal only, or from the end of the moratorium period, in the event of suspension of the entire instalment. This means that the present value of the post-renegotiation exposure is substantially in line with the present value of the pre-negotiation exposure.

These conclusions are also consistent with the expectations of ESMA, which considers that the changes under consideration are unlikely to be substantial enough to lead to derecognition, given the temporary nature of the

support measures and the fact that the economic value of the loan will not change significantly. In addition, for legislative moratoria, the same explanatory report of the "Heal Italy" Decree states that "*the provisions provide that there is no economic loss for the bank as a result of the moratorium. The mechanism, therefore, is actuarially neutral, i.e. it is limited to redistributing payments without resulting in loss for the bank or benefits for the company*".
For a quantitative analysis of the moratoria granted by the Group as at 31 December 2020, refer to table "A.1.7a Loans subject to Covid-19 support measures: gross and net values", contained in the quantitative information of the section on credit risk in "Part E – Information on risks and related hedging policies" of these Notes.

2) Amendment to accounting standard IFRS 16

Regulation (EU) no. 1434 of 9 October 2020 endorsed the amendments to IFRS 16, relating to the accounting treatment of Covid-19 related rent concessions. In response to the ongoing pandemic crisis, the above-mentioned amendments, in fact, provide a practical expedient on the basis of which the temporary reductions and/or suspensions of lease payments for the period from the beginning of the pandemic until 30 June 2021, as a direct consequence of Covid-19, may be recognised on the basis of the accounting rules for "lease modification". Said amendments are effective from financial statements from 1 June 2020 for financial years that start on 1 January 2020 or later, unless applied earlier.
In accordance with IFRS 16, in the event of a change in the original contractual terms of a lease agreement, it would be necessary to amend the lease amortisation plan ("lease modification") with consequent restatement of the liability. With the amendments in question, on the other hand, as a practical expedient, it is permitted to treat unpaid fees as a variable payment, to be recognised as a lower cost in the income statement, without necessarily having to recalculate the financial liability.
The three conditions that must be met to be able to apply the simplification in question are the following:

- the amount of the revised lease agreement fees must not substantially differ from the fees previously envisaged;
- the concessions must only regard fees relating to the period from the start of the pandemic to 30 June 2021;
- all other contractual terms must remain substantially unchanged.

In this regard, note that for Banco BPM Group, the simplification in question is not relevant with regard to the preparation of the financial statements as at 31 December 2020, insofar as, generally, for the renegotiations made by the Group, a direct relation with the Covid-19 health crisis cannot be established. More specifically, the renegotiations have regarded a larger scope with respect to the branches closed due to Covid-19 and have regarded a longer period with respect to that envisaged by the amendment in question, as they are more structural renegotiations with respect to the situation generated by the crisis, such that a permanent reduction of the fees is envisaged.

Terms for approval and publication of the financial statements

Art. 154-ter of Italian Legislative Decree 58/98 (Consolidated Finance Law or CFL) states that, within one hundred and twenty days from the end of the financial year, the separate financial statements must be approved and the annual financial report must be published. The latter must contain the draft separate financial statements, the consolidated financial statements, the report on operations and the declaration of the Manager responsible for preparing the Company's financial reports pursuant to art. 154-bis, paragraph 5.
The draft financial statements of Banco BPM S.p.A. were approved by the Board of Directors at its meeting on 9 February 2021 and will be submitted for approval by the Shareholders' Meeting convened for 15 April 2021.

Independent audit

The separate financial statements and the consolidated financial statements at 31 December 2020 are subject to independent auditing by the auditing firm PricewaterhouseCoopers S.p.A., in application of the appointment conferred on this firm with resolutions of the shareholders' meetings of Banco Popolare Soc. Coop. and Banca Popolare di Milano S.c. a r.l. of 15 October 2016. This appointment has the legal duration (9 financial years) and runs from the date of effectiveness of the merger (1 January 2017). The full auditors' report, together with the annual financial report, is made available to the public, pursuant to art. 154-ter of Italian Legislative Decree 58/98.

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

An illustration of the new accounting standards or the amendments to existing standards approved by the IASB is provided below, as well as new interpretations or amendments to existing ones, published by the IFRIC, with separate disclosure of those applicable in 2020 from those applicable in subsequent years.

IAS/IFRS accounting standards and related SIC/IFRIC interpretations endorsed that must be applied when preparing the 2020 financial statements

Regulation (EU) no. 2075 of 29 November 2019 – "IFRS Conceptual Framework - Amendments"
The Regulation in question approved the document "Amendments to the Conceptual Framework", issued by the IASB in March 2018, in order to change the references contained in certain standards and interpretations to the previous Conceptual Framework, replacing them with the new Conceptual Framework. Note that the Conceptual Framework is not an accounting standard and therefore is not endorsed, while the document in question is subject to endorsement, insofar as it changes several IAS/IFRS.

Regulation (EU) no. 2104 of 29 November 2019 – "Definition of Material - Amendments to IAS 1 and IAS 8"
With this Regulation, the document "Definition of Material - Amendments to IAS 1 and IAS 8", published by the IASB in October 2018, was approved. The purpose of the amendments is to clarify the definition of "Material" in order to help companies understand whether a disclosure is material to the decisions of users of financial statements.

Regulation (EU) no. 551 of 21 April 2020 - "Definition of a Business" - Amendments to IFRS 3
The Regulation aims to clarify whether a transaction represents an acquisition of a business, according to the definitions contained in IFRS 3.

The aforementioned amendments did not have impacts on the balance sheet and income statement as at 31 December 2020.

Regulation (EU) no. 1434 of 9 October 2020 – "Covid-19-Related Rent Concessions" - Amendments to IFRS 16
The Regulation, in force from financial statements that start after 1 June 2020 for financial years that start on 1 January 2020 or later, with the exception of early application, provide a practical solution, consequent to the impact of the current pandemic crisis, which allows lessees not to count as "lease modifications", temporary reductions and/or suspensions of payment of leases for the period from the beginning of the pandemic until 30 June 2021, as a direct consequence of Covid-19.

For the purpose of the preparation of the 2020 financial statements, the Group did not adopt this simplification, as illustrated in the paragraph above "Risks, uncertainties and impacts of the Covid-19 pandemic" contained in this section, to which the reader should refer to further details.

Regulation (EU) no. 34 of 15 January 2020 – "Interest Rate Benchmark Reform"
For the sake of completeness, it should be noted that on 15 January 2020, Regulation (EU) no. 34 was published, which approved the amendments to IFRS 9, IAS 39 and IFRS 7 issued by the IASB on 26 September 2019 as part of the "Interest Rate Benchmark Reform" project (hereinafter also "Ibor Reform"). More specifically, this is the first stage of the reform, namely dedicated to searching for solutions to reduce the effects on financial statements relating to the potential impact in the previous period of the replacement of benchmark interest rates with new rates (known as the "pre-placement issues" stage).
For the amendments in question, applicable obligatorily from 1 January 2020, Banco BPM Group has made use of early application as from the financial statements as at 31 December 2019, with the aim of excluding any element of uncertainty in measuring the effectiveness of hedging relationships related to the interest rate replacement.
For the disclosure introduced by the Regulation in question on any hedging relationships impacted by the Ibor reform, as indexed to interest rates that could be replaced by the reform in question, refer to paragraph "F. Disclosure envisaged by IFRS 7 relating to the reform of benchmark rates" contained in Section 1.3 "Derivative instruments and hedging policies - 1.3.2 Hedge accounting" in Part E of these Notes.
In addition to the first stage, the Ibor reform envisages a second stage to examine the possible impacts resulting from the actual application of the new interest rates (known as the "replacement issues"), which concluded with the publication of Regulation (EU) no. 25/2021, illustrated in the paragraph below.

For a full analysis of the Ibor reform, of the projects undertaken by the Group regarding the related risks, please refer to the specific contents of the paragraph on “Risk management” contained in the Group report on operations and in “Section 2 - Risks of prudential consolidation” contained in Part E - Information on risks and related hedging policies”.

Endorsed IAS/IFRS accounting standards and SIC/IFRIC interpretations, the application of which takes effect after 31 December 2020

The standards or the amendments whose application starts after 31 December 2020, and for which the Group, where envisaged, had not opted for early application, are illustrated below.

<u>Regulation (EU) no. 2097 of 15 December 2020 – “Extension of the Temporary Exemption from Applying IFRS 9” - Amendments to IFRS 4</u>
The Regulation envisages an amendment to IFRS 4 to avoid potential temporary accounting problems resulting from the difference between the effective date of IFRS 9 Financial Instruments and the effective date of IFRS 17 Insurance Contracts. More specifically, the amendments to IFRS 4 extend the term of the temporary exemption from the application of IFRS 9 to 2023 to align the effective date of IFRS 9 with the new IFRS 17. The cited amendments are applicable from 1 January 2021. Direct impacts on the Group are not expected, as it does not carry out insurance activities.

<u>Regulation (EU) no. 25 of 13 January 2021 – “Interest Rate Benchmark Reform - Phase 2” - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16</u>
As illustrated previously, the Regulation in question represents the second stage of the Ibor interest rate reform project, with which several amendments were introduced retained necessary to manage the impacts resulting from the actual replacement of the rates.
More specifically, the purpose of the amendments is to provide practical expedients to minimize the effects of the replacement of the benchmark rates, with specific reference to the accounting treatments of the modifications of contractual flows of financial instruments and of lease agreements and those related to the management of active hedges, with a view to permitting their continuation. In addition, a specific disclosure is required on the progress of the transition to the alternative benchmark rates.
These amendments are applicable obligatorily from 1 January 2021, with the exception of early application, which the Group has not however opted for.
At present, no significant impacts are envisaged for Banco BPM Group related to the application of the regulation in question, also considering the fact that the purpose of the above amendments is to minimize the accounting effects resulting from the interest rate reform.

IAS/IFRS accounting standards and SIC/IFRIC interpretations issued by the IASB/IFRIC, awaiting endorsement

The following is a summary of the standards, interpretations or amendments that have been approved by the IASB, but are pending endorsement.

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

<u>Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"</u>
On 23 January 2020, the amendment to IAS 1 "Classification of Liabilities as Current or Non-current" was issued; on 3 June 2020 the IASB approved the deferral of the amendments to 1 January 2023, initially scheduled for 2022. This amendment clarifies that the classification of liabilities between current and non-current depends on the rights existing at the end of the reporting period. Also in relation to this amendment, no impact is expected for the Group.

Amendments to IFRS 3, IAS 16 and IAS 37 / Annual Improvements Cycle (IFRS 3, IAS 16 and IAS 37)
On 14 May 2020, the IASB approved a number of limited amendments to certain standards (IFRS 3, IAS 16 and IAS 37), as well as the annual improvements cycle of certain standards (IFRS 1, IFRS 9, IAS 41 and the illustrative examples to IFRS 16) aimed at correcting oversights or conflicts between standards.
The amendments are applicable from 1 January 2022. Given the content of the amendments in question, in light of assessments under way, no impacts for the Group are envisaged.

Other significant aspects relating to Group accounting policies

Below is an illustration of several transactions or events occurring during 2020, deemed significant for defining the related accounting treatment and/or impacts on the balance sheet or income statement.

TLTRO III – Targeted Longer Term Refinancing Operations

Description of main characteristics

TLTRO III operations are financing operations conducted by the ECB on a quarterly basis, from September 2019; of the seven operations initially envisaged, a further three have been added, to be conducted between June and December 2021. Each operation lasts three years.
For the operations conducted up until March 2021, a voluntary repayment option is envisaged, which may be exercised quarterly, once twelve months have passed from the settlement of each operation; for operations conducted in June, September and December 2021, a voluntary repayment option is envisaged, that may be exercised quarterly from June 2022.
In view of the Covid-19 emergency, the Governing Council of the ECB, first at its meetings of 12 March and 30 April 2020 and then on 10 December 2020, due to the continuation of the pandemic, revised the parameters of these loans in an improved manner, with particular reference to the maximum amount that can be financed and the related remuneration.
In the first two operations, the maximum amount that could be requested corresponded to 30% of the stock of eligible loans as at 28 February 2019, plus 50% from the third operation; following the addition of the other three operations with respect to the seven envisaged initially, between June and December 2021, the maximum obtainable loan has been increased to 55% of eligible loans.
With regard to the remuneration of the loans, following these revisions, the interest rate is set at a level equal to the average rate of the Eurosystem’s main refinancing operations (MRO), currently 0%, except for the period from 24 June 2020 to 23 June 2022 (special interest rate period), where a rate 50 basis points below this rate will apply.
There is also an incentive mechanism that allows for access to more favourable rate conditions, depending on the achievement of certain benchmarks. In particular, for counterparties whose eligible net loans between 1 March 2020 and 31 March 2021 (special reference period) are at least equal to the respective benchmark net lending levels, the rate applied will be equal to the average rate on deposits (Deposit Facility) for the entire duration of the operation, currently -0.5%, plus a further reduction of 50 basis points for the "special interest rate period”, subject to the condition that the rate cannot be lower than the threshold of -1%. For counterparties whose net eligible loans have recorded an increase in the 12 months prior to 31 March 2019, the net lending benchmark is set at zero; otherwise, said benchmark is set at the reduction in net eligible loans recorded in the 12 months prior to 31 March 2019.
For counterparties that do not meet the net eligible lending target referred to in the previous point, the remuneration schedule originally envisaged will be applied, which envisages a base rate equal to the average of the Eurosystem’s main refinancing rates (MRO) over the life of the operation, with the possibility of benefiting from a rate reduction if a certain benchmark is exceeded during the period from 1 April 2019 to 31 March 2021 (second reference period), up to a minimum equal to the average deposit rate (Deposit Facility). In particular, in order to benefit from the maximum reduction in interest, eligible net loans of the "second reference period" must exceed the "benchmark net lending" levels by 1.15% or more. In the "special interest rate period" it will be possible to benefit from a reduction, which will depend on the benchmark thresholds reached and the levels of the MRO and Deposit Facility.
To encourage the banks to maintain the current level of bank credit in December 2020, a new objective was introduced in terms of the volume of loans disbursed. For counterparties whose eligible net loans between 1 October 2020 and 31 December 2021 are at least equal to the respective benchmark net lending levels, in the period between 24 June 2021 and 23 June 2022, the rate applied to operations will be reduced by 50 basis points with respect to the average rate on deposits (Deposit Facility) and in any event not better than the threshold of -1%; after

23 June 2022, the rate applied to operations will be equal to the average rate on deposits (Deposit Facility) for the entire duration of the respective operation.

Accounting treatment

Considering the complexity of the remuneration mechanisms of the operations in question, which are anchored to the future achievement of specific objectives, as illustrated in the paragraph above, the accounting policy for the recognition of the relevant interest needs to be defined, taking into account that the case cannot always be directly attributed to any IAS/IFRS accounting standard.
In the absence of official interpretations on the matter, the definition of the reference accounting standard for the recognition of interest and of the relative application procedures is therefore left to the discretion of the entity drawing up the financial statements, on the basis of that established by IAS 8.
In this regard, ESMA also weighed in by publishing a document entitled "ESMA promotes transparency regarding the accounting for the third series of the ECB's Targeted Longer-Term Refinancing Operations (TLTRO III)" on 6 January 2021. In the current situation of uncertain interpretation, ESMA requires that a specific disclosure is provided in the financial statements regarding the accounting policy adopted - with specific reference to the classification or otherwise of operations as loans at rates lower than those of the market, to an indication of the method used to calculate the effective interest rate, to the treatment of any changes to estimates of cash flows due to the revision of the likelihood of achieving the target levels - as well as to the quantitative data relating to the book value of the loans and of the corresponding relevant interest.
In light of the areas indicated by ESMA, Banco BPM retains that accounting standard IFRS 9 "Financial instruments" is applicable to the case in question, insofar as the remuneration conditions defined by the ECB are considered on a par with market conditions, as the ECB defines and implements monetary policy in the Eurozone. This interpretation is also consistent with that followed in previous years for the definition of the accounting treatment of the loans drawn down by the Group with regard to previous TLTRO programmes.
More specifically, the rules envisaged by paragraph B5.4.5 of IFRS 9 for financial instruments at floating interest rates are deemed to refer to the TLTRO III loan. This implies that, in the event of a change in the rates established by the ECB, the interest rate will have to be recalculated, without affecting the amortised cost of liabilities. Otherwise, it is retained that the changes in the cash flows relating to the expected interest, following a different appreciation of the likelihood of achieving the benchmark, translate into a cumulative adjustment of the amortised cost - positive or negative - to be recognised as a balancing entry in the income statement. In this regard, note that the estimate of expected cash flows is a complex exercise that requires significant judgement regarding the likelihood of reaching certain benchmark levels of net eligible loans, to be assessed on the basis of the track record of the aforementioned loans, of the time left for the achievement of the target levels with respect to the valuation date, as well as the existence of a structured plan to maintain the target level already achieved.
With regard to the procedures to apply the floating rate, if the benchmark levels are expected to be met, from a theoretical perspective, the following two alternative approaches are retained admissible:

a. the loan is comparable to a floating-rate instrument, with recognition of the interest applicable on each occasion, and therefore: -0.5% until 24 June 2020; - 1% until 23 June 2021 or until 23 June 2022; -0.5% subsequently;
b. the loan is comparable to a floating-rate instrument with a spread and calculation of an average rate, and therefore: -0.5% until 24 June 2020 and subsequently, calculation of a blended rate for the residual duration of the instrument depending on the effective interest rate. In this case, the spread envisaged in the special interest period is shared along the residual duration of the operation from 24 June 2020.

In light of the above-cited accounting treatments retained admissible, it should be noted that the accounting policy selected by Banco BPM was the first alternative (point a) as deemed able to provide a better representation of the case in question for the following reasons:

- the improved conditions applicable to the special interest rate period are considered as a new floating rate, applicable in the reference period, and not as an additional spread with respect to the variable parameter, also taking the presence of a cap on the overall rate into account (-1%);
- the favourable spread relating to the special interest period, applies equally to all drawdowns, regardless of the residual duration of the loan;
- each tranche of the TLTRO III can be repaid in advance before maturity at the nominal value, without the application of any penalty, in accordance with the timeframes illustrated in the paragraph above.

Uncertainties of accounting treatments

As anticipated by the ESMA in the cited document dated 6 January 2021, considering the importance of the topics at European level and the different accounting practices adopted, on 9 February 2021, the ESMA asked the IFRS Interpretations Committee (IFRS IC), namely the committee tasked with providing official interpretations of the international accounting standards, to provide clarification as to what the relevant accounting treatment to apply to TLTRO III operations should be. On the date of preparation of these financial statements, no official interpretation on the matter has been received; however, it cannot be excluded that, on completion of the analyses by the IFRS IC, different guidelines may emerge with regard to the accounting treatment to be adopted for the recognition of the case in question with respect to that carried out by the Group as at 31 December 2020.

TLTRO III drawdowns by Banco BPM and relative accrued interest

As at 31 December 2020, the funding operations of the ECB, representing entirely by TLTRO III loans, amounted to 27.5 billion, entirely subscribed by the Parent Company, and refer to five drawdowns made in December 2019 (1.5 billion), March (2 billion), June (22 billion), September (1 billion) and December 2020 (1 billion).
Based on the figures as at 31 December 2020, Banco BPM's net lending from 31 March 2020 was a positive 5.9 billion, which therefore represents the surplus with respect to the target minimum level, which for Banco BPM is zero. If the subsequent evolution of the aggregate of eligible loans from 31 December 2020 to 31 March 2021 does not show a reduction of the net lending figure above the above-cited surplus, Banco BPM could benefit from a more favourable rate, corresponding to the negative rate of -1%, namely equal to the rate on deposits (Deposit Facility), which is a negative - 0.5% plus a further reduction of -0.5% for the special interest period.
With regard to the positive evolution of the net lending recognised from 1 March 2020, which is retained can be confirmed as at 31 March 2021, namely the date of measurement of the benchmark, the accruals of these financial statements have taken the more favourable applicable conditions into account, and therefore recorded until 24 June 2020 based on the negative rate of 0.5% and for the period 24 June to 31 December 2020 on the basis of the negative interest rate of 1%, in line with the accounting treatment illustrated in the previous paragraph.
The interest income recognised in total in the income statement for 2020 therefore amounted to 144.0 million, 68.8 million of which related to the further reduction of 50 points for the special interest rate period.

Project Django - sales of a portfolio of loans classified as unlikely to pay

As indicated in the section entitled "Significant events during the year" of the Group report on operations, in November, the Board of Directors of Banco BPM, based on two different binding offers made by Credito Fondiario S.p.A. and Asset Management Company S.p.A. (AMCO), resolved to proceed with the sale of two separate perimeters identified within a portfolio of credit exposures classified as unlikely to pay, called "Django", for a total gross exposure of around 936 million. Considering the adjusting provisions in place as at 1 January 2020, the above sale entailed the recognition of a total of 214.6 million on the income statement, 208.0 million of which under income statement item 100 a) Gains (losses) on disposal of financial assets at amortised cost" and 6.6 million under income statement item "110 a) Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss: financial liabilities designated at fair value", according to the category to which the exposures sold belonged.

Sale to Credit Fondiario

The sale to Credito Fondiario of credit exposures for a total gross value of 288.0 million, was made through a securitisation transaction, pursuant to Italian Law 130/99. On 11 December 2020, the exposures were therefore sold to Tiberina SPV S.r.l., namely to a SPE specifically established and not belonging to Banco BPM Group. To fund the purchase of the exposures, on 22 December 2020, the SPE issued the following four tranches of asset-backed securities (ABS) for a total nominal value of 120.0 million:

- senior (Class A) for 84.0 million;
- mezzanine (Class B1 and B2) for 18.0 million and for 9.0 million respectively;
- junior (Class J) for 9.0 million.

The mezzanine and junior tranches, namely the tranches that support the first loss and benefit from the excess spread of the transaction, if any, were subscribed at 95% by Credito Fondiario.

The senior tranche was entirely subscribed by Banco BPM, together with 5% of the mezzanine and junior securities, in accordance with the retention rule envisaged by regulatory provisions, for a total nominal value of 85.8 million.
Following the above-mentioned settlement of the securities, the requirements envisaged by accounting standard IFRS 9 for the derecognition from the financial statements of the exposures sold were met, insofar as the relative rights and rewards were substantially transferred; the related effects on the income statement recognised in 2020 amounted to 76.1 million.
It should also be noted that the Group has no power, either de facto or in law, to manage the relevant activities of the SPE, as it does not play any role in activities aimed at recovering the loans.
In light of the above, as at 31 December 2020 the Group held:

- all senior notes classified in the portfolio of "Financial assets at amortised cost: b) Loans to customers", whose book value, considering the expected losses measured on the basis of the IFRS 9 impairment model and of the relative accrual, amounted to 84.0 million;
- 5% of the mezzanine notes and 5% of the junior notes classified in the portfolio of "Financial assets mandatorily measured at fair value through profit and loss" at the book value of 1.4 million and 0.5 million respectively.

For a full analysis of the ABS held by the Group and the securitisation transactions finalised by the same, please refer to point "C. Securitisation transactions" contained in the section on credit risk in "Part E" of these Notes.

Sale to AMCO

The sale to AMCO Asset Management Company S.p.A., made on 11 December 2020, regarded a portfolio of credit exposures for a gross value of 648.0 million.
Following the above-mentioned sale, the requirements envisaged by accounting standard IFRS 9 for the derecognition from the financial statements of the exposures sold were met, insofar as the relative rights and rewards were substantially transferred; the related effects on the income statement recognised in 2020 amounted to 138.5 million.
It should also be noted that Banco BPM was not, directly or indirectly, involved in any manner in the exposures transferred.

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

As illustrated in the section entitled "Significant events during the year" of the Group Report on Operations, in December 2020, the sale of a portfolio of exposures classified as bad loans was made through a securitisation transaction addressed to obtaining the state guarantee for senior securities, pursuant to Italian Decree no. 18 of 14 February 2016 converted into Italian Law no. 49 of 8 April 2016 and the subsequent Decree of the Ministry of the Economy and Finance of 3 August 2016 (the Guarantee for Securitisation of Bad Loans - GACS).
The operation was a multi-originator securitisation in which Banco BPM Group, (Banco BPM and Release) and the associate Alba Leasing participated. The underlying was represented by a portfolio of bad lease loans with a total gross value of around 335.4 million (related to the valuation date established contractually as at 31 December 2019), mainly relating to property lease transactions.
As this was a lease portfolio, where the originators are the owners of the repossessed assets, the structure of the transactions envisaged the following two SPEs:

- Titan SPV S.r.l. (hereinafter also Titan), namely the SPE established pursuant to Italian law 130/99, to which the lease exposures were sold, without recourse and against payment;
- Zeus LeaseCo S.r.l., namely the SPE to which the relative legal relations and underlying assets were sold. The purpose of said SPE, managed by Prelios through a specific management contract, was to receive the proceeds of the sale of the assets, which will be paid to the SPE Titan.

More specifically, on 12 December 2020, the sale agreement was signed, on the basis of which Banco BPM and Release sold the SPE Titan a portfolio of loans for a total gross contractual value of around 145.0 million, 87.2 million of which related to Release and 57.8 million to Banco BPM.
To fund the purchase of the loans, on 28 December 2020, the SPE issued the following three tranches of ABS, entirely subscribed by the originators, for a total nominal value of 115.6 million (including the issue of 73.9 million to fund the portfolio of Alba Leasing):

- Senior (Class A) for 90.5 million (32.3 million relating to the portfolio of Banco BPM Group). Said notes have an investment grade rating (DBRSM: BBB; Scope: BBB) and the relative yield is equal to the 6-monh Euribor, plus an annual spread of 0.5%;

- Mezzanine (Class B) for 15.5 million (5.4 million relating to the portfolio of Banco BPM Group). These unrated securities envisage a yield equal to the 6-month Euribor plus an annual spread of 8%;
- Junior (Class J) for 10.1 million (4.0 million relating to the portfolio of Banco BPM Group). These unrated securities envisage a possible yield equal to the 6-month Euribor plus an annual spread of 10% and a variable remuneration based on the performance of the securitisation. More specifically, the issue of the tranches in question, in addition to funding the purchase of the loans, was addressed to funding the initial expenses of the securitisation, amounting to 6.5 million.

The share of the securities issued to fund the Group portfolio was therefore 41.7 million, of which 22.3 million related to the Parent Company and 19.4 million to the subsidiary Release.
On 29 December 2020, the sale to a third party Christofferson, Robb & Company through its fund CRC CF (LUX) S.à.r.l. - of 95% of the mezzanine tranches and 95% of the junior tranches was completed. This specifically regards tranches that support the first loss and benefit from the excess spread, if any, of the transaction. In compliance with the retention rule set out in the supervisory regulations, Banco BPM Group retained ownership of 5% of said securities. In addition, Banco BPM retained ownership of 100% of the senior securities.
Following subscription of the above-cited tranches by third parties, the conditions were fulfilled for derecognition of the bad loan portfolio sold, because the risks and benefits of the aforementioned portfolio have substantially been transferred. The effect on the consolidated income statement of the sale of the portfolio in question, recognised under income statement item "100 a) Gains (losses) on disposal of financial assets at amortised cost" was a loss of 37.1 million (18.2 million related to the Banco BPM portfolio and 18.9 million to that of the subsidiary Release).
With regard to the loans sold, it should also be noted that the Group has no power, either de facto or in law, to manage the relevant activities of the SPE, as it plays no role in the activities to recover the loans. Based on the reference laws for the above-cited GACS, the recovery of the bad loans sold was assigned to an external servicer and the Group is no longer involved in any way.
In light of the above, as at 31 December 2020 the Group held:

- all senior notes classified in the portfolio of "Financial assets at amortised cost: b) Loans to customers", for a book value of 32.3 million;
- 5% of the mezzanine notes and 5% of the junior notes classified in the portfolio of "Other financial assets mandatorily measured at fair value" for a book value of 0.7 million, entirely related to the mezzanine tranche. The measurement at fair value used the price of the recent sale transaction, illustrated above, as a benchmark, which is considered as level 3 in the fair value hierarchy.

For the sake of full disclosure, "Financial assets at amortised cost" include a limited recourse loan granted to the SPE amounting to 7.6 million, remunerated at a fixed annual interest rate of 1.5%, also in order to establish a cash reserve equal to 5% of the existing senior notes.
In this regard, it should be noted that this loan does not represent any form of credit support to the securitisation; in the waterfall payments, the repayment of the loan in question, in fact, is different from the payment of the principal of the senior securities and the payment of the principal and interest of the mezzanine securities.

Issue of Additional Tier 1 financial instruments

As indicated in the "Significant events during the year" section of the Group Report on Operations, on 14 January 2020, Banco BPM issued Additional Tier 1 (hereinafter also AT1) instruments for an amount of 400 million, addressed to institutional operators. These were, specifically, subordinated instruments classified in Additional Tier 1 capital, under the terms of Regulation no. 575 of 2013 (CRR).
The securities are perpetual and may be called by the issuer, in accordance with the regulations in force from 21 January 2025; if not called, the call may be exercised every six months thereafter, at the coupon detachment date. The six-monthly coupon, non-cumulative, was set at an annual rate of 6.125%. If the option of early redemption envisaged, for 21 January 2025, is not exercised, a new fixed-rate coupon will be determined adding the original spread to the mid-swap rate in euro at five years to be recorded at the moment of the recalculation date. This new coupon will remain fixed for the next five years and until the next recalculation date.
This issue is in addition to that made on 11 April 2019, for 300 million. The securities are perpetual and may be called by the issuer from 18 June 2024; if they are not called, the call may be exercised every five years. The six-monthly coupon, non-cumulative, was set at an annual rate of 8.75%. If the option of early redemption envisaged, for 18 June 2024, is not exercised, a new fixed-rate coupon will be determined adding the original spread to the mid-swap rate in euro at five years to be recorded at the moment of the recalculation date. This new coupon will remain fixed for the next five years and until the next recalculation date.

For the above issues, in line with the provisions of the CRR for AT1 instruments, the issuer has full discretion in deciding not to pay the coupons, for any reason and for an unlimited period of time. Cancellation is instead obligatory if certain conditions occur, including the occurrence of a trigger event, namely when the Common Equity Tier 1 (CET1) of Banco BPM (or consolidated CET1) is lower than 5.125%. In addition, interest is not cumulative, as any amount that the issuer decides not to pay or would be obliged not to pay will not be accumulated or payable at a later date. It is also envisaged that on the occurrence of a trigger event, the capital would be irrevocably and obligatorily written down by the amount needed to bring the CET1 (of Banco BPM or of the Group) to 5.125%. The capital written down could be reinstated (written up), on fulfilment of certain conditions, and in any event at the issuer's complete discretion, even in the event that Banco BPM decided to repay the issue early.
Based on the above, the above-cited issues are considered the equivalent of "equity instruments" in terms of accounting standard IAS 32, as illustrated in the accounting policies shown in paragraph "16- Other information" of section "A.2 - Key financial statement items" below.
In the financial statements as at 31 December 2020, the price received from the above-cited issues, after deducting the directly attributable transaction costs, net of the related tax charge (4.6 million), is therefore shown under equity item "140. Equity instruments", for an amount of 695.4 million.
Consistent with the nature of the instruments, the coupons are recognised as a reduction of shareholders' equity, in item "150. Reserves", if and for the amount at which they were paid. During 2020, the shareholders' equity was therefore reduced by 27.9 million, as a result of the payment of the coupons relating to the two AT1 issues, net of the related tax charge (IRES). More specifically, during 2020, for the 2019 issue, the two six-monthly coupons were paid for the amount of 26.3 million; for the January 2020 issue, a single coupon was detached in 2020, which amounted to 12.3 million.

"Hold to Collect" Business Model - sales

During 2020, sales of securities were carried out, both in cash and forward transactions with regard to performing exposures classified in the portfolio of "Financial assets at amortised cost" for a total nominal amount of around 1.9 billion, mainly attributable to the Parent Company.
In particular, during the year Banco BPM completed cash sales for a nominal value of 318.7 million, mainly related to US Government securities. The impact on the income statement of these sales was recognised in item "100. Gains (losses) on disposal or repurchase of: a) financial assets at amortised cost" and overall recorded a positive 14 million.
In addition, between the months of September and December 2020, forward sales of Italian government securities were made for a nominal value of around 1,575 million, the settlement of which is expected to be made in 2021; the performance of these transactions did not have any impact from disposal on the income statement in 2020, as it will be recognised on the forward date of settlement of the sale.
As these are exposures classified in the portfolio of "Financial assets at amortised cost", namely in the portfolio held for the purpose of collecting contractual cash flows (the "Hold to Collect" Business Model), accounting standard IFRS 9 envisages that their sale is permitted in observance of specific materiality or frequency thresholds, close to maturity, in the event of a significant increase in credit risk or in the case of exceptional circumstances. In that regard, it is noted that the sales carried out by the Group during 2020 occurred in compliance with the materiality and frequency thresholds, outlined in the Group's accounting policies. More specifically, the sales of debt, cash and forward securities, completed by Banco BPM in 2020 correspond to around 9.75% of the nominal value of securities in issue as at 1 January 2020 and therefore within the materiality threshold of 10% of the nominal value of the securities portfolio at the beginning of the year. With regard to the frequency threshold, note that the Parent Company concluded a total of five sale transactions, in compliance with the threshold of twelve annual transactions.
For the application of said thresholds, along with the other indicators/limits of eligibility of the sales, refer to Part "A.2. - Key financial statement items", paragraph "3 - Financial assets at amortised cost".
Lastly, it should be noted that the management of debt securities classified in the "HTC" and "Hold To Collect and Sale" portfolios continues to be in line with the choices made in previous years; in fact during the year, there were therefore no changes to the business model that led to the need to reclassify the securities portfolio, as there were also no changes to accounting policies relating to eligibility criteria for HTC sales.

Realignment of mismatches between the tax value and the higher book value (DL 14 August 2020)

Art. 110 of Decree Law no. 104 of 14 August 2020 (known as the "August" Decree) reintroduced the option, for companies that prepare their annual financial statements according to IAS/IFRS accounting standards, to realign

mismatches between tax values and book values with regard to property, plant and equipment (excluding merchandise), intangible assets (excluding goodwill) and interests in associates and joint ventures.
Paragraph 83 of Art. 1 of Italian Law no. 178 of 30 December 2020 (2021 Budget Law) added, after paragraph 8 of Article 110 of the August Decree, paragraph 8 bis, which extends the realignment option also to goodwill and to other intangible assets resulting from the financial statements for the year ending 31 December 2019.
In light of the above, on 26 January 2021, the Board of Directors resolved that it wished to take advantage of the option to realign the tax value of intangible assets represented by the intangibles (trademarks and client relationship), recognised in the separate financial statements following the merger by incorporation of the former subsidiary Banca Popolare di Milano, at the higher book value recognised in the financial statements as at 31 December 2020, for a total amount of 426.9 million (represented by trademarks for 263.4 million and client relationship for 163.5 million). With regard to said realignment decision, the Group has undertaken to pay a substitute tax of 12.8 million, corresponding to 3% of the realigned value (426.9 million), to be paid in a maximum of three annual instalments within the deadline for the balance payment of income taxes. The realignment option will therefore be exercised through the payment of the first instalment of the substitute tax by 30 June 2021.
As at 31 December 2020, deferred tax liabilities on the mismatch of the assets in question amounted to 141.1 million and were entirely recognised as a balancing entry of the income statement.
Based on the provisions of paragraph 47 of IAS 12, deferred tax liabilities must be calculated on the basis of the tax rates that are expected to be applicable in the year in which the liability will be extinguished, based on the tax rates and the tax legislation in force or substantially in force on the reference date of the financial statements.
Following the resolution passed in this way, considering the accounting rules illustrated above, to prepare the 2020 financial statements, the deferred tax liabilities relating to the tax mismatch had to be reversed, identifying the cost of the substitute tax to be paid as a tax debt. The relative impact on the income statement, recognised in item "300. Taxes on income from continuing operations" was a positive 128.3 million, corresponding to the imbalance between the positive effect of the reversal of the existing deferred tax liabilities (141.1 million) and the amount of the substitute tax to be paid (12.8 million).
Following the aforesaid realignment, a taxability restriction in the event of distribution had to be recognised (known as a tax-suspended reserves) for the amount of 414.1 million, corresponding to the higher realigned values (426.9 million) net of the substitute tax to be paid (12.8 million).
Lastly, it should be noted that as at the date of preparation of this Financial Report, work continues to assess the option of realigning further mismatches between tax values and book values, the effects of which would be recognised in the 2021 financial statements, considering that the term for the exercise of the above option is 30 June 2021.

Anima Holding - reclassification as an interest in associates and joint ventures with significant influence and consequent valuation

As indicated in the "Significant events during the year" section of the Group Report on Operations, from 1 April 2020, the interest held in Anima Holding, previously recognised under item "30. Financial assets measured at fair value through other comprehensive income" has been reclassified under item "70. Interests in associates and joint ventures", as the facts and circumstances that have occurred have given rise to a situation of considerable influence over the investee company.
In particular, with the Shareholders' Meeting of 31 March 2020 of Anima Holding, for the first time, the new mechanism for the appointment of corporate bodies provided for in the amendments to the Articles of Association approved on 29 March 2019 became operational. In accordance with the rules of the new governance regime, with particular reference to the manner in which lists are presented and the adoption of a proportional criterion, Banco BPM has been able to appoint five directors, including the Chairman and the Chief Executive Officer, to a Board of Directors made up of ten representatives. This representativeness would also be guaranteed if a representative appointed by Banco BPM should leave office.
The representation thus achieved on the Board of Directors was considered evidence of the existence of significant influence as regards the investee company, allowing it to participate in the decision-making processes of Anima Holding, even though it does not have control. This evidence was further supported by the percentage interest in Anima Holding of 19.385%, a percentage substantially close to the 20% threshold that IAS 28 considers to be the threshold for the assumption of significant influence. The strategic nature of the interest to be held on a permanent basis, was also confirmed by the increase in the interest recorded during the first half of the year totalling 5.115% with respect to the stake held at the beginning of the year (14.27%), 0.441% of which attributable to the cancellation of own shares approved by the Extraordinary Shareholders' Meeting of Anima on 31 March 2020,

and the remaining 4.674% to purchases made on the market between the end of March and the first few days of June.
From an accounting point of view, the acquisition of significant influence, which occurred on 1 April 2020, was recognised as if it were a disposal of the original investment and a new recognition of the interest, based on the fair value at the acquisition date, which was 141.5 million (corresponding to the counter value of 56,929,662 shares with a unitary fair value of 2.486 euro). The initial recognition of the interest resulted in the recognition of a negative income component of 114.2 million in the statement of comprehensive income, obtained from the difference between the value on first recognition and the book value of the interest previously held. Considering the valuation reserves already recognised in the financial statements as at 31 December 2019, the valuation reserves recognised in total were therefore a negative 134.1 million; following the reclassification of the investment in question, said reserves were reclassified to another equity reserve (from item 120 to item 150 of balance sheet liabilities), without any transfer from the income statement.
Considering the other 14,530,000 shares purchased in the period between 7 May and 3 June 2020, for a consideration of 50.8 million, as at 31 December 2020, Banco BPM holds 71,459,662 shares (corresponding to 19.385% of share capital) with a total purchase counter value of 192.3 million.
Based on the provisions of IAS 28, on the date of acquisition of an interest in an associate, the cost of the investment must be compared with the corresponding fraction of the components of shareholders' equity, measured on the basis of the fair value, in line with the Purchase Price Allocation (PPA) process established by standard IFRS 3 for business combinations which entail acquiring control, as illustrated in paragraph "16 - Other information, Business combinations, goodwill and changes in interest holdings" contained in the section below "A.2 - Key financial statement items" to which we refer.
More specifically, IFRS 3 envisages that the cost of the business combination should be allocated, on the acquisition date, by recognising the assets and liabilities of the entity acquired, including potential liabilities, at the relative fair value on the reference date. Any positive/negative difference between the cost of the business combination and the fair value of the identifiable assets and liabilities and of contingent liabilities, net of deferred tax, is recognised as goodwill or badwill respectively.
Based on the Group's accounting policies, aligned with the interpretations of the relevant literature, said PPA process must be made not only on the date of first acquisition of the interest, but also at the time of any subsequent increase of the investment, which continues to be considered significant influence.
Taking the above into account, the surplus of the acquisition cost was 260.8 million, corresponding to the different between the consideration of the acquisition (192.3 million) and the share of the tangible shareholders' equity of Anima Holding as at 31 March 2020. The PPA process, which was conducted with the technical assistance of a leading adviser, permitted 107.4 million of said surplus to be attributed to the identifiable net assets, net of the relative taxes, mostly relating to the client relationships, and the remaining 153.4 million to goodwill.
The differences between the fair values of the identifiable net assets and the book values recognised in the financial statements of the investee company in question, will be reversed from 2020, to adjust the result pertaining to Anima Holding based on the equity method. In this regard, it should be noted that said reversals, overall, are not significant; the relevant share deducted in 2020 was 0.8 million.
In light of the above, note that as at 31 December 2020, the PPA process, the completion of which is permitted within twelve months from the acquisition date, should be considered final.
Lastly, note that, starting from the second quarter of the year, the interest is valued using the equity method, in accordance with the specific discipline provided for by IAS 28 and described in the Group's accounting policies contained in Part A.2 below. Based on this method, the book value of Anima Holding is then increased or decreased to record the Group's share of the profits and losses of the investee company, while dividends received after the acquisition date are deducted from the book value of the interest in associates and joint ventures.
In this regard, it should be noted that, as Anima Holding will approve its draft financial statements after those of Banco BPM, the contribution of the associate to the consolidated financial statements for 2020 refers to the economic results of the investee from 1 April 2020, namely from the date on which significant influence was acquired, up to 30 September 2020, namely until the date on which the last results approved by the investee are available. To this end, note that accounting standard IAS 28 permits a time gap not exceeding three months between the closing date of the financial statements of the associate with respect to the reference ones of the investor.

Investments in the Voluntary Scheme of the Interbank Deposit Guarantee Fund

As the Banks of Banco BPM Group participate in the Voluntary Scheme of the Interbank Deposit Guarantee Fund, in 2018 they had approved the proposed measures to support Banca Carige, which had taken the form of the Voluntary Scheme subscribing Tier 2 subordinated bonds issued by Banca Carige on 30 November 2018 for a total

of 318.2 million. More specifically, said subordinated bonds were subscribed by requesting that the participating banks pay into the Scheme, in proportion to their respective stakes, a total amount of 313.2 million and using resources still available for the remaining amount.
On 20 December 2019 the share capital increase of Banca Carige was finalised, as part of which the Voluntary Scheme subscribed ordinary shares for a total value of 313.2 million, by converting at par the subordinated bonds previously held. Following the assignment of 10 million in new shares to retail shareholders that participated in the Shareholders' Meeting of Banca Carige that resolved the share capital increase, as at 31 December 2019, as well as at 31 December 2020, the Voluntary Scheme held ordinary shares of Banca Carige in a total amount of 303.2 million, in addition to Tier 2 subordinated bonds, not converted into shares, for an amount of 5 million.
Through the Voluntary Scheme, in addition to the exposure indirectly held in Banca Carige, as illustrated above, Banco BPM Group indirectly holds mezzanine and junior securities of the SPE Berenice relating to the securitisation of loans of Cassa di Risparmio di Cesena, Cassa di Risparmio di Imola and Cassa di Risparmio di San Miniato, subscribed by the Voluntary Scheme on 21 December 2017 for 12 million and 158 million respectively.
To cover said interventions, the resources paid by the Group amounted to 30.6 million, of which 2.3 million related to the securities of the securitisation and 28.3 million to the intervention in Banca Carige. Taking into account the write-downs deducted in previous years, as at 31 December 2020, the book value of the investment in the Voluntary Scheme amounted to 1 million, fully attributable to the mezzanine securities of the Berenice securitisation. The indirect investment in Banca Carige was maintained at zero, in line with the previous year, taking into account the current uncertainties on the date of preparation of this financial report as to the developments following the recovery of Banca Carige.

Contributions to deposit guarantee schemes and resolution mechanisms

Following transposition into the national legislation of Directives 2014/49/EU (Deposit Guarantee Schemes Directive –"DGSD") of 16 April 2014 and 2014/59/EU (Bank Recovery and Resolution Directive – "BRRD") of 15 May 2014, starting from financial year 2015, credit institutions are obliged to provide the financial resources necessary for the financing of the Interbank Deposit Guarantee Fund (IDGF) and the National Resolution Fund (merged into the Single Resolution Fund (SRF) starting from 2016), through payment of ex ante ordinary contributions to be paid annually, until a certain target level is reached. If the available financial resources of the IDGF and/or of the SRF were not sufficient, to respectively guarantee the protected repayment to depositors or to finance the resolution, it is envisaged that the credit entities should cover these by paying extraordinary contributions.
The contributions are recognised in the income statement item "190. b) Other administrative expenses" in application of IFRIC 21 interpretation "Levies", on the basis of which the liability relating to the payment of a levy arises at the time the "obligating event" occurs, namely at the time of the obligation to pay the annual fee. In the case in hand, from an accounting perspective, the contributions are considered the equivalent of a levy and the time of the occurrence of the "obligating event" has been identified as in the first quarter for the SRF (1 January of each year) and in the third quarter for the IDGF (30 September of each year).
In addition, note that in June 2020, the Bank of Italy called in additional contributions to the National Resolution Fund, to cover the financial requirements connected with the resolution measures carried out prior to the launch of the Single Resolution Fund. More specifically, these were measures launched in November 2015 by the Bank of Italy, as the national resolution authority - pursuant to Italian Legislative Decree no. 180 of 16 November 2016 - relating to the following four banks: Cassa di risparmio di Ferrara S.p.A., Banca delle Marche S.p.A., Banca popolare dell'Etruria e del Lazio. Pursuant to the cited IFRS 21 interpretation, said additional contribution was recognised in the second quarter of 2020 in the income statement item "190. b) Other administrative expenses", considering that before the payment request, there was no commitment, as also specified in the Bank of Italy communication ("The total amount annually due by the intermediaries is communicated on each occasion by the Bank of Italy and divided among them proportionally to the amount of the annual contributions due by the same parties to the European Single Resolution Fund. The additional contribution in the year in question is only due by intermediaries which have a contribution obligation towards the Single Resolution Fund for the same year. To this end, the classification as bank on the reference date identified each year by the Single resolution committee in the time frame established by the Bank of Italy is important.
For further details on the contributions charged during 2020, please refer to that illustrated in "Section 12 - Administrative expenses" in Part C – Information on the Income Statement" of these Notes.

Restructuring of Group assets - voluntary exit schemes for employees

On 30 December 2020, Banco BPM Group announced that on 29 December 2020, it had signed an agreement with the Trade Union Organisations regarding an exit scheme, on a voluntary basis, with a view to the retirement of 1,500 employees, also through the use of the extraordinary provisions of the Solidarity Fund for the credit sector.
From an accounting perspective, the case in question falls into the category envisaged by IAS 37 for restructuring expenses. The above-mentioned standard envisages that a provision must be recognised for the expenses to be incurred if there is an implicit obligation to implement a restructuring plan, which is likely to use financial resources that can be reliably estimated.
In this regard, on the date of preparation of this Financial Report, the above announcement of the voluntary exit scheme entailed the recognition of a total expense of 257 million, as the conditions envisaged by IAS 37 for the recognition of a provision were met; said provision is shown in income statement item "190 a) Personnel expenses" with a balancing entry in balance sheet liabilities "100 c) Other provisions".
More specifically, the announcement of the agreements signed with the Trade Union Organisations led to an implicit obligation for the Group in the implementation of the scheme, as the details had been established - in terms of the number of people potentially interested, the access procedures and conditions - and by creating a valid expectation for employees and the Solidarity Fund for the credit sector, that the restructuring will be achieved within the terms announced. To measure the expected use of financial resources, considering that on the date of preparation of the financial statements, the effective beneficiaries that would access the scheme had not yet been confirmed, a best estimate of the expense to be incurred had to be made, within a reasonable range of possible results, also using information based on the Group's experience of restructuring plans implemented in previous years.

Sales of multi-originator loans with assignment of mutual fund units

In 2020, the Group did not undertake any transaction of this nature. With regard to transactions concluded in previous years, please refer to the accounting treatment illustrated in "Part E – Section 2 – D. Sale transactions – Financial assets sold and fully derecognised" of these Notes.

A.2 - KEY FINANCIAL STATEMENT ITEMS

The accounting standards adopted to prepare the consolidated financial statements as at 31 December 2020 are described below by financial statement item, with reference to the phases of classification, recognition, measurement and derecognition of the various asset and liability items, as well as the methods for recognising revenue and costs. Said standards are consistent with those adopted for the preparation of the consolidated comparative financial statements as at 31 December 2019.

1 - Financial assets at fair value through profit and loss

Classification criteria

This category comprised financial assets other than those classified under "Financial assets measured at fair value through other comprehensive income" and "Financial assets at amortised cost". These include:
- the debt securities or loans to which an "Other" Business Model is associated, i.e. a method of managing financial assets not aimed at collecting the contractual cash flows (Hold to Collect Business Model) or at collecting the contractual cash flows and selling the financial assets (Hold to Collect and Sell Business Model);
- debt securities, loans and UCIT units whose contractual terms do not solely provide for repayment of principal and payments of interest on the amount of principal to be repaid (i.e., that do not pass the "SPPI test");
- equity instruments that cannot be classified as investments in subsidiaries, associates or entities under joint control or held for trading, or for which, on initial recognition, the option to classify them among "Financial assets measured at fair value through other comprehensive income" was not used;
- derivative contracts that are not used for hedging purposes and with a positive fair value (active derivatives). For these instruments, the offsetting with derivatives with a negative fair value (passive

derivatives) is permitted for transactions stipulated with the same counterparty, if there is a present legal right to the offsetting and it will be settled on a net basis.

More detailed information is provided below on the three sub-items that comprise the category in question, represented by: "a) Financial assets held for trading", "b) Financial assets designated at fair value"; and "c) Other financial assets mandatorily measured at fair value".

a) Financial assets held for trading

A financial asset (debt securities, equity instruments, loans, UCIT units) is classified as held for trading if it is managed with a view to collecting cash flows through sale, i.e. if it is associated with the "Other" business model, as:

- it is acquired for the purpose of being sold in the near future;
- it is part of a portfolio of financial instruments that are jointly managed and for which there is a proven strategy for short-term profit.

This also includes derivative contracts with a positive fair value, not designated as part of a hedging relationship. Derivative contracts include those embedded in structured financial instruments, in which the host contract is a financial liability, that have been recognised separately because:

- their economic characteristics and risks are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of derivative;
- the hybrid instruments to which they belong are not designated at fair value with the related changes recorded in the income statement.

A derivative is considered to be a financial instrument or other contract that has the following characteristics:

- its value changes in response to changes in an interest rate, in the price of a financial instrument, in a commodity price, in the exchange rate in foreign currency, in a price or interest rate index, in a credit rating or in a credit index or in another pre-established variable (the underlying) provided that, in the case of a non-financial variable, the underlying is not specific to a party to the contract;
- it does not require an initial net investment or requires a lower initial net investment than would be required for other types of contracts that would be expected to respond similarly to changes in market factors;
- it is settled at a future date.

b) Financial assets designated at fair value

A financial asset (debt securities and loans) may be designated at fair value on initial recognition, with the measurement results recognised in the income statement, only when such designation makes it possible to provide better disclosure, as it eliminates or considerably reduces the inconsistency in valuation, that would otherwise be caused by measuring assets or liabilities or recognising the associated gains and losses on different bases (accounting mismatch).

c) Other financial assets mandatorily measured at fair value

Other financial assets mandatorily measured at fair value represent a residual category and are made up of financial instruments that do not meet the business model or cash flow requirements to be classified as financial assets at amortised cost or financial assets measured at fair value through other comprehensive income. More specifically, these include:

- debt securities or loans whose contractual terms do not solely provide for repayment of principal and payments of interest on the amount of principal to be repaid (i.e., that do not pass the "SPPI test");
- UCIT units;
- equity instruments not held for trading, for which the option of classifying them among the financial assets measured at fair value through other comprehensive income was not used.

Recognition criteria

Financial assets are initially recognised on the settlement date in case of debt securities, equity instruments and UCIT units, on the disbursement date for loans and on the subscription date for derivative contracts.

Upon their initial recognition, financial assets at fair value through profit and loss are designated at fair value, which generally corresponds to the price paid, excluding transaction costs or revenues that are directly attributable to the financial instruments, that are recognised in the income statement.

Income item measurement and recognition criteria

Subsequent to initial recognition, financial assets at fair value through profit and loss are designated at fair value, with recognition of changes as a balancing entry to the income statement. For derivative instruments, if the fair value of a financial asset becomes negative, that item is accounted for as a financial liability held for trading.

To determine the fair value of financial instruments listed on an active market, market listings at the reporting date are used. In the absence of an active market, estimate methods and valuation models are used that take into account all the risk factors associated with the instruments and that are based on market inputs, such as: methods based on the valuation of other listed instruments that are substantially the same, discounted cash flow analysis, option pricing models, and values recognised in recent comparable transactions. In the event that no reliable estimate of the fair value is possible for equity instruments and related derivatives, the cost criterion is used as an estimate of the fair value only on a residual basis and limited to a few cases (non-applicability of the above methods or in the presence of a range of possible fair value valuations, of which cost represents the most significant estimate).
Please refer to "Part A.4 – Fair value disclosure" for details on how fair value is determined.

Trading profits or losses and gains or losses as a result of the valuation of the trading book, including derivatives connected with financial assets/liabilities designated at fair value, are recognised in the income statement in the item "80. Net trading income". The same economic effects related to financial assets designated at fair value and to those mandatorily measured at fair value are recognised in item "110. Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss."

Derecognition criteria

Financial assets are derecognised when the contractual rights to receive the cash flows generated by the assets have expired, or when the financial assets are disposed of, and all risks and rewards of ownership of the assets have been substantially transferred. In the presence of renegotiations, the above requirements exist if the changes to the contractual conditions are considered substantial, as illustrated in paragraph "16 – Other information – Renegotiations" below, to which reference is therefore made.

In the event that the substantial transfer of risks and rewards cannot be verified, the financial assets are derecognised from the financial statements if control of the loans has been relinquished.
Lastly, assets sold are derecognised if the contractual right to receive the cash flows of the assets is maintained, but at the same time a contractual obligation is assumed to pay these flows to a third party without delay and only up to the amount of those received.

Reclassification criteria

Financial assets at fair value through profit and loss, other than equity instruments, can be reclassified into the accounting categories of "Financial assets measured at fair value through other comprehensive income" and "Financial assets at amortised cost". This reclassification can occur in the very rare circumstance that an entity decides to modify its business model for managing financial assets. The transfer value is represented by the fair value on the date of its reclassification and prospectively from that date. In this instance, the effective interest rate of the reclassified financial asset is determined on the basis of its fair value on the date of reclassification, which is the date of initial recognition for the allocation of the various stages of credit risk (stage assignment) for the purpose of impairment.

2 - Financial assets measured at fair value through other comprehensive income

Classification criteria

This category includes financial assets (debt securities and loans) when both of the following conditions are met:

- the purpose of holding them is represented by both the collection of contractual cash flows and their sale ("Hold to Collect and Sell" Business Model);
- the related contractual flows consist solely of payments of principal and interest on the capital to be repaid (i.e. they are expected to pass the SPPI test - Solely Payment of Principal and Interest test).

This category also includes equity instruments not held for trading and not qualifying as investments in subsidiaries, associates or entities under joint control, for which the option of classifying them among financial assets measured at fair value through other comprehensive income is applied. This option may be exercised on initial recognition of the individual financial instrument and is irrevocable.

Recognition criteria

Financial assets are initially recognised on the settlement date in case of debt securities and equity instruments, and on the disbursement date for loans.
Upon their initial recognition, assets are designated at fair value, which generally corresponds to the price paid, including transaction costs or revenues that are directly attributable to the instruments.

Income item measurement and recognition criteria

Subsequent to initial recognition, financial assets measured at fair value through other comprehensive income, consisting of debt securities and loans, continue to be measured at fair value, with recognition of the portion of interest in the income statement on the basis of the effective interest rate criterion, exchange rate revaluation effects and expected losses (impairment).
Gains and losses deriving from the change of the fair value are instead recorded in a specific shareholders' equity reserve ("120. Valuation reserves"), which will be recycled to the income statement when the financial asset is derecognised (item "100. Gains (losses) on disposal or repurchase of: b) financial assets measured at fair value through other comprehensive income").
At each annual or interim reporting date, the aforementioned assets are subject to impairment in order to estimate the expected losses in value relating to credit risk (Expected Credit Losses), based on the impairment model also established for "Financial assets at amortised cost". Said adjustments are recognised in the income statement in item "130. Net credit impairment losses/recoveries relating to: a) financial assets measured at fair value through other comprehensive income, as a balancing entry of the specific equity valuation reserve ("120. Valuation reserves"); the same applies to recoveries of part or all of the write-downs from previous financial years. For more information on the impairment model, please see the information set forth in the following paragraph "16 - Other information, Methods for determining impairment losses on financial assets".

Equity instruments for which the classification in this category has been opted for, are measured at fair value; profits and losses resulting from the change in fair value are recognised with a balancing entry in a specific equity reserve ("120. Valuation reserves"). The amounts in said reserve will never be recycled to the income statement, even if the asset is sold; in this instance, it will be necessary to reclassify them under another shareholders' equity item ("150. Reserves"). Additionally, no write-down is recognised in the income statement for these assets, as they are not subject to any impairment process. Dividends collected are the only component recognised in the income statement.

For equity instruments recognised in this category, not listed on an active market, the cost criteria is used as an estimate of the fair value only to a residual extent and limited to a few circumstances, namely if all of the valuation methods illustrated in the item above "Financial assets at fair value through profit and loss" cannot be applied, or in the presence of a large range of possible measurements of the fair value, with regard to which, cost represents the most relevant estimate.

For information on how fair value is determined, please refer to the criteria previously illustrated for "Financial assets at fair value through profit and loss" and "Part A.4 – Fair value disclosure", below.

Derecognition criteria

Financial assets are derecognised when the contractual rights to receive the cash flows generated by the assets have expired, or when the financial assets are disposed of, and all risks and rewards of ownership of the assets have been substantially transferred. In the presence of renegotiations, the above requirements exist if the changes to the contractual conditions are considered substantial, as illustrated in paragraph "16 – Other information – Renegotiations" below, to which reference is therefore made.
In the event that the substantial transfer of risks and rewards cannot be verified, the financial assets are derecognised from the financial statements if control of the loans has been relinquished.
Lastly, assets sold are derecognised if the contractual right to receive the cash flows of the assets is maintained, but at the same time a contractual obligation is assumed to pay these flows to a third party without delay and only up to the amount of those received.

Reclassification criteria

Financial assets measured at fair value through other comprehensive income, other than equity instruments, can be reclassified into the accounting categories of "Financial assets at fair value through profit and loss" and "Financial assets at amortised cost". This reclassification can occur in the very rare circumstance that an entity decides to modify its business model for managing financial assets. The transfer value is represented by the fair value on the date of its reclassification and prospectively from that date.
In the event of a reclassification to "Financial assets at amortised cost", the cumulative gain or loss in the valuation reserve is eliminated as a balancing entry to an adjustment to the fair value of the financial asset at the reclassification date.
In the event of reclassification under "Financial assets at fair value through profit and loss", the cumulative gain or loss in the valuation reserve is reclassified from shareholders' equity to the income statement.

3 - Financial assets at amortised cost

Classification criteria

This category includes financial assets (loans and debt securities) when both of the following conditions are met:

- the purpose of holding them is represented by the collection of contractual cash flows ("Hold to Collect" Business Model);
- the related contractual flows consist solely of payments of principal and interest on the capital to be repaid (i.e. they are expected to pass the SPPI test).

Specifically, this includes loans granted to customers and banks—in any form—and debt securities that meet the requirements described above.
Loans originated through finance leases are also included in this item and, in line with IFRS 16, they are recognised as receivable as they transfer the risks and rewards to the lessee, including assets waiting to be granted under finance lease, including real estate under construction.
Also included are "repurchase agreements" with the obligation to sell securities at a future date and "securities lending" transactions with a cash guarantee deposit which is fully available to the lender, for the spot amount paid, if the characteristics of these transactions do not entail recognition in the proprietary portfolio of the security being carried over or lent, since no risk or reward has been acquired from them.
Lastly, the category in question includes operating receivables connected with the provision of financial services as defined in the Consolidated Banking Law and in the Consolidated Finance Law.

Recognition criteria

Financial assets are initially recognised on the settlement date in case of debt securities and on the disbursement date for loans. Upon their initial recognition, financial assets classified in this category are designated at fair value, which generally corresponds to the price paid, including any transaction costs or revenues that are directly attributable to the instrument.

Specifically, loans are initially recognised on the disbursement date based on the fair value of the financial instrument. The recognition is usually equal to the amount disbursed, or the subscription price, including costs/income directly associated to the individual loan and that can be determined from the start of the transaction, although settled later on. Costs are excluded, that, although carrying the above characteristics, are repaid by the borrowing counterparty or fall under normal internal administrative costs.

If the date on which the credit contract is signed and the date on which the funds agreed are disbursed are not the same, a commitment to disburse funds is recognised, which will be closed out when the loan is effectively disbursed.

Income item measurement and recognition criteria

Following initial recognition, the financial assets in question are measured at amortised cost, equal to the initial recognition value decreased by repayments of principal, decreased/increased by the amortisation - calculated according to the effective interest rate method - of the difference between the amount disbursed and the amount repayable at maturity, typically comparable to the costs/income directly associated with the individual loan.
The effective interest rate is determined by calculating the rate that is equivalent to the asset's present value of future principal and interest cash flows, to the amount disbursed including costs/income associated with the asset. The estimate of cash flows must take into account all the contractual provisions which could influence the amounts and maturities, without considering the expected loss on the asset. This accounting method, based on financial logic, spreads the economic effect of all transaction costs, commissions, bonuses or discounts considered an integral part of the effective interest rate method throughout the residual life of the asset. The amortised cost method is not used for short-term assets, whose limited life span makes the application of discounting immaterial. Said assets are measured at historical cost and their costs/income, if any, are recognised in the income statement on a straight-line basis throughout the loan contract life. The same measurement criterion is used for assets without a defined maturity or demand loans.

The book value of financial assets at amortised cost is adjusted to account for any provisions on expected losses. At each annual or interim reporting date, the aforementioned assets are subject to impairment for the purpose of estimating the expected losses in value relating to credit risk (ECL - Expected Credit Losses). Said losses are recognised in the income statement in item "130. Net credit impairment losses/recoveries". If it is found that no reasonable expectations of recovery exist, the gross exposure is written off: in this case, the gross exposure is reduced by the amount considered not recoverable, as a balancing entry to the reversal of provisions covering the expected losses and the impairment in the income statement, for the part not covered by the provisions. For more information on the accounting treatment of write-offs please refer to the content of the paragraph on "derecognition criteria" below.

More specifically, the impairment model provides for the classification of assets into three distinct "Stages" (Stages 1, 2, and 3), based on changes to the debtor's credit risk, corresponding to different criteria for measuring expected losses:

- Stage 1: includes performing financial assets for which no significant impairment of credit risk has been observed with respect to the date of initial recognition or for which the credit risk is considered low. Impairment is based on an estimate of the expected loss over one year (expected loss resulting from possible default on the financial asset within one year from the reference date);
- Stage 2: includes performing financial assets that have undergone significant impairment of credit risk with respect to initial recognition (known as SICR - "Significant Increase in Credit Risk"). Impairment is proportional to the estimate of expected loss over the entire residual life of the financial asset;
- Stage 3: includes non-performing financial assets, characterised by a 100% probability of default, to be measured by estimating the expected loss over the entire life of the instrument.

For performing assets, expected losses are determined using a collective process based on certain risk parameters, namely the Probability of Default (PD), the Loss Given Default (LGD) and the Exposure at Default (EAD), deriving from internal models for calculating regulatory credit risk that are suitably adjusted to account for the specific requirements set out in accounting regulations.

Non-performing assets, i.e. assets for which, in addition to a significant increase in credit risk, there is objective evidence of impairment, are measured with an analytical or lump-sum measurement process based on uniform risk categories, designed to establish the present value of expected future recoverable cash flows, discounted on the basis of the original effective interest rate or a reasonable approximation if the original rate is not directly available.

Non-performing assets include exposures to which the status of bad loan, unlikely to pay or past-due for more than ninety days has been attributed in accordance with the definitions established by the supervisory provisions in force (Bank of Italy Circular no. 272 “Matrix of accounts”) and referred to by Bank of Italy Circular no. 262, as they are considered to be consistent with the accounting regulations set out in IFRS 9 for objective evidence of impairment.

In the presence of sales scenarios, the determination of the cash flows is based on the forecast of flows recoverable through the internal management activity as well as on the basis of the flows obtainable from any sale on the market, according to the multi-scenario approach described in paragraph “16 - Other information, Methods for determining impairment losses on financial assets” below.

Expected cash flows also consider expected recovery times and the estimated net realisable value of any guarantees.

For fixed rate positions, the original effective rate used to discount the expected recovery flows, determined as illustrated above, remains unchanged over time, even if there is a change in the contractual rate due to financial difficulties of the debtor.
For positions with floating interest rates, the rate used for the discounting of cash flows is updated in relation to the indexation parameters (i.e. Euribor), while keeping the originally established spread constant.

The original value of financial assets is reinstated in subsequent years, due to an improvement in the credit quality of the exposure compared to that which had led to the previous write-down. Recoveries are recognised in the income statement under the same item and, in any case cannot exceed the asset’s amortised cost had no adjustments been carried out in the past.

For more information on the impairment model, please see the information set forth in the following paragraph “16 - Other information, Methods for determining impairment losses on financial assets”.

For non-performing loans classified in Stage 3, accrued interest is calculated on the basis of amortised cost, that is on the basis of the exposure - determined using the effective interest rate - adjusted for expected losses.
For non-performing loans that do not accrue contractual interest, such as bad loans, this interest corresponds to the reversals of the impairment losses related to discounting the recovery forecasts due to the simple passing of time.

Derecognition criteria

Financial assets are derecognised when the contractual rights to receive the cash flows generated by the assets have expired, or when the financial assets are disposed of, and all risks and rewards of ownership of the assets have been substantially transferred. In the presence of renegotiations, the above requirements exist if the changes to the contractual conditions are considered substantial, as illustrated in paragraph “16 – Other information – Renegotiations” below, to which reference is therefore made.
In the event that the substantial transfer of risks and rewards cannot be verified, the financial assets are derecognised from the financial statements if control of the loans has been relinquished.
Lastly, assets sold are derecognised if the contractual right to receive the cash flows of the assets is maintained, but at the same time a contractual obligation is assumed to pay these flows to a third party without delay and only up to the amount of those received.

The derecognition of non-performing financial assets may occur upon recognising that the exposure is irrecoverable and consequently concluding the recovery process (final derecognition) and involves a reduction in the nominal and gross book values of the loan. This is the case where settlement agreements with the debtor result in a reduced loan amount (in full and final settlement) or in specific situations, for example:

- the final judgement declaring that part or all of the loan has been extinguished;
- the conclusion of insolvency or enforcement proceedings against the main debtor and the guarantors;
- the conclusion of all possible in- and out-of-court actions for recovering the debt;
- the completion of a mortgage foreclosure on an asset as collateral, with the consequent derecognition of the credit guaranteed by the foreclosed mortgage, in the absence of additional specific guarantees or other actions that may be taken to recover the exposure.

These specific situations may lead to the total or partial derecognition of the exposure, yet do not necessarily entail waiving the legal right to recover the debt.

In addition, non-performing financial assets may be derecognised by writing them off after acknowledging that no reasonable expectations of their recovery exist, even while continuing with actions aimed at their recovery. That write-off is made during the financial year in which the debt or part of it is deemed irrecoverable - even while legal proceedings are underway - and may occur before the legal debt recovery proceedings against the debtor and the guarantors have come to a close. This does not imply a waiver of the legal right to recover the loan and is carried out when the credit documentation contains reasonable financial information indicating that the debtor is unable to repay the debt. In that case, the nominal gross value of the loan remains unchanged, but the gross book value is reduced by an amount equal to the amount written off, which may be related to the entire exposure or to a portion thereof. The amount written off cannot be subject to subsequent recoveries in impairment losses, following an improvement in the recovery forecasts, but only after the amount is actually collected.

Derecognition may occur following sale of the financial assets; in this case, the difference between the book value of the asset sold and the amount received, including any assets received net of any liabilities assumed, is booked to the income statement item “100. a) Gains (Losses) on disposal of financial assets at amortised cost”.
In line with the “Hold to Collect” Business Model that characterises financial assets at amortised cost, based on the accounting standard IFRS 9, the sale is permitted where specific circumstances occur. An illustration of the circumstances on whose occurrence the Group deems it permissible to carry out the sale of the assets in question is provided below.

<u>Increase in credit risk</u>
The Group deems that an increase in credit risk occurs where events that result in the following occur:
- the classification of financial assets that were previously classified in Stage 1 in Stage 2;
- the classification of financial assets which were previously classified in Stage 1 or 2 among non-performing assets (i.e. in Stage 3).

Where these cases arise, sales are permitted, irrespective of any threshold of frequency or materiality. This occurs, for example, for the sale of non-performing loans.

<u>Instrument nearing maturity</u>
The Group deems that, irrespective of any frequency or materiality thresholds, sales are compatible with the “HTC” Business Model where:
- the time remaining to maturity is less than 3 months; and
- the difference between the amount received from sale and the residual contractual cash flows does not exceed the threshold of 5% in absolute value.

<u>Frequency and materiality below specific thresholds</u>
Sales with the following characteristics are permitted:
- a frequency threshold of less than 12 sale transactions per year. An individual sale transaction must be understood as the set of sale transactions relating to one or more securities, which are finalised in a time frame of 10 working days starting from the day on which the first sale transaction was carried out;

or
- a materiality threshold of less than 10%, determined based on the ratio of the nominal value of sales during the year to the nominal value of the instruments in the portfolio of financial assets at amortised cost at the beginning of the year.

The two thresholds must be considered separately. As a result, sales made for an amount exceeding 10% of the opening balances are not permitted, even if infrequent.
Said thresholds are applied at the level of individual legal entity belonging to the Group, and separately for the portfolio of debt securities with respect to the portfolio of loans, as those portfolios are held with different management objectives and/or managed by autonomous business functions.

Exceptional circumstances

Examples of exceptional circumstances in which sales are considered permissible may be:

- significant business combinations/restructurings whose pursuit requires a reorganisation of Group assets and liabilities;
- sales made to handle liquidity crises, where the event could not have been reasonably foreseen (stress scenarios).

Reclassification criteria

Financial assets at amortised cost can be reclassified into the accounting categories of "Financial assets measured at fair value through other comprehensive income" and "Financial assets at fair value through profit and loss". This reclassification can occur in the very rare circumstance that an entity decides to modify its business model for managing financial assets. The transfer value is represented by the fair value on the date of its reclassification and prospectively from that date. Gains or losses resulting from the difference between the amortised cost of the financial asset and its fair value are recognised:

- in the income statement, in the event of reclassification under "Financial assets at fair value through profit and loss";
- in shareholders' equity to a specific valuation reserve, in the event of reclassification to "Financial assets measured at fair value through other comprehensive income".

4- Hedging transactions

It should be noted that Banco BPM Group avails of the IFRS 9 option to continue to fully apply the hedge accounting rules set forth by IAS 39, in the version endorsed by the European Commission (the carved out version).

Classification criteria

Asset and liability items include financial hedging derivatives, which at the date of the financial statements or interim report showed a positive and negative fair value, respectively.

Hedges seek to neutralise potential losses recognisable on a given financial instrument or a group of financial instruments, attributable to a specific risk, by offsetting them with the gains recognisable on a different financial instrument or group of financial instruments in the event that said risk should actually materialise.

The following types of hedges are provided for:

- fair value hedges, which seek to hedge exposure to changes in the fair value of a financial statement asset or liability, attributable to a specific risk. It is also possible to activate macro fair value hedging, with the goal of reducing fair value fluctuations attributable to the interest rate risk, of monetary amounts deriving from a portfolio of financial assets and liabilities (including "core deposits"). Net amounts deriving from the mismatch of assets and liabilities cannot be subject to macro hedging;
- cash flow hedges, which seek to hedge the exposure to changes in future cash flows attributable to specific particular risks associated with financial statement items or a highly likely expected transaction;
- hedges of foreign currency transactions, which seek to hedge the risks of investment in a foreign company expressed in foreign currency other than the Group's reference currency (euro).

At the level of the consolidated financial statements, only derivatives entered into with an external counterparty to the Group may be designated as hedging instruments. The results associated with internal transactions carried out between various Group entities are eliminated.

Derivatives can be designated as hedges, provided that the hedging relationship between the hedged instrument and the hedging instruments is formally documented, and includes risk management objectives, the hedging strategy and the methods to assess prospective and retrospective effectiveness; said relationship must be effective at the time the hedge is originated and prospectively throughout its entire life. The hedge effectiveness depends on the extent to which the changes in the fair value or in the expected cash flows of the hedged instrument are actually offset by those of the hedging instrument. Therefore, effectiveness is measured by comparing said changes, while considering the aim pursued by the entity when the hedge was established.

A hedge is effective (within the limits established as a range of 80% to 125%) when changes in the fair value (or in the cash flows) of the hedging instrument neutralise almost completely the changes in the hedged instrument attributable to the hedged risk. Hedging effectiveness is assessed at each annual or interim reporting date, using:

- prospective tests, that justify the application of hedging accounting in that they demonstrate its expected effectiveness;
- retrospective tests, demonstrating the hedge's actual effectiveness achieved over the period being examined. In other words, these tests measure how far the actual results deviate from perfect hedging.

Recognition criteria

Hedging derivative financial instruments are recognised at fair value, at the date on which the relative contracts are entered into.

Income item measurement and recognition criteria

Subsequent to initial recognition, hedging derivatives continue to be measured at fair value. In particular:

- for fair value hedges, the changes in fair value of the hedged element are offset by the changes in fair value of the hedging instrument. Said offset is recognised by charging the changes in value to the income statement, in item "90. Fair value gains/losses on hedging derivatives", referring both to the hedged element (referring to the changes generated by the underlying risk factor), as well as to the hedging instrument. Any resulting difference, which represents the partial ineffectiveness of the hedge, represents the net effect on the income statement. If the hedging relationship ends, the hedged instrument reacquires the measurement approach of the class to which it originally belonged; for instruments measured at amortised cost, the cumulative revaluations/write-downs recognised as a result of changes in fair value of the hedged risk are recognised in the income statement under interest income and expense throughout the residual life of the hedged item, on the basis of the effective interest rate. If the hedged item is sold or repaid, the share of fair value not yet amortised is recognised immediately in the income statement;
- for cash flow hedges, the portion of changes in the fair value of the derivative that is determined to be an effective hedge is recognised in shareholders' equity (item "120. Valuation reserves"), while it is recognised in the income statement only when changes in cash flows to be offset arise in the hedged item. The portion of gains or losses of the hedging instrument that is considered ineffective is charged to the income statement (item "90. Fair value gains/losses on hedging derivatives"). Said portion is equal to any difference between the cumulative fair value of the hedging instrument and the cumulative fair value of the hedged instrument. In any event, the fluctuations in fair value of the hedged item and the related hedge must lie within the 80%-125% range. If the cash flow hedge is no longer considered effective or the hedging relationship is terminated, the total amount of profits or losses on the hedging instrument, previously recognised in "Valuation reserves", is recognised in the income statement only when the hedged transaction will take place or when it is no longer deemed possible that the transaction will take place. In this last circumstance, the profits or losses are transferred from the shareholders' equity item to the income statement item "90. Fair value gains/losses on hedging derivatives";
- hedges of investments in foreign currency are accounted for using the same method as for cash flow hedges.

Derecognition criteria

Should the above tests fail to confirm the effectiveness of the hedging, both retrospectively and prospectively, hedge accounting, as described above, is discontinued. In that situation, the hedging derivative contract is reclassified under "Financial assets at fair value through profit and loss" and, specifically, under Financial assets held for trading.
In addition, the hedging relationship stops when:

- the derivative expires, is discharged or exercised;
- the hedged item is sold, expires or is repaid;
- it is no longer highly likely that the future hedged transaction will be carried out.

5 - Interests in associates and joint ventures

Classification criteria

This item includes interests in associates or companies subject to joint control, which are carried at equity.
Associates are companies which are not subsidiaries, on which the Group has a significant influence. The company is assumed to exercise a significant influence in all cases where it holds 20% or more of voting rights in the investee, and, irrespective of the shareholding percentage, whenever it has the power to participate in business and financial decisions of the investees, by virtue of specific legal relations, such as shareholders' agreements, the purpose of which is to ensure that the members of the agreement are represented in the management bodies and to safeguard a consistent management approach, without, however, controlling the same.
Companies subject to joint control are enterprises where the joint control is based on a contract or other agreement whereby it is necessary to obtain the unanimous consensus of all the parties sharing the control to make strategic financial and operating decisions. This takes place when the voting rights and control over the economic activity of the investee are shared jointly by Banco BPM and another party. Furthermore, an equity investment is qualified as under joint control when, even though voting rights are not shared jointly, the unanimous consent of all parties sharing control is required to take decisions regarding significant activities.

Recognition criteria

Financial assets are initially recognised on the settlement date. Upon their initial recognition, financial assets classified in this category are carried at cost, including any goodwill paid for at the time of acquisition, which, therefore, is not independently, separately recorded.

Income item measurement and recognition criteria

Interests in associates and joint ventures are measured with the equity method. This method envisages that the initial book value is subsequently increased or decreased to reflect the share of profit or loss of the investees attributable to the Group generated after the acquisition date, as a balancing entry to the consolidated income statement item "250. Gains (losses) of associates and joint ventures". Dividends received from investees are deducted from the book value of the investees.
Should it be necessary to carry out adjustments due to changes in shareholders' equity of the investee that have not been recognised in the investee's income statement (for ex. as a result of the designation at fair value of "Financial assets measured at fair value through other comprehensive income", as a result of the valuation of actuarial gains/losses on defined benefit plans), the share of the above changes attributable to the Group is recognised directly in the shareholders' equity item "120. Valuation reserves".
When applying the equity method, the most recent available financial statements of the associated company or company subject to joint control are used, suitably adjusted to take into account any significant events or transactions that have taken place between the last available financial statements of the investee company and the reference date of the consolidated financial statements. If the investee company adopts accounting standards that are different to those of the Group, changes are made to the financial statements of the investee.
After applying the equity method, investments in associates or jointly controlled entities are tested for impairment when there is objective evidence of impairment that could have an impact on the investee's cash flows and consequently on the recoverability of the book value of the investment.
The process of recognising any impairment, therefore, involves checking for possible indicators that are considered to show objective evidence of impairment, such as:

- significant financial difficulties of the investee company (for example, significant negative changes in the book value of shareholders' equity, reduction or interruption of the distribution of dividends, achievement of operating results below a physiological threshold, compared to the objectives of the budget or the long-term plan or down compared to previous years or compared to the situation that existed on the acquisition date of the investment);
- breach of contract, for example a default or failure to make payment by the investee;
- the extension of allowances for economic or legal reasons relating to the financial difficulties of the investee, which otherwise would not have been taken into consideration;
- the announcement or notice of a financial restructuring plan or the existence of a high probability that the investee may announce restructuring operations or may be declared bankrupt;

- the disappearance of an active market relating to the investment held due to the financial difficulties of the investee;
- significant changes that adversely affect the investment in the technological, market, economic or legal environment in which the investee operates;
- a significant or prolonged decrease in fair value below its cost. The Group considers a decrease in fair value of more than 30% below the purchase cost to be a significant decrease. The Group considers a continuous decrease in fair value for an uninterrupted period of more than 24 months to be a prolonged decrease.

If there is evidence that the value of an investment may be impaired, the recoverable value of the investment is estimated, which is the higher of the fair value, net of costs to sell, and the value in use. The value in use is calculated by discounting the future cash flows that the investment could generate, including the final disposal value of the investment. An impairment loss is recognised to the income statement if the book value, including goodwill, is lower than the recoverable value. If the reasons for an impairment loss are no longer valid due to an event occurring after the impairment was recognised, write-backs are recognised in the income statement, up to the amount of the impairment previously recognised.

Derecognition criteria

Interests in associates and joint ventures are derecognised when there is a disposal in which all of the associated risks and rewards have been substantially transferred.
If there is a situation resulting in the loss of significant influence or joint control, any remaining interest in associates and joint ventures is reclassified to the portfolios of financial assets set out in IFRS 9, normally that of "Financial assets measured at fair value through other comprehensive income", on the basis of the relative fair value. Derecognition from the item "Interests in associates and joint ventures" may also take place if there are circumstances causing control to be obtained ("step acquisitions"). For more information please refer to paragraph 16 below entitled "Other information, Business combinations, goodwill and changes in interest holdings".

6- Property, plant and equipment

Classification criteria

Property, plant and equipment items include land, operating property, real estate investments, works of art, technical plants, furniture, fittings and equipment of any type that is planned to be used for a timeframe of more than one year. More specifically:

- assets held for use in the production or supply of goods and services are classified as "property, plant and equipment used in operations" and recognised in accordance with IAS 16;
- property held for rental to third parties or for capital appreciation through sale is classified as "property, plant and equipment held for investment" and follows the rules set out in IAS 40;
- property held to enhance the value of the investment through renovation or requalification for its subsequent sale is classified as inventories and follows the rules of IAS 2.

Also recognised in this item are rights of use (ROU) of property, plant and equipment acquired with lease contracts, as lessee, irrespective of the legal classification of the same (Right of Use).

The item includes finally the improvement and incremental costs on third party assets; these are costs to renovate rented property, incurred to render them suitable for their intended use. More specifically, improvement costs that represent identifiable and separable property, plant and equipment items, are classified in the specific category to which they refer (e.g. technical plant, equipment). Otherwise, improvement costs that are not identifiable and separable from the property, such as walls, are booked as an increase in rights of use, recognised on the basis of the provisions of IFRS 16.

Recognition criteria

Property, plant and equipment items are initially carried at cost, which includes the purchase price and all accessory charges directly attributable to the acquisition of the asset and bringing it to working conditions.

Extraordinary maintenance costs which entail an increase in future economic benefits are included in the asset's book value, while other ordinary maintenance costs are charged to the income statement.

For property posted under property, plant and equipment held for investment purposes, following the closure of the original credit position (known as "*datio in solutum*" - transfer in lieu of payment) the initial recognition value is equal to the fair value, taken from a specific appraisal.
The difference between the initial recognition value of the property and the book value of the previous credit exposure, subject to derecognition, is recognised under "Net credit impairment losses/recoveries" up to the amount of the gross receivable existing at the date of recognition. Taking account of the criterion of fair value measurement of real estate investments, as described below, in the situation where the fair value on initial recognition exceeds the value of the gross receivable, the excess value is recognised to the income statement under "Fair value gains (losses) on property, plant and equipment and intangible assets".
Where, at the time of finalising the transaction, the competent corporate bodies have made the decision to sell the property within a short time, the book value of the property shall be equal to its "immediate sale value", also deriving from a specific appraisal, unless negotiations are under way that give rise to the assumption of a higher recoverable amount.
In any event, if, on the date of recognition of the property, concrete negotiations for sale are under way, demonstrated by commitments undertaken by the interested parties and resolved by the competent corporate bodies, the initial recognition value must take account of the exit price resolved, net of any costs to sell, where it is lower than the "fair value" deriving from the appraisal.

For property, plant and equipment represented by rights of use, the initial recognition value is equal to the sum of the lease liability (present value of the future instalments to be paid for the contractual term), the lease payments made before or at the date from which the lease runs, the initial direct costs and any costs estimated for dismantling or reinstatement of the asset underlying the lease.

Income item measurement and recognition criteria

Subsequent to initial recognition, property, plant and equipment in ownership or acquired through rights of use are carried at cost, less any depreciation and impairment, excluding:

- property used in operations and valuable works of art, for which the Group has adopted the option permitted by IAS 16, to measure them using the revaluation model;
- real estate investments, for which the Group has adopted the option permitted by IAS 40, to measure them based on their fair value;
- property, plant and equipment that fall within the regulation of IAS 2, which are measured at the lower of the cost and net realisable value, which is the estimated sale price less estimated completion costs and other costs necessary to make the sale.

Property, plant and equipment used in operations: subsequent measurement

<u>Depreciation</u>

Property, plant and equipment used in operations are systematically depreciated throughout their estimated useful life, using the straight-line method, with the exception of:

- land, whether purchased separately or as part of the value of the buildings standing on it, as considered to have an unlimited life;
- works of art, considering that the useful life of a masterpiece cannot be estimated and its value normally is destined to increase with time.

The depreciation charge must be able to reflect the wear and tear on the assets over time as a result of their use, considering extraordinary maintenance costs which could result in an increase in the value of the assets.
The depreciable value is represented by the cost of the asset - for assets measured at cost - or the revalued amount - for assets measured based on the revaluation method - net of the residual value at the end of the depreciation process, where deemed significant.

With regard to improvements to third party assets, represented by identifiable and separable property, plant and equipment, depreciation is determined according to the useful life of said assets, as illustrated above. Otherwise, for improvements that are not identifiable and separable from the leased property, the depreciation is calculated according to the shortest period between that in which the improvements and the additional expenses can be used and the residual duration of the lease contract, including the renewal period, if there is evidence in this regard.

Write-downs due to impairment
For assets measured at cost, at each annual or interim reporting date, if there is any indication that an asset may be impaired, the asset's book value is compared with its recoverable amount, that is, equal to the higher of the asset's fair value, net of costs to sell, and its value in use, understood as the present value of future cash flows originated by the asset. Any adjustments are recognised in the income statement under "Depreciation and impairment losses on property, plant and equipment". Whenever the reasons for the impairment loss are no longer valid, recoveries are recognised in the same item, which must not exceed the asset's value had no impairment taken place in the past, net of accrued depreciation.

Owned property used in operations and valuable works of art: revaluation model
For owned real estate assets used in operations and valuable works of art, the Group has adopted the revaluation method as the criterion for measurement.
Based on said method the assets shall be recognised at a revalued amount, equal to their fair value at the revaluation date, net of depreciation and any cumulative impairment losses. Based on that method:

- if the book value of the asset increases following revaluation (i.e. there is a positive difference between the revalued amount and the book value of the asset prior to revaluation), the increase must be recognised in a specific "valuation reserve" (subject to recognition in the statement of other components of comprehensive income without reclassification to the income statement), unless this is a recovery of a write-down previously recorded to the income statement. In this latter case, the increase must be recognised as income to the income statement up to the amount of the previous write-downs, and only any remaining amount is included in a valuation reserve;
- if the book value of an asset has decreased following the revaluation (i.e. there is a negative difference between the revalued amount and the book value of the asset prior to revaluation), the decrease in value must be recorded as a balancing entry:
  - to the income statement as a cost, lacking pre-existing valuation reserves on the asset ("Fair value gains (losses) on property, plant and equipment and intangible assets");
  - to shareholders' equity up to the amount of the credit balance of the revaluation reserve for those assets, and the excess to the income statement, as the revaluation of negative valuation reserves is not permitted.

Real estate investments: fair value method

For real estate investments, falling within the scope of application of IAS 40, the Group adopts fair value measurement. Based on this method, following initial recognition, all real estate investments are measured at fair value. Consequently, the above-mentioned real estate is not depreciated nor impairment tested.

Based on the fair value method:

- increases in fair value must be recognised in the income statement, as income ("Fair value gains (losses) on property, plant and equipment and intangible assets");
- decreases in fair value must be recognised in the income statement, as charges ("Fair value gains (losses) on property, plant and equipment and intangible assets").

In the event of sale, the difference between the consideration for the sale and the book value must be recognised in the income statement, as "Gains (losses) on disposal of investments".

For the methods of determining the fair value and the frequency of revaluation of real estate assets and valuable works of art, please refer to the criteria illustrated in the subsequent "Part A.4 – Fair value disclosure".

Derecognition criteria

Property, plant and equipment are derecognised from the balance sheet at the time of disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal.

Capital gains and losses deriving from the liquidation or disposal of property, plant and equipment are calculated as the difference between the net sale consideration and the book value of the asset and are recognised as a balancing entry to:

- the income statement: for assets used in operations measured at cost and for real estate investments (item "Gains (losses) on disposal of investments");
- shareholders' equity: for assets used in operations measured based on the revaluation method. The revaluations of real estate credited to the valuation reserves of shareholders' equity may be transferred to other shareholders' equity reserves (Other profit reserves), where the property is derecognised. Therefore, in the event of sale of the property, the valuation reserves are transferred to another item of shareholders' equity (from "valuation reserves" to "other reserves"), without, however, the possibility of transiting through the income statement.

The rights of use acquired through leases are eliminated from the balance sheet at the end of the term of the lease contract.

7- Intangible assets

Classification criteria

Intangible assets are non-monetary, identifiable and non-physical assets originating from legal or contractual rights, owned to be used on a long-term basis, which are likely to generate future economic benefits, and whose cost can be reliably measured.
Intangible assets also include software, intangible assets linked to the valuation of client relationships or the valuation of trademarks recognised at the time of business combinations, and goodwill, corresponding to the difference between the price paid for a business combination and the fair value of the net identifiable assets purchased, as illustrated in greater detail in paragraph "16 – Other information, Business combinations, goodwill and changes in interest holdings."

Recognition criteria

Intangible assets are carried at cost, adjusted to account for accessory charges, only if it is likely that the future economic benefits attributable to the asset will be realised, and if the cost of the asset can be reliably determined. Otherwise, the cost of the intangible asset is recognised in the income statement during the year it was incurred.

Income item measurement and recognition criteria

After initial recognition, intangible assets with finite useful life are recognised at cost, net of total amortisation and any impairment identified.
The cost of intangible assets with a finite useful life is amortised on a straight-line basis over their relative useful life, with the exception of assets represented by Client Relationships. For the latter, which represent the ability of relationships, on the date of the business combination, to generate income flows for their expected residual life, amortisation is calculated on the basis of the unwinding curve of the cited relationships, which is usually decreasing. The amortisation process starts when the asset is available for use, and ceases from the moment the asset is derecognised.

Intangible assets with an indefinite useful life, such as goodwill and trademarks, are recognised at cost, net of any impairment identified.
No amortisation is carried out for these assets, only periodic assessments of the adequacy of the book value.

At each annual or interim reporting date, if there is evidence of impairment, the asset's recoverable amount is estimated. The amount of the loss, recognised in the income statement, is equal to the difference between the asset's book value and recoverable value.

Goodwill is not amortised, but must be regularly tested for impairment to verify the adequacy of its book value. Specifically, goodwill must be tested any time there is evidence of impairment, and in any case at least once a year. To this end, the cash-generating unit to which the goodwill is allocated is identified. This unit represents the lowest level at which goodwill is monitored for internal management purposes and should not be larger than the operating segment determined in compliance with IFRS 8.

The amount of any impairment is determined based on the difference between the book value of the goodwill and its recoverable amount, if lower. Said recoverable amount is equal to the higher of the fair value of the cash-generating unit, net of costs to sell, and its value in use. The value in use is the present value of future cash flows expected from cash-generating units to which goodwill was allocated. The resulting adjustments are charged to the income statement.
No subsequent recoveries can be recognised.

Derecognition criteria

Intangible assets are derecognised from the balance sheet at the time of disposal or when no future economic benefits are expected from it.

8 - Non-current assets and disposal groups held for sale

Classification criteria

Non-current assets/liabilities and disposal groups are classified under the asset item "Non-current assets and disposal groups held for sale" - and under the liability item "Liabilities associated with assets classified as held for sale" - whose book value will presumably be recovered through sale rather than continuous use.
In order to be classified under the above items, the assets or liabilities (or disposal group) must be immediately available for sale, and there must be active and concrete programmes which show that their disposal within one year with respect to the date of classification as assets held for sale is highly probable.

Income item measurement and recognition criteria

After they are classified in the above-mentioned category, these assets are measured at the lower of the book value and their fair value, net of costs to sell, with the exception of certain types of assets - such as all financial instruments falling within the scope of IFRS 9 - for which the standard IFRS 5 states that valuation criteria of the reference accounting standard must continue to be applied.
If the non-current assets held for sale can be amortised/depreciated, the amortisation/depreciation process ceases from the year the assets are classified under non-current assets held for sale.
Expenses and income attributable to assets and liabilities and disposal groups held for sale, if they are attributable to discontinued operations under the terms of IFRS 5, are recognised in the income statement, net of taxes, under item "320. Profit (loss) after tax from discontinued operations" while those relating to individual non-current assets held for sale are recorded under the most appropriate income statement item.
Discontinued operations shall mean a significant, autonomous unit or geographical area of business, including one that is part of a single coordinated disposal programme, rather than a subsidiary acquired exclusively with a view to its re-sale.

Derecognition criteria

Non-current assets and disposal groups held for sale are derecognised from the balance sheet upon disposal.

9- Current and deferred taxation

These items include current and deferred tax assets, and current and deferred tax liabilities relating to income taxes.
Income taxes, calculated in compliance with current tax regulations, are accounted for based on the accrual principle, consistent with the recognition of the costs and revenues that generated the taxes in the financial statements. Therefore, this represents the tax charge, equal to the balance of current taxes and deferred tax assets and liabilities, relating to the income for the year. Income taxes are charged to the income statement (item "300. Taxes on income from continuing operations") with the exception of those relating to items charged or credited

directly to shareholders' equity, as they as well are consistently recognised directly through shareholders' equity (namely in item "120. Valuation reserves").

In particular, current tax liabilities (assets) for the current and previous years reflect the amount of income taxes that are expected to be paid (recovered) to/from the tax authorities, based on a prudent estimate, applying the tax rates and tax regulations in force at the reporting date (interim reporting). Current tax assets and liabilities are shown as a net balance in the balance sheet, in case the settlement is executed based on the net balance, owing to the existence of a legal right to offsetting.

Deferred tax assets and liabilities are calculated based on temporary differences arising between the tax values of the individual assets and liabilities and their book values, without any time limits.
Deferred tax assets are recognised in the financial statements or the interim reports when it is probable that they can be recovered, which is assessed based on the ability of the company concerned and of the Group, as a result of the "tax consolidation" scheme, to continue to generate positive taxable income in future financial years, also taking account of the tax provisions in force at all times, such as Law no. 214/2011, which permits the conversion of certain deferred tax assets that meet specific conditions, into credits. Deferred tax liabilities are recognised in the financial statements or interim reports, with the sole exceptions of assets recognised in the financial statements at an amount higher than the value recognised for tax purposes and of reserves subject to tax on distribution, where it is reasonable to believe that no operations will be performed deliberately that would trigger taxation.
Recognised deferred tax assets and liabilities are systematically measured to account for any changes in regulations or tax rates, as well as for any changes in the subjective positions of the Group companies.

10- Provisions for risks and charges

Classification criteria

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

Provisions for risks and charges: post-employment benefits and similar obligations
As explained in the paragraph below "16 - Other information, Provisions for employee severance pay and other employee benefits", the sub-item "Post-employment benefits and similar obligations" includes defined-benefit plans, namely pension funds backed by a capital repayment and/or return guarantee in favour of beneficiaries. Benefits to be paid in the future are measured by an external actuary, using the "projected unit credit method", as required by IAS 19.
Actuarial gains and losses, defined as the difference between the book value of the liability and the present value of the commitments at the end of the period, are accounted for in full directly to shareholders' equity under the item "Valuation reserves".

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

Income item recognition and measurement criteria

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

- there is a current obligation (legal or implicit) as a result of a past event;
- it is likely that an outflow of resources will be required to produce economic benefits to settle the obligation;
- the amount of the probable future outflow can be reliably estimated.

The amount of the provision recognised represents the best estimate of the financial outlay required to meet the obligation existing at the reporting date and reflects the risks and uncertainties inherent in the facts and circumstances under examination. Whenever the time factor is significant, provisions are discounted using current market rates. The provision and the effect of discounting are recognised in the income statement in item "200. Net provisions for risks and charges", as is the increase in provisions as a result of the passing of time.
The provisions allocated are re-examined at each date of the financial statements and adjusted to reflect the best current estimate. When the outflow of resources to produce economic benefits to settle the obligation is unlikely, the allocation is reversed.
In addition, each provision must be used to pay for outlays for which the provision itself had been originally set aside.
If the outlay of the financial resources to meet the obligation is not considered likely, no provision needs to be recognised; in this case, adequate information must be provided in the notes on the possible risk of losing, unless the likelihood of using the resources is considered remote or the phenomenon is not relevant.

11 – Financial liabilities at amortised cost

Classification criteria

"Financial liabilities at amortised cost" include the sub-items "Due to banks", "Due to customers" and "Debt securities in issue" and consist of various forms of interbank and customer loans and funding carried out through certificates of deposit and bonds outstanding.
These also include loans recorded by lessees as part of leases, as well as funding repurchase agreements and securities lent against collateral in cash, to which the lender has full access. Also included are operating payables connected with the provision of financial services as defined in the Consolidated Banking Law and in the Consolidated Finance Law.

Recognition criteria

These liabilities are initially recognised when the amounts collected are received or the debt securities are issued and are carried out on the basis of their fair value, which is generally equal to the amount received or the issue price, increased by any additional costs/income directly attributable to the individual funding or issue transaction and not paid back by the lending counterparty. Internal administrative costs are excluded.
Repurchase agreements with the obligation to repurchase are recognised as funding transactions for the spot amount paid.
Lease payables are recognised on the basis of the present value of future instalments to be paid for the duration of the contract discounted on the basis of the implicit interest rate of the transaction or, if this cannot be determined, the marginal financing interest rate.

Income item measurement and recognition criteria

Subsequent to initial recognition, the financial liabilities that emerged, net of any redemptions and/or repurchase, are measured at amortised cost, using the effective interest rate method. Short-term liabilities are an exception, if the time factor is immaterial. These are stated at their received value, and any incurred costs are charged to the income statement on a straight-line basis over the contractual life of the liability. Moreover, funding instruments under an effective hedge are measured based on the standards established for hedging transactions.

For structured instruments that incorporate an embedded derivative - in accordance with IFRS 9 and illustrated in the previous item "Financial assets held for trading" - the embedded derivative is separated out from the host contract. In that instance:

- the embedded derivative is classified as an asset or liability held for trading and is measured at fair value;
- the host contract is classified under financial liabilities at amortised cost.

Lease payables must be redetermined in the event of modification of the payments due (lease modification); the impact of the redetermination will be recorded as a balancing entry to the right-of-use asset.

Derecognition criteria

Financial liabilities are derecognised from the financial statements or interim reports when expired or cancelled. Derecognition also takes place in the event of repurchases of securities issued. The difference between the book value of liabilities and the purchase price paid is recorded in the income statement. The subsequent placement of own securities following their repurchase is accounted for as a new issue, recognised at the new placement price, with no effects on the income statement.

12- Financial liabilities held for trading

Classification criteria

The item in question includes:

- financial liabilities issued with the intention of repurchasing them in the short term;
- financial liabilities that are part of a portfolio of financial instruments that are jointly managed and for which there is a proven strategy for short-term profit;
- derivative contracts with a negative fair value and not designated as hedging instruments, including those linked to assets or liabilities designated at fair value through profit and loss and embedded derivatives separated out from financial liabilities at amortised cost.

These also include liabilities arising from technical overdrafts generated by trading in securities and certain own certificate issues, managed within an overall portfolio of trading financial instruments.
For more information on certificates classified under this item, please refer to paragraph 16 below entitled "Other information, Financial liabilities designated at fair value".

Recognition criteria

Financial liabilities held for trading are initially recognised on the settlement date in case of cash liabilities and on the subscription date for derivative contracts.
Initial recognition is based on the fair value of liabilities, that generally corresponds to the collected amount, excluding transaction costs or income directly associated with the instruments, which are directly charged to the income statement.
Please refer to "Part A.4 – Fair value disclosure" for details on how fair value is determined.

Income item measurement and recognition criteria

Financial liabilities held for trading are measured at current fair value, with recognition of the result in the income statement.
Gains and losses from changes in fair value and/or from the sale of trading instruments are recognised in the income statement. For derivative instruments, if the fair value of a financial liability becomes positive, that item is accounted for in item "Financial assets at fair value through profit and loss: a) financial assets held for trading".
Trading profits or losses and gains or losses as a result of the valuation of the trading book are recognised in the income statement in the item "80. Net trading income".

Derecognition criteria

Financial liabilities held for trading are derecognised when the contractual rights to the relative cash flows expire or when the financial liabilities are sold, with the substantial transfer of all risks and rewards arising from their ownership.

13 - Financial liabilities designated at fair value

Classification criteria

On initial recognition, financial liabilities are designated at fair value through profit and loss only if the following circumstances exist:

- this valuation eliminates or considerably reduces the inconsistency in valuation, that would otherwise be caused by measuring assets or liabilities or recognising the associated gains and losses on different bases (accounting mismatch);
- a group of financial assets, financial liabilities, or both is managed and its performance measured at fair value according to a documented risk management or investment strategy, documented internally by executives with strategic responsibilities;
- these are hybrid contracts containing one or more embedded derivatives, and the embedded derivative significantly changes the cash flows that would otherwise be expected from the contract.

The option to designate a liability at fair value is irrevocable, is made for the individual financial instrument and does not require the same application to all instruments with similar characteristics. However, it is not possible to designate at fair value only one part of a financial instrument attributable to a single risk component to which the instrument is subject.
The item in question includes certain bonds issued by the Group and certain issues of certificates not managed for trading purposes.
For more details on the scope of Group liabilities under the fair value option and the method used to determine fair value and quantify its credit risk, please refer to paragraph "13 – Other information, Financial liabilities designated at fair value", and the subsequent "Part A.4 - Fair value disclosure".

Recognition criteria

The financial liabilities in question are measured at fair value from initial recognition. Initial income and expenses are immediately charged to the income statement.

Income item measurement and recognition criteria

Subsequent to initial recognition, financial liabilities are measured at their current fair value. The change in fair value is recognised in the income statement, with the exception of the effects resulting from changes in own credit risk, which are recognised in a specific valuation reserve (item "120. Valuation reserves"), unless this treatment creates or amplifies a mismatch in the profit (loss). An accounting mismatch is created or amplified when the recognition of the effects of own credit risk in an equity reserve is such so as to entail a more significant disharmony in the income statement than that which would arise from recognising the entire change in fair value of the liability in the income statement. In this last case, the entire change in fair value of the liability, including the effect of the change in own credit risk, must be recognised in the income statement.
The effects correlated with the change in own credit risk are presented in the statement of comprehensive income, net of the related taxes, under other comprehensive income without reclassification to the income statement.
The amount recognised in the specific shareholders' equity reserve (item "120. Valuation reserves") will never be reversed in the income statement, even if the liability should have expired or been extinguished. In this instance, it will be necessary to reclassify the cumulative gain (loss) in the specific valuation reserve to another item of shareholders' equity ("150. Reserves").

Derecognition criteria

Financial liabilities are derecognised from the financial statements or interim reports when expired or cancelled. For financial liabilities represented by securities issued, derecognition is carried out also in case of repurchase: the difference between the book value of the liability and the purchase price is recorded in the income statement, with the exception of profits/losses connected to the change in own credit risk, which are recorded in a shareholders' equity reserve, as described above. The subsequent placement of own securities following their repurchase is considered, for accounting purposes, as a new issue, recognised at the new placement price, with no effects on the income statement.

14 - Foreign currency transactions

Classification criteria

Assets and liabilities in foreign currency include those denominated explicitly in a currency other than the euro as well as those which envisage financial indexing clauses linked to the exchange rate between the euro and a specific currency or a specific basket of currencies.

To determine the conversion procedures to be used, assets and liabilities in foreign currency are broken down between monetary and non-monetary items.

Monetary elements consist of sums in cash and assets and liabilities expressing the right to receive or the obligation to pay fixed or determinable amounts in cash (receivables, debt securities, financial liabilities). Non-monetary elements (such as equity instruments) are assets or liabilities that do not contemplate the right to receive or the obligation to pay fixed or determinable amounts in cash.

Recognition criteria

Upon initial recognition, foreign currency transactions are recorded in the functional currency, and the exchange rate applied to the amount expressed in foreign currency is the one in effect at the date of the transaction.

Income item measurement and recognition criteria

At each annual or interim reporting date, items expressed in foreign currencies are measured as follows:

- cash items are translated at the exchange rate in effect at the closing date;
- non-cash items carried at their historical cost are translated at the exchange rate in effect at the transaction date;
- non-cash items measured at fair value are translated at the exchange rate in effect at the closing date.

Exchange rate differences originated by the settlement of cash items, or by the translation of cash items at rates other than the initial ones, or by the conversion of the previous financial statements, are charged to the income statement at the time they arise.

When a gain or loss from a non-cash item is carried at equity, the relevant exchange rate difference is also carried at equity. Conversely, when a gain or loss on a non-monetary element is recognised in the income statement, the associated exchange rate difference is also recognised in the income statement.

For information about the conversion of the financial statements of foreign subsidiaries that use a currency other than the reference currency of the Parent Company (euro), please refer to section "Scope of consolidation and methods", contained in "A.1 - General part".

15 - Insurance assets and liabilities

No insurance companies are included in the scope of consolidation.

16- Other information

a) Contents of other financial statement items

Cash and cash equivalents

This item includes legal tender, including foreign banknotes and coins and demand deposits with the Central Bank of the country or countries where the Group operates through its companies or branches, with the exception of the minimum reserve.
The item is recognised at face value. The face value of foreign currencies is translated into Euro at the closing exchange rate at the period-end date.

Fair value change of financial assets and financial liabilities in macro fair value hedge portfolios

These items include, respectively, changes in financial assets or liabilities subject to macro hedging of interest rate risk, based on the respective balance, whether positive or negative.

Other assets

This item includes assets not attributable to the other balance sheet asset items. For example, this item may contain:
- gold, silver and precious metals;
- accrued income other than that capitalised on the related financial assets, including those deriving from contracts with customers pursuant to the IFRS 15 standard;
- receivables associated with providing non-financial goods or services;
- payable tax items other than those recognised in "110. Tax assets".

These may also include any remainders (of the "debtor's balance") of items in transit or suspended not attributed to the specific accounts, because they are of immaterial amounts.

Other liabilities

This item records liabilities not attributable to the other balance sheet liability items.
For example, this item contains:
- payment agreements that under IFRS 2 must be classified as payables;
- payables associated with the payment of non-financial goods or services received;
- accrued liabilities other than those to be capitalised on the related financial liabilities, including those deriving from contracts with customers pursuant to the IFRS 15 standard;
- sundry receivable tax items other than those recognised in "60. Tax liabilities" connected, for example, to withholding agent activities.

Provisions for employee severance pay and other employee benefits

Pursuant to IAS 19, employee benefits include all types of remuneration envisaged in exchange for the work performed by employees or by virtue of the termination of the employment relationship. Specifically, these are divided into:
- short-term benefits (other than those for termination of the employment relationship) which are expected to be settled within 12 months from the end of the financial year in which the employees rendered their services;
- post-employment benefits such as, for example, employee severance pay and pension funds;
- benefits for the termination of employment due to employees following the company's decision to end the employment prior to the date of retirement;
- long-term benefits (other than those for termination of the employment relationship) which are expected to be settled over a time frame of more than 12 months from the end of the financial year in which the employees rendered their services.

Types of post-employment benefits
The benefits in question include Provisions for employee severance pay and Pension funds, and are classified into two categories, "defined benefit plans" and "defined contribution plans" on the basis of the characteristics of the plans.
More specifically, in defined contribution plans, the cost is represented by contributions accrued during the year, since the company only has the obligation to pay the contributions defined by contract to a fund, and has therefore no legal or implicit obligation to pay other amounts in addition to said contributions in the event that the fund does not have sufficient assets to pay all the benefits to employees.
In defined benefit plans, the actuarial and investment risk, namely the risk that contributions are insufficient or that the assets in which contributions are invested do not generate a sufficient return, is borne by the company.
With regard to Provisions for employee severance pay, following the supplementary pension reform, under Italian Legislative Decree no. 252 of 5 December 2005, new regulations were introduced for provisions for employee severance pay accrued beginning from 1 January 2007, recognised for accounting purposes. In particular, for companies which had at least 50 employees in 2006, from an accounting perspective, the portion of provisions for employee severance pay accrued from 1 January 2007 is considered a "defined contribution plan"; the charge is, in fact, limited to the benefits established under the Italian Civil Code, without applying any actuarial methodology. Otherwise, the provisions for employee severance pay accrued up to 31 December 2006 will continue to be accounted for as a "defined benefit plan".

Valuation of post-employment benefits represented by defined benefit plans
For defined benefit plans
the liability is calculated by an external actuary using the "Projected Unit Credit Method". On the basis of the cited method, all future disbursements have to be estimated on the basis of demographic and financial assumptions, and are then discounted to take into account the time that will pass before the actual payment, and to be re-proportioned on the basis of the ratio of the years of service accrued and the theoretical seniority estimated at the time the benefit is disbursed. The actuarial value of the liability calculated in this way must then be adjusted by the fair value of any assets underlying the plan (net liabilities/assets).
The actuarial gains and losses that originate from changes in the previous actuarial assumptions, as a result of the actual experience or as a result of changes to the actuarial assumptions themselves, lead to the re-measurement of the net liability and are recognised as a balancing entry to a shareholders' equity reserve. Said gains and losses are recorded in the "Statement of comprehensive income".
The change in the liability resulting from an amendment or a reduction in the plan is recognised in the income statement as a gain or loss. In detail, an amendment is made when a new plan is introduced, rather than if an existing plan is withdrawn or amended. On the other hand, there is a reduction when there is a significant decrease in the number of employees included in the plan, such as in the case of plans for reduction of redundant personnel (access to the Solidarity Fund).

Valuation of long-term benefits
The "Projected Unit Credit Method" described above, is also used to measure long-term benefits, such as "seniority bonuses" awarded to employees. Unlike that described for "defined benefit plans", actuarial gains and losses relating to the measurement of long-term benefits are recognised immediately in the income statement.

Valuation reserves

This item includes valuation reserves associated with equity instruments designated at fair value through other comprehensive income, financial assets (other than equity instruments) at fair value through other comprehensive income, foreign investment hedges, cash flow hedges and exchange rate differences, as well as individual assets and disposal groups held for sale, the share of valuation reserves related to interests in associates and joint ventures carried at equity, actuarial gains (losses) on defined benefit plans and profit/loss connected to the change in own credit risk relating to fair value option liabilities. It also includes the revaluation reserves recognised in compliance with special revaluation regulations, also if subject to "tax exemption".

Equity instruments

Equity instruments are instruments representing a residual interest in the assets of the Group, net of its liabilities. The classification of an instrument that can be classified as an equity instrument requires that there be no contractual obligations to make payments in the form of reimbursement of principal, interest or other types of returns.

Those instruments, different from ordinary shares or savings shares, are classified under item "140. Equity instruments" for an amount equal to the price collected for their issue, less the transaction costs that are directly attributable to the transaction, after taxes.
Any coupons paid, after taxes, are posted as a reduction of item "150. Reserves", if and for the amount at which they were paid.
If such instruments are extinguished or repurchased, the difference between the price paid and the book value of such equity instruments is recognised in shareholders' equity under item "150. Reserves".

Share capital and own shares

Share capital includes shares issued by the bank net of any capital already subscribed but not yet paid up at the annual or interim reporting date. This item includes any own shares held by Group companies. The latter are recognised in the financial statements in their own item as a negative component of shareholders' equity.
The original cost of repurchased own shares and the gains or losses originated by their subsequent sale are recognised as changes to shareholders' equity.
Transaction costs relating to operations on share capital, such as share capital increases, are recorded as a decrease in shareholders' equity, net of any related tax benefits.
Dividends on ordinary shares are recognised as a reduction in shareholders' equity in the year in which the Shareholders' meeting approves their distribution. Any advances on dividends disbursed to shareholders are recognised in the balance sheet liability item "Advances on dividends" with a negative sign.

Non-controlling interests

This item shows the portion of consolidated shareholders' equity attributable to non-controlling interests, calculated based on "equity ratios". The amount is calculated net of any own shares repurchased by consolidated companies.

b) Illustration of other significant accounting treatments

Dividends and revenue and cost recognition

Revenue from contracts with customers (IFRS 15)

Revenue is the gross inflow of economic benefits that flow to the entity as payment for its obligation to transfer to the customer a wide range of goods and services that are part of ordinary activities.
Pursuant to IFRS 15, the entity must recognise revenues on the basis of the fee that it expects to receive for the assets or the services provided in the ordinary course of business. In detail, the recognition of revenues must take place on the basis of the following five steps:

- identify the contract, defined as an agreement with commercial substance between two or more parties able to generate rights and obligations;
- identify the performance obligations in the contract;
- determine the transaction price, namely the amount to which an entity expects to be entitled in exchange for the transfer of goods and services;
- allocate the transaction price to each performance obligation on the basis of the stand-alone selling price;
- recognise the revenues allocated to the single performance obligation when the same is satisfied, namely when the customer obtains control of the goods or the services. This recognition takes into account the fact that some services may be rendered at a specific point in time or over a period of time.

Revenues from contractual obligations with customers are recognised in profit or loss when it is probable that the entity will receive the payment to which it is entitled in exchange for the goods or services transferred to the customer. This payment must be allocated to the single obligations covered by the contract and must be recognised as revenue in the income statement based on the timing of fulfilment of the obligation. Specifically, revenue may be recognised in the income statement:

- at a particular point in time, when the entity settles its performance obligation by transferring the promised good or service to the customer, or
- over time, as the entity settles its performance obligation by transferring the promised good or service to the customer.

The performance obligation is considered fulfilled when the customer acquires control of the transferred good or service.
The consideration promised in the contract with the customer may include fixed amounts, variable amounts or both. Specifically, the consideration for the contract may vary as a result of redemptions, discounts, refunds, incentives, performance bonuses or similar items. The variability of the consideration may also depend on whether or not a future event occurs. In the presence of variable consideration, the revenue is recorded in the income statement when it is possible to estimate the revenue reliably and only if it is highly probable that this amount will not subsequently have to be reversed in the income statement, in whole or in a significant part.
If the entity receives a payment from the customer that it expects to refund to the customer, in whole or in part, against the revenue recognised in the income statement, a liability should be recognised, estimated on the basis of expected future refunds (known as a "refund liability"). The estimate of this liability is updated at each annual or interim reporting date and is carried out based on the portion of the amount that the entity expects not to be entitled to.

Costs

Costs associated with obtaining and fulfilling contracts with customers are recognised in the income statement in the periods in which the corresponding revenues are accounted for. Costs that are not directly associated with revenues are immediately charged to the income statement.

Revenues and costs related to financial instruments

With reference to income and charges relating to financial assets/liabilities, it should be noted that:

- interest is recognised *pro-rata temporis* on the basis of the contractual interest rate or the effective interest rate if the amortised cost method is used. In the latter case, any marginal costs and incomes, considered an integral part of the return of the financial instrument, are calculated in the effective interest rate and recognised as interest. The item interest income (or interest expense) also includes the positive (or negative) spreads or margins accrued until the reporting date, relating to financial derivative contracts:
  - hedging financial assets and liabilities that generate interest;
  - classified in the balance sheet in the trading book, but operationally connected with financial assets and/or liabilities designated at fair value (Fair Value Option) that generate interest;
  - operationally connected with assets and liabilities classified in the trading book and which envisage the settlement of spreads or margins at multiple maturities;
- default interest, if provided for by contract, is recorded in the income statement only when actually collected;
- dividends are recognised in the income statement when the legal right to collect them ensues, and, therefore, when their distribution is resolved and the right to receive the relative payment matures;
- profits and losses from initial recognition of the fair value of financial instruments are recognised in the income statement at the time of recognition of the transaction, based on the difference between the price paid or collected and the fair value of the instrument, only when the fair value can be determined by referring to current observable market transactions or using valuation techniques the inputs of which are observable market parameters. Otherwise, these profits and losses are distributed over time, taking the nature and the term of the instrument into account;
- gains and losses deriving from the sale of financial instruments are recognised in the income statement when the sale is completed, with the relative transfer of the risks and rewards, based on the difference between the amount received and the book value of the instruments.

Share-Based Payments

Share-based payments are payments made to employees, as a consideration for work performed, settled with equity-linked instruments, which may, for example, consist of the assignment of:

- stock options;
- rights to receive shares when specific targets are reached.

For accounting purposes, in accordance with IFRS 2, payments based on own shares are configured as equity-settled plans, to be recorded on the basis of the fair value of the services received.

Considering how difficult it is to directly estimate the fair value of work received in exchange for the assignment of shares, it is possible to indirectly measure the value of services received, by referring to the fair value of the equity-linked instruments at their assignment date.
Employee incentive plans based on own shares are therefore recorded in the income statement (item "190. a) Personnel expenses") as a balancing entry to a corresponding increase in shareholders' equity (item "150. Reserves"), on the basis of the fair value of the financial instruments assigned at the assignment date and on the basis of the accrual basis of the service provided.
In detail, when assigned shares cannot be immediately "used" by the employee but can be used when the employee has completed a given term of service, the company shall pay the cost as a consideration for the service provided throughout the vesting period.
For subsidiaries, incentive plans based on the Parent Company's shares, and not on own shares, are cash settled plans. In accordance with IFRS 2, in the respective company financial statements, the cost pertaining to the period is therefore recorded among personnel expenses, as a balancing entry to an increase in the liability item "Provisions for risks and charges". In the context of the consolidated financial statements, these plans, as they are settled through shares of the Parent Company, are instead represented as equity-settled plans on the basis of the treatment described above.

Repurchase agreements, securities lending and forward agreements

Repurchase or forward agreements whereby the Group sells securities to third parties with the obligation to repurchase them upon maturity of the transactions at a predetermined price are recognised in payables due to banks or to customers, depending on the counterparty. Likewise, repurchase or forward agreements whereby the Group acquires securities from third parties with the obligation to resell them upon maturity of the transactions at a predetermined price are recognised in loans to banks or to customers (accounting categories of the "Financial assets at amortised cost"), depending on the counterparty. The difference between the spot and forward price of the above-mentioned transactions is recognised as interest (expense or income depending on the case) on an accrual basis throughout the life of the transaction. Securities lending transactions in which the guarantee is represented by cash which is fully available to the lender are recognised in the financial statements like the above-mentioned repurchase agreements.

In the case of securities lending transactions with a guarantee consisting of other securities, or with no guarantee, the lender and the borrower continue to recognise the security subject to the loan and any security provided as a guarantee, respectively, in the balance sheet assets. The remuneration of this transaction is recognised by the lender in item "40. Fee and commission income" and by the borrower in item "50. Fee and commission expense".

Offsetting financial instruments

In accordance with IAS 32, paragraph 42, financial assets and financial liabilities may be offset and the net balance may be reported in the financial statements if the entity:
- has a legally enforceable right to make said offsets, currently exercisable in all circumstances, where they refer to regular business operations or to situations of default, insolvency or bankruptcy of the parties;
- intends either to settle the transactions on a net basis, or to settle the same on a gross basis, the substantial effects of which are equivalent to a settlement on a net basis.

For derivative instruments covered by netting arrangements, which meet the requirements illustrated above, Circular no. 262 envisages that all trading derivatives and all hedging derivatives may be offset. If the imbalance of trading derivatives is the opposite sign of that of the imbalance of all hedging derivatives, said imbalances are to be reported on a net basis: usually, the net balance is allocated to the trading book rather than as hedging derivatives, depending on the prevailing absolute value of the imbalance of trading derivatives compared to that of hedging derivatives.
In accordance with the requirements of accounting standard IFRS 7, further information is provided in the tables contained in Part B - Other information in these notes to the financial statements. In particular, these tables set out:
- the book values of assets and liabilities that meet the requirements set out by IAS 32, paragraph 42, before and after netting in the accounts;
- exposures subject to master netting arrangements that did not give rise to netting, but could activate it as a result of specific circumstances;
- the collateral guarantees connected thereto.

Securitisations - derecognition from financial statements of financial assets transferred

In securitisation transactions put in place by the Group, the transfer of financial assets to an SPE (special purpose entity), even if with recourse entails the derecognition of these assets from the financial statements, only if there is a substantial transfer of the risks and rewards. In the event that the substantial transfer of risks and rewards cannot be verified, the transferred assets are derecognised if the Group relinquishes all control over them. In the event of such circumstances, the difference between the book value of the assets sold and the amount received, including the new assets acquired, is recognised as a gain or loss in the income statement.
Otherwise, there is no derecognition from the financial statements if the Group has maintained the risks and rewards associated with the securitised portfolio, even though it has been sold without recourse, for example via the comprehensive subscription of a tranche of junior securities or securities that bear the risk of the initial losses or through the assumption of similar exposures. Consequently, the transferred receivables must continue to be recognised in the separate financial statements of the originator bank as "Assets sold and not derecognised", while the consideration collected for the transfer is recognised as a balancing entry to the payable owed to the SPE, net of the securities subscribed by the bank in question. In the consolidated financial statements, the main impact of the consolidation of the SPE and of the related assets of the securitisation, if the requirements of control established by IFRS 10 are fulfilled, is that the securities issued by the SPE and subscribed by entities not belonging to the Group are recorded in the consolidated balance sheet.
For further details, see the information reported in these Notes to the financial statements "Part E - Section 1 - C. Securitisation transactions".

Leases

IFRS 16 defines a lease as a contract, or part of a contract, on the basis of which the lessor grants to the lessee the right to use an identified asset (ROU, Right Of Use) for a certain period of time in exchange for a certain consideration. The key elements for defining whether a contract, or part of it, comes under the definition of a lease are the fact that the asset is identified, and that the lessee has the right to control the use of the same and to receive substantially all its economic benefits.

Accounting in the lessee's financial statements

If the Group acts in the capacity of lessee, the IFRS 16 accounting model provides for recognition in the balance sheet of a liability on the basis of the present value of the future instalments to be paid for the contractual term as a balancing entry to the recognition, among the assets, of the right of use of the asset covered by the lease contract.

In detail, the date of initial recognition of the asset and the liability in the company's balance sheet corresponds to the start date of the contract, that is the date on which the asset is made available to the lessee.

At this date the lessee recognises:

- among "Property, plant and equipment", the right-of-use asset, determined by the sum of the following amounts:
  - present value of the future payments (amount of the liability recognised);
  - initial direct costs (such as costs for agents);
  - prepaid lease instalments (maxi-instalment);
  - estimate of any costs for removal and reinstatement, recognised in accordance with IAS 37;
  - net of any lease incentives received from the lessor;
- among "Financial liabilities at amortised cost", the financial liability, equal to the present value of the payments due for the lease. The discounting rate used is equal to the incremental borrowing rate as at the date on which the contract is signed. This rate was identified as that used for managerial purposes which expresses the average cost of Group funding, both secured and unsecured, considering in the time bracket in which the contract expires.

In identifying a lease contract, Banco BPM Group avails itself of the option given by IFRS 16 to not consider "short-term" contracts, that is those expiring at less than 12 months, and "low-value" ones, that is those with a value of the assets when new of less than 5,000 euro. This option may be applied on a contract by contract basis; in this case, the costs of the instalments are recognised directly in the income statement at the moment that they fall due.

With reference to the lease duration, in addition to the period that cannot be cancelled, during which the Group cannot avoid paying charges, extension options were considered if their exercise by the Group was held to be reasonably certain, considering all facts and circumstances. More specifically, with reference to contracts envisaging the faculty of the lessor to renew the lease at the end of the first period, the Group considers the initial term of the rental contract (e.g. 12 years for 6 + 6 year rental contracts) and, once this term has ended, the following first renewal period (e.g. next 6 years), where there is no reasonable evidence that may lead to another renewal period or, vice versa, the end of the contract. In addition, it is assumed that the lease contract is renewed in the subsequent period if in the 18 months before expiry of the first period or of the subsequent renewal the lessee has not given notice to the lessor.

After recognition:

- the right-of-use asset must be measured at cost on the basis of IAS 16 and subject to depreciation and any impairment along the term of the contract or the useful life of the asset;
- the liability is measured at amortised cost, that is it is increased following the accrual of the interest payable and gradually reduced as a result of payment of the instalments.

In the event of changes in the payments due for the lease, the liability must be redetermined, as a balancing entry to the right-of-use asset. The change may result in the recognition of a separate lease (if the subject of the contract in force increases) or a change to the existing contract (lease modification). In the event of a lease modification, the change in the lease payable on the date of effectiveness of the modification, recognised as a balancing entry to the right of use, with the exception of the gains and losses resulting from the (partial or total) derecognition of the lease, which are included in the income statement.

Accounting in the lessor’s financial statements

If the Group acts in the capacity of lessor, the IFRS 16 accounting model envisages that it must be stated whether the assets have been granted under a finance lease or under an operating lease, according to the different accounting treatment applicable to the two types.

More specifically, a lease is classified as finance lease if it transfers substantially all the risks and rewards to the lessee. Finance leases, in practice, are loan contracts with which the lease company purchases an asset, on behalf of the lessee, granting it the right of use.

The accounting in the lessor’s financial statements is done with the financial method, through recognition of a loan of an amount equal to the principal of the instalments to be received (plus “up-front” external transaction costs not recovered and minus “up-front” transaction revenues that contribute to the remuneration of the receivable), as if it were a loan operation.

Subsequently, the receivable is measured at amortised cost, equal to the initial recognition value decreased by repayments of principal, decreased/increased by the amortisation - calculated according to the effective interest rate method - of the difference between the amount disbursed and the amount repayable at maturity, typically comparable to the costs/income directly associated with the individual receivable. The receivables are subject to impairment rules. For more details of the rules on accounting for receivables measured at amortised cost please see the contents of point “3. Financial assets at amortised cost” of this Part A.2.

For operating lease transactions, in the financial statements of the lessor, the owned assets granted under the lease continue to be recognised and the lease payments are recognised in the income statement as revenues. At Group level, the case regards owned properties rented; in this event, said properties continue to be recognised under “Property, plant and equipment held for investment purposes”, based on the relative valuation criterion (fair value). In the income statement, income deriving from the rental of the above-mentioned assets is included in “other operating income”.

Off-balance sheet credit exposures - guarantees given and commitments

General off-balance sheet credit exposures are represented by the guarantees issued and by the irrevocable commitments to issue funds at predetermined terms and conditions entailing the assumption of a credit risk and fall within the scope of the impairment provisions of IFRS 9.

The initial recognition value of guarantees given equals the fair value, which normally corresponds to the amount received on issuing the guarantee.
Subsequently, the guarantees given are measured at the higher of the amount recognised on initial recognition, net of any amortisation charge, and the amount estimated to fulfil the obligation.
For the purposes of calculating expected losses, the same allocation methods in the three stages of credit risk described in IFRS 9 and already described in part "3 - Financial assets at amortised cost" and "2 - Financial assets measured at fair value through other comprehensive income", as well as in part "16 - Other information, Methods for determining impairment losses on financial assets", are used.
As indicated in part "10 - Provisions for risks and charges", the provisions relating to the write-down of guarantees given and commitments to disburse funds are recognised under balance sheet item "100. Provisions for risks and charges: a) commitments and guarantees given". In accordance with the provisions contained in Circular no. 262 of the Bank of Italy, the balancing entry is the income statement item "200. Net provisions for risks and charges: a) commitments and guarantees given".

Business combinations, goodwill and changes in interest holdings

A business combination represents the transfer of control of an enterprise (or an integrated group of assets and goods, conducted and managed consistently).
A combination may give rise to an investment relationship between the purchasing Parent Company and the subsidiary acquired. In such circumstances, the purchaser applies standard IFRS 3 "Business combinations" in the consolidated financial statements while in the separate financial statements the shareholding acquired as an interest in the subsidiary is recorded, applying accounting standard IAS 27 "Separate Financial Statements".
A business combination may also envisage the purchase of the net assets of another entity, including any eventual goodwill, or the acquisition of the capital of another entity (mergers, conferrals, business segment acquisitions). A combination of this type does not translate into an investment relationship similar to that between the parent and subsidiary company and therefore in these cases accounting standard IFRS 3 applies also in the separate financial statements of the purchaser.
Business combinations are recognised using the purchase method, which requires: (i) the identification of the acquirer; (ii) the determination of the acquisition date; (iii) the calculation of the cost of the business combination; (iv) the allocation of the purchase price ("Purchase Price Allocation").

Identification of the acquirer

For all business combinations, IFRS 3 requires the identification of an acquirer, identified as the party that obtains control over another entity, meaning the power to establish the financial and operational policies of that entity in order to obtain benefits from its business activities. For business combinations that result in the exchange of shareholdings, the identification of the acquirer must consider factors such as: (i) the number of new ordinary shares with voting rights issued with respect to the total number of ordinary shares with voting rights which will constitute the share capital of the company existing after the combination; (ii) the fair value of the entities that participate in the combination; (iii) the composition of the new corporate bodies; (iv) the entity that issues the new shares.

Determination of the acquisition date

The acquisition must be recognised on the date on which the acquirer effectively obtains control of the enterprise and/or of the assets acquired. When the acquisition is made by means of a single exchange transaction, the date of exchange coincides with the acquisition date, unless the parties agree to a transfer of control before the date of exchange.

Calculation of the cost of the business combination

The price transferred in a business combination equates to the fair value, as of the acquisition date, of the assets transferred, the liabilities incurred and the equity instruments issued by the purchaser in exchange for obtaining control over the entity acquired.
The price which the purchaser transfers in exchange for the entity acquired includes any asset or liability emerging from an agreement on the potential price, to be recorded as of the acquisition date on the basis of the fair value. Changes to the transferred price are possible if they derive from additional information on events or circumstances which existed as of the acquisition date and are recognisable within the business combination measuring period (or

rather within twelve months of the date of acquisition, as will be specified further on). Any other change which derives from events or circumstances subsequent to the acquisition, such as for example that acknowledged to the seller linked to achievement of specific income-related performances, must be recognised in the income statement.
The costs relating to the acquisition, which include brokerage commission, advisory, legal, accounting and professional costs, general administrative expenses, are recorded in the income statement at the time they are incurred, with the exception of the costs for issuing shares and debt securities which are recorded on the basis of the matters laid down by IAS 32 and IFRS 9.

Purchase Price Allocation (PPA)

On the basis of the acquisition method, at the acquisition date, the acquirer must allocate the cost of the business combination (the "Purchase Price Allocation" or PPA) to the identifiable assets acquired and the liabilities assumed measured at the relative fair values at that date, also recognising the value of the minority interests of the acquired entity. Exceptions to the application of this principle include the recognition:

- of income taxes;
- of liabilities relating to employee benefits;
- of assets deriving from indemnities;
- of rights reacquired;
- of transactions with share-based payments;
- of assets held for sale

to which the respective reference principles shall apply.
Therefore, it is necessary to draw up a balance sheet of the acquired company at the acquisition date, calculating at fair value the identifiable assets acquired (including any intangible assets not previously recognised by the acquired entity) and the identifiable liabilities assumed (including contingent).
With regard to each business combination, the non-controlling interests can be recorded at fair value or in proportion to the portion held in the identifiable net assets of the company acquired.
In addition, if control is achieved by means of subsequent acquisitions (business combinations carried out in several phases, known as step acquisitions), the shareholding previously held is measured at fair value as of the acquisition date and the difference with respect to the previous book value must be recorded in the income statement.
At the acquisition date, the acquirer therefore must determine the difference between:

- the sum of:
  - the cost of the business combination;
  - the amount of any minority interests as described above;
  - the fair value of any interest holdings previously held by the acquirer; and
- the fair value of the net identifiable assets acquired, including contingent liabilities.

Any positive difference must be recognised as goodwill; otherwise, any negative difference must be recognised in the income statement of the entity resulting from the business combination as profit deriving from a bargain purchase (negative goodwill or badwill), after making a new measurement to ascertain the proper process for identifying all assets acquired and liabilities assumed.
Identification of the fair value of the assets and liabilities may provisionally take place before the end of the year in which the business combination takes place and must be finalised definitively within a maximum period of twelve months as from the acquisition date (measuring period).

Once control has been obtained and the acquisition method previously described applied, any further increase or decrease in the shareholding in a subsidiary company which continues to be controlling is recorded as a transaction between shareholders. Therefore, the book value of group shareholders' equity and non-controlling interests must be adjusted to reflect the changes in the holding in the subsidiary. Any difference between the value for which the non-controlling interests are adjusted and the fair value of the price received or paid must be recorded directly in the group shareholders' equity.

In the presence of an event that results in a loss of control, the effect to be recognised in the income statement is equal to the difference between (i) the sum of the fair value of the price received and of the fair value of the residual shareholding held and (ii) the prior book value of the assets (including goodwill), of the liabilities of the subsidiary, and any non-controlling interests. The amounts previously recognised in the statement of comprehensive income (such as the valuation reserves of financial assets measured at fair value through other comprehensive income) must be

recorded in the same way as required in the event that the parent company has directly disposed of the assets and the related liabilities (by means of reclassification in the income statement or shareholders' equity).
The fair value of any shareholding held in the former controlling interest must be considered equal to the fair value at the time of initial recognition of a financial asset on the basis of IFRS 9 or, if appropriate, equal to the cost at the time of initial recognition in an associated company or a jointly-controlled entity.

Transactions achieved for reorganisation purposes, between two or more businesses or corporate assets forming part of the Group, are not considered to be business combinations. These transactions (business combinations under common control) are excluded from the scope of application of IFRS 3 and, in the absence of a reference standard, are accounted for with reference to Assirevi's preliminary interpretative documents/guidelines, or in continuity of the values of the entity acquired in the financial statements of the purchaser, if they do not have a significant influence on future cash flows. In particular, the values adopted are those resulting from the Group's consolidated financial statements at the date of transfer of the assets. This is in compliance with the matters established by IAS 8 paragraph 10, which requires, in the absence of a specific standard, the use of one's own judgement when applying an accounting standard for the purpose of providing relevant, reliable, prudent disclosure which reflects the economic essence of the transaction.

Methods for determining impairment losses on IFRS 9 Financial Instruments

At each annual or interim reporting date, loans and debt securities classified under "Financial assets at amortised cost" and "Financial assets measured at fair value through other comprehensive income" - as well as off-balance sheet exposures represented by commitments to disburse funds and the guarantees given - must be subject to impairment in order to estimate expected losses in value due to credit risk (ECL - Expected Credit Losses).

General features of the impairment model

According to the Expected Credit Losses calculation model, losses must be recorded not only with reference to objective evidence of impairment losses that had already occurred at the valuation date, but also on the basis of expectations of future impairment that has not yet occurred.
In particular, the ECL model states that the aforementioned instruments must be classified into three distinct stages, according to their absolute or relative credit quality or compared to the initial disbursement, to which different criteria correspond for measuring the expected losses. More specifically:

- Stage 1 includes both originated and acquired performing financial assets that display no significant deterioration in credit risk (SICR - Significant Increase in Credit Risk) with respect to the initial recognition date;
- Stage 2 includes performing financial assets with significant deterioration in credit risk (SICR) on the valuation date compared to the initial recognition, albeit not impaired;
- Stage 3 includes all exposures for which one or more events capable of negatively impacting cash flows are found (evidence of impairment), namely exposures that are considered non-performing.

For Stage 1 exposures, the expected loss is accounted for, on the date of initial recognition and on each subsequent reporting date, for up to one year; for Stage 2 and 3 exposures, expected losses are recognised over the entire residual lifetime of the instrument.
An exception to the foregoing is represented by financial assets that are considered non-performing from the time of their acquisition or origin (POCI - Purchased or Originated Credit Impaired). Please refer to the paragraph "Acquired or originated impaired financial assets" for more information on this.

For Banco BPM Group, the scope of the exposures classified in Stage 3 corresponds to that of non-performing loans, identified in accordance with the definitions established by the supervisory provisions in force (Bank of Italy Circular no. 272 "Matrix of accounts") and referred to by Bank of Italy Circular no. 262 "Bank financial statements: layouts and rules for preparation", insofar as retained consistent with IAS/IFRS standards in terms of objective evidence of impairment. Based on the above-mentioned circulars, the scope of non-performing loans corresponds to the "Non-Performing Exposure" aggregate defined by Regulation (EU) 2015/227, which incorporated the EBA's "Implementing Technical Standards (ITS) on Supervisory reporting on Forbearance and Non-Performing exposure" (EBA/ITS/2013/03/rev1 24/7/2014). Specifically, the circulars identify the following categories of non-performing assets:

- Bad Loans: these represent the set of on and "off-balance sheet" exposures with respect to a party in a state of insolvency (even if not ascertained in court) or in substantially equivalent situations, irrespective of any loss forecasts developed by the bank;
- Unlikely to Pay: these represent on and off-balance sheet exposures for which the conditions are not met for the classification of the borrower under bad loans and for which it is deemed unlikely that the borrower will meet its credit obligations (for principal and/or interest) in full without recourse to actions such as the enforcement of guarantees. This assessment is carried out irrespective of the presence of any amounts (or instalments) past due and unpaid. Classification as unlikely to pay is not necessarily linked to the explicit presence of anomalies, such as non-repayment, but it is linked to the existence of elements indicative of a situation of risk of default by the borrower (for example, a crisis in the industrial sector in which the borrower operates);
- Past due and/or non-performing overdue exposures: cash exposures, other than those classified as bad or unlikely to pay loans which, at the reference date, have a past due and/or overdue position for more than 90 days, in accordance with the thresholds of significance provided for by law. For Banco BPM Group, past due and/or non-performing overdue exposures are determined by making reference to the position of the individual borrower.

In addition, in line with EBA standards, Bank of Italy regulations have introduced the definition of "forborne exposures". In particular, these are exposures benefiting from forbearance measures, which consist of concessions, in terms of changes to and/or the refinancing of an existing loan, granted only to customers in financial difficulty, or to prevent the financial difficulty of the same, which could have a negative effect on his ability to fulfil his original contractual obligations. They are not granted to a borrower with the same risk profile but who is not in financial difficulty. These forbearance measures must be identified in terms of individual credit lines and may regard the exposures of debtors classified both as performing and non-performing.
For exposures with forbearance measures classified as unlikely to pay, the return to performing exposures, and in particular in Stage 2 exposures, can occur only after one year has elapsed since it was granted (the probation period) and all the other conditions laid out in paragraph 157 of the EBA's ITS are met.
In any event, renegotiated exposures must not be considered forborne when the debtor is not in a situation of financial difficulty: these are renegotiations granted for commercial reasons.

Impairment losses on performing financial instruments

Regarding performing financial assets, i.e. those assets not considered impaired, as defined above, it is necessary to assess, at each reporting date and at the individual relationship level, the existence of a significant increase in credit risk (SICR – "Significant Increase in Credit Risk") by comparing the credit risk associated with the financial instrument at the time of valuation and at the time of initial disbursement or acquisition. This comparison is made on the basis of quantitative and qualitative criteria. More specifically, in order to identify the existence of a significant deterioration in credit quality and the subsequent transfer of the financial instrument from Stage 1 to Stage 2, Banco BPM Group has identified the following criteria (Stage Assignment):

- relative quantitative criteria, based on statistical observations, considered an indication of a significant increase of credit risk over time;
- absolute qualitative criteria, represented by the identification of trigger events or by the surpassing of absolute thresholds as part of the credit monitoring process;
- backstop indicators, namely credit delinquency factors, the emergence of which leads to the assumption that there has been a significant increase of credit risk, unless there is evidence to the contrary.

Once the allocation to the various stages of credit risk has been defined, the expected losses (ECL) are determined by assigning the following risk parameters to each individual transaction or tranche:

- PD (Probability of Default): represents the probability that a performing exposure can move to impaired status over the course of one year. This factor is quantified using internal exposure rating models or on the basis of average segment/portfolio data;
- LGD (Loss Given Default): the percentage of loss in the event of default, quantified on the basis of historical experience of recoveries discounted on the basis of impaired accounts;
- EAD (Exposure at Default): the exposure at the moment of default.

Value adjustments for expected losses are then quantified as a product of PD, LGD and EAD.

The models used to estimate these parameters employ the same parameters used for regulatory purposes, making specific adjustments to account for the different requirements and purposes between accounting and prudential regulations. In keeping with the impairment model of IFRS 9, the main adjustments aim to:

- remove the margins of conservatism required solely for prudential purposes;
- account for the conditions of the current economic cycle (PiT - Point-in-Time) instead of the measurement of the parameters through the economic cycle (TTC - Through the cycle), which is required for regulatory purposes;
- introduce forecast information regarding future trends in macroeconomic factors (forward-looking) considered potentially capable of influencing the debtor's situation;
- extend risk parameters to a long-term perspective, accounting for the lifetime of the credit exposure to be assessed.

Specifically, the PDs calculated over the lifetime of the instrument are obtained on the basis of the regulatory PDs, which account for the entire TTC economic cycle, appropriately calibrated, by means of satellite models to reflect the default rates based on current (PiT) and prospective (forward-looking) conditions.
LGD values are assumed to be equal to the regulatory recovery rates calculated through the economic cycle (TTC) and suitably adjusted in order to remove some of the conservativism margins present in the regulatory models, which are represented by indirect costs and the component associated with the adverse economic cycle (the downturn component), as well as to reflect the most current recovery rates (PiT) and expectations concerning future (forward-looking) trends.
To calculate the EAD lifetime, the exposure at each future payment date is represented by the residual debt, based on the amortisation plan, increased by any instalments due/past due. For off-balance-sheet exposures (commitments to disburse funds and guarantees given), the EAD is equal to the nominal value weighted by a specific Credit Conversion Factor (CCF).
Forecasts for forward-looking macroeconomic indicators are quantified based on three possible future scenarios which are assigned the respective probability of occurrence determined internally by the Group. In greater detail, alongside the baseline scenario, which is deemed more likely, a scenario of improvement and a scenario of worsening have been prepared.

Lastly, for the estimate of expected losses over the lifetime of the instrument, the reference time period is represented by the contractual maturity date. For instruments without maturity, the estimate of expected losses refers to a time frame of one year from the reporting date.

For more details on the model for determining expected losses on performing exposures, with specific reference to the criteria of stage assignment, the methods for determining forecast macroeconomic scenarios and the related probabilities of occurrence, refer to that illustrated in Part E of these Notes, in the section dedicated to credit risk.

Impairment losses on non-performing financial instruments

As illustrated above, for non-performing financial assets, to which a 100% probability of default is associated, the amount of adjustments for expected losses relating to each loan is equal to the difference between its book value (interim situation) at the time of valuation (amortised cost) and the present value of expected future cash flows, calculated by using the original effective interest rate or a reasonable approximation if the original rate is not directly available. Cash flows are estimated on the basis of expected recovery over the entire lifetime of the asset, after taking into account the estimated realisable value of any guarantees.
To estimate the expected cash flows collected and the related time frames, the receivables in question undergo an analytical evaluation process. For some similar categories of non-performing loans, the assessment processes establish that the loss forecasts are based on a "lump-sum" calculation method, to be applied analytically to each individual position. The scope of exposures subject to lump-sum valuation is represented by:

- bad loans and unlikely to pay with exposures below or equal to an established threshold of 1 million;
- the total number of non-performing past due exposures, regardless of the relevant exposure threshold. In particular, these are loans which show uninterrupted overdrafts or late payments, automatically identified by the Group's IT procedures, based on the cited rules of the Supervisory Authority.

The "lump-sum" calculation method entails valuation approaches that are differentiated based on the counterparty's stage of risk at the time of quantification (Bad Loans, Unlikely to Pay, Past Due), the type of exposure (secured or unsecured), and the presence of guarantees other than mortgages (sureties, pledges, confidi - consortium guarantees). In detail, for secured exposures the measurement is based on the valuation of the underlying assets (collateral), while for unsecured exposures, the expected loss is defined as a complement of the recovery curves based on the observation of internal time series, considering any mitigating elements deriving from the presence of other guarantees. In addition, for the purposes of estimating losses, the time value is considered, i.e. the estimated time required to recover the receivable, differentiated on the basis of the vintage, as well as the probability of exposures classified as Unlikely to Pay changing to bad loan status (danger rate).

Depending on the non-performing status and type of exposure, the recovery value is determined using a going concern approach rather than a gone concern approach.
The going concern approach is implemented if it is considered that the debtor's operating activity may continue to generate, in the foreseeable future, cash flows to be used for the payment of financial debts to all creditors, based on expected repayment schedules. The approach in question establishes, as a source of repayment, the profitability available deriving from the customer's operating activity or from other financial sources, as well as the estimated amount deriving from the enforcement of any collateral or personal guarantees (for the portion not covered by the available profitability). The available profitability assessment must be carried out prudentially using different analyses, depending on the type of customer and the data acquired by it.
The gone concern approach is used when the customer's operating activity is found or is expected to cease and the main source of repayment is the amount deriving from the enforcement of collateral (pledge or mortgage), as is the case for all exposures classified as non-performing. In addition, possible repayment flows from seizable assets owned by the debtor or any guarantor must be evaluated.

In line with the targets for the sale of non-performing credit exposures, established on each occasion by the Board of Directors, the quantification of expected losses of the aforesaid exposures includes forward-looking elements, via the introduction of specific sales scenarios, where the Group's NPL strategy establishes that the aforementioned loans may be recovered through sale on the market, with a view to pursuing a de-risking strategy aimed at reducing the NPL ratio, i.e. the percentage of non-performing loans compared to total loans. From 2020, the sales targets, previously related to bad loans only, also included portfolios of exposures classified as unlikely to pay.

Consequently, the estimate of the expected losses of these positions reflects not only the recovery through ordinary operations (work out), but also the presence, appropriately calibrated, of the sales scenario and therefore, of the relevant cash flows.
As expressly provided for by the ITG[1] of the IASB, it is possible to consider the flows recoverable through sale when determining the expected losses, to the extent that it is possible to develop expectations and assumptions inferred on the basis of reasonable and demonstrable information (please see the following document: "Meeting Summary – 11 December 2015 - Inclusion of cash flows expected from the sale on default of a loan in the measurement of expected credit losses").
In line with the sales targets established on each occasion by the Board of Directors, the Group's exposures classified as bad loans or unlikely to pay, are valued by configuring two different estimates of expected cash flows:

- the first is determined assuming recovery from the debtor based on internal activity, according to the ordinary valuation guidelines followed by the Group as illustrated above (work out scenario);
- the second is determined assuming recovery by assigning the receivable (sale scenario), whose estimate is taken from the amount defined for internal recovery.

The estimate of recoverable flows is therefore equal to the weighted average of the probabilities assigned to the two scenarios of the estimated cash flows that the Group expects to receive in the two aforesaid scenarios. Expected losses are therefore determined on the basis of the difference between the gross value of the credit exposure and the estimated lower recoverable flows.
The method of estimating expected losses therefore involves the following steps:

- the segmentation of the portfolio into different clusters considered relevant for the analysis of the portfolio, according to the status (bad loans or unlikely to pay), the date on which they were classified as non-performing (vintage), the amount of the exposures, the existence of planned sales;
- the assignment of a different probability of sale to each cluster, consistent with the achievement of the level of target transfers resolved by the relevant corporate bodies;

[1] This is the IFRS Transition Resource Group for impairment of financial instruments, a working group established to support the implementation of certain issues relating to the new IFRS 9 impairment model.

- the determination of the recovery flows through sale, based on an internal model of discounting the recoverable cash flows, on the basis of the Discounted Cash Flow technique and some parameters considered representative from the point of view of the potential buyer, with the aim of reaching a price for the hypothetical sale of each cluster, suitably calibrated in order to take into account the comparable transactions observed on the market.

Taking into account that loans likely to be sold cannot be individually identified on the reporting date, the model provides that each loan is associated with a probability of sale.
The expected loss for the loans in question is therefore equal to the weighted average of the probabilities assigned to the two scenarios of the estimated cash flows recoverable in the two scenarios (workout and sale).
Probability is assigned to the various scenarios assuming the segmentation of the Group's total portfolio of exposures classified as bad loans or unlikely to pay, in accordance with the main characteristics that influence the value attributed by the market to loans of this type (vintage, amount of the exposures).

The assignment of the probabilities to the various clusters is guided by the amount of the target sales approved from time to time by the Board of Directors. In other words, the probabilities have been assigned to the various clusters in such a way that the sum of the total nominal values of each cluster multiplied by the relative probability of sale (hereinafter also "expected sale value") amounts to the aforementioned amount of target disposals approved by the Board of Directors. The probabilities assigned to the various clusters vary over time and can range from a minimum value of 0%, assigned to positions that will be excluded from the sale due to their intrinsic characteristics, up to a maximum of 85%, assigned to the cluster that includes the loans deemed more likely to sell (planned sales). The composition of the clusters also varies over time depending on the trend of market appetite for the various types of exposures and the consequent assessments of economic value made by the competent Bank bodies.

The valuation methodology used to calculate the recovery flows through sale is based on a discounting process for the recoverable cash flows (discounted cash flows), which takes into account the main parameters that are normally considered by potential buyers when defining the purchase price, suitably calibrated in order to take into account the comparable transactions observed on the market. In more detail, the factors considered in the estimation process are: the estimate of the recoverable value in line with the value estimated in the work out scenario; the expenses that the purchaser must incur to recover the loan; the estimate of recovery time, based on market information (e.g. average court time); the rates of return expected by the purchasers and the specific market factors defined also based on the type of sale implemented.
It is important to specify that the methodology illustrated above is not applicable to any loans which, at the date of preparation of the financial statements, are already identified in detail as held for sale, which satisfy the conditions set out by IFRS 5 to be classified in the portfolio of assets held for sale. Those loans are measured considering only the sale scenario, assigned a probability of 100% and using as reference the sale prices or information contained in the agreements finalised with the counterparties (binding offers).

Acquired or originated impaired financial assets

If at the time of initial recognition, a credit exposure classified under the item "Financial assets measured at fair value through other comprehensive income" or "Financial assets at amortised cost" is deemed non-performing, it qualifies as "Acquired or originated impaired financial assets" (POCI - Purchased or Originated Credit Impaired).
An asset is deemed non-performing at the time of initial recognition when the credit risk is extremely high and, in the case of acquisition, the price has been paid with significant discounts compared to the residual contractual debt. These assets are initially classified as Stage 3, but may be reclassified as Stage 2, therefore an expected loss will be recognised with the impairment model based on the lifetime ECL.
Regarding the criteria for initial recognition, measurement and derecognition, please refer to the information given for the asset items under which they can be classified, except as specified below, concerning the methods adopted to measure the amortised cost and impairment.
Specifically, the amortised cost and, consequently, interest income are calculated considering the credit-adjusted effective interest rate. With regard to calculating the credit-adjusted effective interest rate, the credit adjustment consists of considering the estimate of future cash flows, including the credit losses expected over the entire residual lifetime of the asset.
Additionally, the assets in question also entail special treatment with regard to the impairment process, as they are always subject to the calculation of the loss expected over the lifetime of the financial instrument. Therefore, subsequent to initial recognition, the loss or gain deriving from any change in the losses expected throughout the

entire lifetime of the credit, compared to initial losses must be recorded in the income statement. Thus, it is not possible for the expected losses to be calculated on the basis of one year.

For Banco BPM Group, the only case attributable to the POCI is that arising from business combinations, in line with the provisions of Bank of Italy Circular no. 262; beyond said circumstance, Banco BPM Group has not purchased or originated any exposure considered non-performing.

With reference to the non-performing loans acquired as part of the business combination with the former Banca Popolare di Milano Group, it should be noted that compliance with the accounting treatment described above was achieved substantially through the recognition in interest income, *pro-rata temporis*, of the reversal effect of the lower values attributed to the impaired loans at the time of Purchase Price Allocation. This approach is considered a reasonable approximation of the credit-adjusted effective interest rate, since the contractual interest rate is, in fact, supplemented by the higher yield deriving from the lower value attributed to the acquired receivables.

Renegotiations

If a financial asset is renegotiated (i.e. when the original contractual conditions are amended by the parties), it must be verified whether the financial asset should continue to be recorded in the financial statements, or if this is not the case, the original financial asset should be derecognised and a new financial instrument recognised.
To this end, it must be assessed whether the changes to the contractual terms of the renegotiation are substantial or not.
If the changes are substantial, the entity must derecognise the financial instrument that is subject to change and proceed to recognise a new financial asset on the basis of the new contractual provisions, either where the renegotiation is formalised through the signing of a new contract or where the renegotiation entails amendment to an existing contract. In particular, substantial renegotiations are those which:

- introducing specific objective elements which affect the characteristics and/or cash flows of the financial instrument (such as a change in the currency of denomination, a change in the counterparty not belonging to the same group as the original debtor, the introduction of indexing to equity or commodity parameters, the introduction of the option to convert the receivable into equity instruments/participating financial instruments/other non-financial assets, the provision of "pay if you can" clauses, which allow the debtor the utmost freedom in repaying the loan in terms of timing and amount) considering the significant impact expected on the original cash flows; or
- are carried out for customers that are not in financial difficulty, with the objective of adjusting the cost of the contract to the current market conditions.

In the latter case, it should be noted that if the bank does not agree to the renegotiation of the contractual conditions, the customer would be able to borrow from another intermediary with the consequent loss of the revenue flows provided by the renegotiated contract for the bank. In other words, it is deemed that there is no loss for the bank that must be recognised in the income statement as a result of realigning to the best current market conditions for its customers for commercial renegotiations.
Otherwise, i.e. in the presence of non-substantial changes, the renegotiated exposures will not be derecognised. Non-substantial renegotiations include modifications granted to counterparties with financial difficulties (concessions of forbearance measures) relating to the bank's attempt to maximise the recovery of the original exposure, the risks and rewards of which, however, continue to be retained by the bank. This does not apply to modifications that introduce substantial objective elements into the contract that could result in the derecognition of the financial asset, as described above.
With regard to financial assets at amortised cost, in the event of non-substantial renegotiations relating to financial difficulties of the debtor, the gross value is restated by calculating the present value of the cash flows resulting from the renegotiation, based on the original rate of exposure existing before the renegotiation. The difference between this gross value, as determined above, and the greatest gross book value prior to the change is recognised in the income statement (Item 140 "Gains (losses) from contractual modification without derecognition", known as modification accounting). For non-performing exposures, any renegotiation measures represented by write-offs of the gross exposure are recognised in the income statement item "130. Net credit impairment losses/recoveries".
For renegotiations due to Covid-19, that cannot be specifically classified in the above two types, please refer to the accounting treatment illustrated in the paragraph entitled "Risks, uncertainties and impacts of the Covid-19 pandemic" contained in "Section 5 - Other aspects" in Part A.1 of these Notes.

Financial liabilities designated at fair value

For Banco BPM Group, financial liabilities designated at fair value relate to certain bond and certificate issues, as illustrated in more detail below, with specific reference to the requirements stated by IFRS 9 for classification in the portfolio of liabilities in question.

Bond issues
To obtain funding, the Parent Company issues different types of bonds, both at a fixed rate and structured types (index-linked to share components, to exchange rates, to interest rate structures, inflation rates or similar indices).
The risks resulting from the above-mentioned issues are hedged by the Group, as part of its overall market risk management, by means of entering into derivative contracts.
From an accounting perspective, some of these contracts are designated as hedges according to the rules of Hedge Accounting, and in particular of the "fair value hedge", as illustrated in paragraph "4. Hedging transactions".
Conversely, for other contracts, whose hedging is not qualified according to hedge accounting rules, asymmetric accounting would be created, between the financial liability and the hedging transaction, resulting from the different measurement criteria applied to the bond issue - valued at amortised cost - and to the operational hedge derivative instrument, measured at fair value. The Group overcomes this asymmetry by designating bond issues subject to operational hedging at fair value. In addition to simplifying the administrative and accounting management of hedges, with specific reference to structured issues, the adoption of the Fair Value Option instead of Hedge Accounting is closely linked to the actual methods the Group uses to carry out its hedging policies, by managing its market exposure globally and not through a discrete relation with the bond issued.
Unlike Hedge Accounting, whose accounting rules require that only fair value changes attributable to the hedged risk be recognised on hedged instruments, the fair value option requires the recognition of all fair value changes, irrespective of the hedged risk factor.

With regard to recognition criteria for the balance sheet and income statement components of the bond issues and of the related operational hedging derivatives, note that:

- derivatives that are associated operationally with financial liabilities at fair value are classified as "Financial assets at fair value through profit and loss: a) Financial assets held for trading" or "Financial liabilities held for trading". The related economic, valuation and realisation effects are recognised in income statement item "80. Net trading income";
- the spreads and the margins accrued on the derivatives up until the valuation date are recorded, depending on the balance, under "interest income" or "interest expense", consistent with the accrual recorded for the bond issues subject to operational hedges;
- the profits and losses resulting from the disposal or valuation of bonds issued under the fair value option are recognised under the income statement item "110. Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss", with the exception of valuation and realisation effects correlated with the change in own credit risk, which are recognised as a balancing entry to a specific equity reserve (item "120. Valuation reserves"), as described in more detail in paragraph "13. Financial liabilities designated at fair value".

Issues of certificates

Certificates are securitised derivative instruments issued by the Group and traded on multilateral trading systems, which replicate, with or without leverage, the performance of the underlying asset(s). These products may include protection for the amount subscribed by the customer or a portion of the same, unconditional with respect to the trend in the financial parameters to which they are indexed. From a substantial perspective, certificates can be defined as combinations of strategies of derivative instruments or of underlying financial assets and derivatives, thanks to which financial instruments can be generated, which have their own characteristics, substantially different to those of the assets they originated from. More specifically, certificates can be classified as the following two types of instrument:

- "certificates with unconditional capital protection": these are products that envisage an unconditional guarantee exceeding 50% of the capital initially invested. For accounting purposes, these instruments are considered "structured securities", given the predominance of the guaranteed component with respect to the variable one, based on the performance of the certificate's underlying asset. Based on the way in which the products in question are managed, at Group level, the eligible accounting portfolios are those of

"Financial liabilities designated at fair value", as illustrated below, or "Liabilities held for trading" if actively managed as part of an overall trading portfolio held to make a short-term profit;
- "other certificates": these are products without any protection, with conditional protection, or with unconditional protection equal to or less than 50% of the initial capital. For these products, the value depends exclusively or prevalently on the performance of the parameter to which they are indexed. For this reason, they are classified as "derivative financial instruments", and in particular among the options issued. For these instruments, the only eligible accounting portfolio is that of "Financial liabilities held for trading".

Therefore, from June 2020, the Parent Company Banco BPM started to issue certificates with unconditional capital protection, mainly for the purpose of funding and classified in the accounting portfolio of "Financial liabilities designated at fair value". The above classification is due to the presence of embedded derivatives which, in the absence of the fair value option, should be separated from the host instrument, as able to significantly alter the contractual cash flows. In this case, the fair value measurement of the entire contract, namely of the entire certificate, would be less onerous than the separate valuation of the host instrument and of the related embedded derivatives.
In addition, said classification would enable a "natural hedge" to be pursued with respect to operational hedging derivatives which, at Group level, are stipulated according to a "mass" approach, with the aim of hedging the entire Group exposure.
With regard to recognition criteria for the balance sheet and income statement components of the certificates recognised under "Financial liabilities designated at fair value" and of the related operational hedge instruments, note that:

- the entire margin for the Group resulting from the issues in question is included in item "110. Net gains (losses) from financial liabilities measured at fair value through profit and loss". Said item also includes the valuation effects related to the fair value measurement - consequent to the change in the market parameters to which the certificate is indexed, with the exception of changes in own credit risk - as well as the spreads paid to customers, periodically or at maturity. The effects resulting from changes in own credit risk are recognised as a balancing entry of a specific equity reserve (item "120. Valuation reserves"), as described in more detail in paragraph "13. Financial liabilities designated at fair value";
- derivatives that are associated operationally with financial liabilities at fair value are classified as "Financial assets at fair value through profit and loss: a) Financial assets held for trading" or "Financial liabilities held for trading". The valuation losses and gains, as well as the effects realised including any spreads collected and paid are recognised in income statement item "80. Net trading income".

Fair value and procedure to calculate the effects relating to its own credit risk

For the bond and certificate issues in question, fair value is measured first by referring to prices observable in markets considered active, such as regulated markets, electronic trading networks (e.g. Bloomberg) or organised trading systems or equivalent.
Lacking prices observable in active markets, the measurement is based on the prices of recent transactions on the same instrument in non-active markets rather than on valuation techniques based on a cash flow discounting model, which must consider all factors considered significant by market participants in determining a hypothetical trade.
In particular, to determine credit risk, the spreads implicit in the comparable issues of the same issuer obtained on active markets are used rather than the curve of the credit default swaps in the name of Banco BPM with an equal degree of subordination as the security subject to the assessment.
For further details on how fair value is determined, please refer to that described in detail in the specific section in "Part A.4 – Fair value disclosure".
The impact resulting from the change in the Bank's credit risk, between the issue date and the valuation date, is quantified by calculating the difference between the fair value obtained, considering all risk factors to which the issue is exposed, including credit risk, and the fair value obtained considering the same factors, with the exclusion of the change in credit risk arising during the period. For an illustration of the cumulative effects relating to a change in the credit risk of the Group of the issues in question, please refer to the content of "Section 3 - Financial liabilities designated at fair value" in "Part B – Information on the Balance Sheet" of these Notes.
The same methodology was applied to determine the effects resulting from a change in own credit risk for certificates classified in the accounting portfolio of "Financial liabilities held for trading"; for quantitative information relating to the above-cited effects, please refer to the content of "Section 3 - Financial liabilities held for trading" in "Part B – Information on the Balance Sheet", as well as in paragraph "A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: distribution by fair value hierarchy" contained in Part "A.4 - Fair value disclosure of these Notes.

A.3 - DISCLOSURE ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

At the reporting date, there were no transfers between portfolios of financial assets that required the disclosure set out by IFRS 7.
In this regard, it should be noted that, during the 2020 financial year, as in the previous ones, there was no change in Banco BPM Group's business model, i.e. the way in which the Group manages financial instruments.

A.4 - FAIR VALUE DISCLOSURE

QUALITATIVE INFORMATION

Fair value is defined as the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants, at the current conditions on the measurement date in the main market or in the most advantageous market (exit price). Underlying the fair value measurement is the assumption that the entity is a going concern, namely that it is in a fully operational situation and that it does not intend to liquidate or significantly reduce its operations or undertake transactions at unfavourable conditions. Fair value is not therefore the amount that the entity would receive or pay in the event of forced transactions or sales below cost.

Fair value is a market valuation approach not specifically referring to estimates concerning possible future cash flows developed by the individual entity; indeed, fair value must be determined by adopting the assumptions that market participants would use in determining the price of assets and liabilities, presuming that they are acting in their own best economic interest.
To measure the fair value of financial and non-financial assets and liabilities, IFRS 13 established a three-level fair value hierarchy, based on the source and the quality of the inputs used:

- **Level 1**: the inputs are represented by listed prices (unadjusted) on active markets for identical assets and liabilities;
- **Level 2**: the inputs are represented by:
  - prices listed on active markets for similar assets and liabilities;
  - prices listed on non-active markets for identical or similar assets and liabilities;
  - parameters observable on the market or corroborated by market data (e.g. interest rates, credit spreads, implicit volatility, exchange rates) and used in the valuation technique;
- **Level 3**: the inputs used are not observable on the market.

For financial instruments, measured in the financial statements at fair value, the Group has implemented a "Fair Value Policy" that assigns the highest priority to prices listed on active markets (level 1) and the lowest priority to the use of unobservable inputs (level 3), as more discretionary, in line with the above-illustrated fair value hierarchy. More specifically, this policy establishes:

- the rules for identifying market data, the selection/hierarchy of the sources of information and the price configurations needed to measure the financial instruments listed on active markets and classified as level 1 of the fair value hierarchy ("Mark to Market Policy");
- the valuation techniques and the relative input parameters in all cases in which the Mark to Market Policy cannot be adopted ("Mark to Model Policy").

Mark to Market

To measure the fair value, the Group uses, whenever available, information based on market data obtained from independent sources, as considered the best evidence of the fair value. In this case, the fair value is the market price of the same instrument being measured, namely without changes or reorganisations of the same instrument, inferable from the prices listed on an active market (classified as level 1 of the fair value hierarchy). A market is considered active when the list prices express actual and regular market transactions and are readily and regularly available through stock markets, brokers, intermediaries, sector companies, listing services or authorised entities.

Mark to Model

If the "Mark to Market Policy" is not applicable, due to the absence of prices directly observable in markets considered active, valuation techniques must be adopted that maximise the use of information available on the market, based on the following valuation approaches:

1. Comparable Approach: in this case, the instrument's fair value is derived from the prices observed in recent transactions on similar instruments in active markets, suitably adjusted to take into account differences in the instruments and in the market conditions, rather than from the prices of recent transactions on the same instrument as that subject to valuation not listed in active markets;
2. Model Valuation: if there are no transaction prices observable for the instrument to be measured or for similar instruments, a valuation model needs to be adopted; this model must be of proven reliability in estimating the hypothetical "operating" prices and therefore must be widely acknowledged by market operators.

The classification as level 2 rather than level 3 is established on the basis of the market observability of the significant inputs used to determine the fair value. A financial instrument must be classified in its entirety at a single level; therefore if inputs belonging to different levels are used in the valuation technique, the entire valuation must be classified in correspondence with the level of the hierarchy at which the lowest level input is classified, when deemed significant to the calculation of the fair value as a whole.

The following types of investment are considered level 2:

- financial instruments represented by OTC derivatives and by repurchase agreements on debt securities ("Bond Repo") when the inputs of the pricing models used to calculate the fair value, are observable in the market or, if not observable, are deemed that they do not significantly influence the fair value measurement;
- equity instruments not listed on active markets, measured using the market multiples technique, referring to a selected sample of comparable companies with respect to the subject of the valuation, or measured on the basis of the effective transactions made in a period of time reasonably close to the reference date;
- debt securities of third parties or own issues, not listed on active markets, for which the inputs, including the credit spreads, are taken from market sources;
- UCIT units featuring significant transparency and liquidity, measured based on the NAV provided by the management company/fund administrator.

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

- hedge funds characterised by significant levels of illiquidity, and for which the process to evaluate the assets of the fund requires a considerable amount of assumptions and estimates. The fair value measurement is made on the basis of the NAV. Said NAV may be appropriately corrected to take the poor liquidability of the investment into account, namely the period of time between the repayment request date and the effective repayment date, as well as to take any exit commissions of the investment into account;
- real estate funds measured on the basis of the last available NAV;
- private equity, private debt and similar funds, measured on the basis of the last available NAV, possibly adjusted to take into account events not included in the valuation of the price or to reflect a different valuation of the assets underlying the fund in question;
- illiquid shares for which no recent or comparable transactions are observable, usually measured on the basis of the equity model;
- debt securities characterised by complex financial structures for which sources that are not publicly available are usually used. These are non-binding prices and are also not corroborated by market data;
- debt securities issued by parties in financial difficulty, for which the management has to use its own judgement to establish the "recovery rate", as no significant prices can be observed on the market;
- financial instruments represented by OTC derivatives, for which the non-observable input parameters used by the pricing model are deemed significant in order to measure the fair value;
- medium-long term loans (performing and non-performing) valued on the basis of the expected cash flows determined using models that vary according to the status of the counterparty, and discounted at an interest rate considered representative from the perspective of the potential buyer.

For information on the fair value of non-financial assets attributable to the property, plant and equipment represented by property and works of art, refer to that set out in the following section.

A.4.1 Fair value levels 2 and 3: valuation techniques and input used

Financial assets and liabilities measured at fair value on a recurring basis

Financial assets and liabilities measured at fair value on a recurring basis are represented by all financial instruments measured at fair value in the financial statements (items 20, 30, 50 of balance sheet assets and items 20, 30, 40 of balance sheet liabilities). For these financial instruments, in the absence of prices directly observable in active markets, the fair value must be determined using the "Comparable Approach" or the "Valuation Model", as described in the previous paragraph. A description is provided below of the main valuation techniques adopted for each type of financial instrument.

Debt securities

These are measured by discounting expected cash flows (Discounted Cash Flow Method), suitably adjusted to account for issuer risk. The sources of information used to determine the spread deemed expressive of issuer risk are, in hierarchical order: i) the cash credit spread curve drawn from the prices of securities of the same issuer, characterised by the same seniority and currency, listed on markets considered active; (ii) the "Credit Default Swap" curve of the issuer with an equal seniority; (iii) the credit spread curve of debt securities listed in active markets relating to comparable issuers; (iv) the rating/sector cash credit spread curves; (v) the sector credit default swap curve.

Loans that do not pass the SPPI test

These are loans that are mandatorily measured at fair value, since the contractual cash flows do not exclusively envisage repayment of the principal and payment of interest on the principal to be repaid (i.e. they do not pass the SPPI test), either because of clauses originally established in the contract or subsequent amendments.

The techniques used to determine fair value are illustrated below:

- for loans that do not pass the SPPI test due to the presence of contractual clauses originally provided for in the contract, the fair value is determined on the basis of cash flows, suitably adjusted for expected losses, based on PD and LGD parameters. These flows are then discounted using a market interest rate, adjusted to take account of a premium considered to express risks and uncertainties. In the presence of implicit optional components, such as the possibility of changing the interest rate, the fair value also takes into account the valuation of these components;
- for loans that do not pass the SPPI test as a result of contractual changes due to restructuring agreements (these are in the form of forborne exposures), the fair value measurement takes the cash flow forecasts expressed by the operator as its initial reference, in line with the method used to determine the impairment of loans at amortised cost. These flows shall be adjusted to take account of the likelihood or otherwise of the success of the forbearance rate granted to the counterparty and of the legal and management costs considered upfront from the perspective of the potential buyer. The estimated recovery flows are discounted on the basis of interest rates, obtained by relying on those observed on the market considered as consistent as possible with respect to the assets to be valued.

Unlisted equity instruments

These are measured by referring to direct transactions of the same security or similar securities observed over a suitable time frame as compared to the valuation date, using the market multiples method of comparable companies, and, as an alternative, using financial, income and equity valuation methods.

Investments in UCITs, other than open-ended harmonised UCITs

These are generally measured on the basis of the NAV made available by the fund administrator or the management company, unless it is deemed that said NAV does not represent fair value in the eyes of a market operator. These investments typically include private equity, private debt and similar funds, real estate funds and hedge funds.

Repurchase agreements on debt securities ("Bond Repo")

The fair value is obtained by discounting the forward contractual flows expected, determined based on the characteristics of the contract, based on the interest rate curve differentiated based on the issuer of the security underlying the contract (government securities and corporate securities).

Over The Counter (OTC) Derivatives

These are measured on the basis of multiple models, depending on the type of instrument and input factors (interest rate risk, volatility, exchange rate risk, price risk, etc.) which affect their valuation. For future cash flow discounting purposes, the risk-free interest rate refers to the OIS ("Overnight Indexed Swap") curve.

In detail, for non-option instruments (such as interest rate swaps, forward rate agreements, overnight interest swaps and domestic currency swaps), the valuation techniques adopted belong to the category of "discounted cash flow models", based on certain or trend-based cash flow discounting.

For option instruments, models generally accepted in market practice, such as Black & Scholes, Black-like and Hull & White, are used. In particular:

- for plain vanilla options, the methodologies most used fall within the forward risk-neutral framework and are based on analytical black-like formulas, in which volatility depends on maturity and the strike (volatility skew);
- for more complex options (such as exotic options, barrier options and autocallable options), the methodologies most used, again within the risk-neutral sphere, are based on Monte Carlo simulations, according to which the option pay-off is evaluated through simulations for a sufficiently high number of repetitions relating to the evolution over time of the risk factors underlying the option. Such models estimate the likelihood that a specific event will take place by incorporating assumptions such as the volatility of estimates or the price of the underlying instrument. The price of the derivative is therefore obtained as the discounted arithmetic average of the values obtained for each scenario.

For instruments that contain different option and non-option derivative components, the valuation is conducted by applying the appropriate valuation methodology to each instrument component.

In addition, in order to measure the fair value, several fair value adjustments are considered in order to best reflect the sale price of an actually possible market transaction. These adjustments are specifically model risk, liquidity risk and counterparty risk, illustrated here below.

<u>Model risk</u>: this adjustment is made to cover the risk that the pricing models, though validated, may generate fair values not directly observable or not immediately comparable with market prices. In general, this is the case for structured products, whose valuation is highly complex and for which the break down into elementary components which can be "summed" (host instrument and embedded derivative) may generate imprecisions in the valuation, or in the event of pricing algorithms or types of pay-offs that are particularly "exotic", which do not have a suitable degree of dissemination on the market, or in the presence of models that are highly sensitive to variables that are difficult to observe on the market.

<u>Liquidity risk</u>: this adjustment is made to take account of the size of the "bid/ask spread", i.e., the actual cost of unfreezing positions in OTC derivatives in markets with low efficiency. The effect of the liquidity risk adjustment is greater the more the product is structured, due to the related hedging/unfreezing costs, where the valuation model is not sufficiently confirmed and disseminated among operators, because this makes the valuations more random.

<u>Counterparty risk</u>: adjustments to the market value of OTC derivative instruments, classified as performing, are made in order to reflect:

- the risk of possible default by the counterparty; in this case, the adjustment is called Credit Valuation Adjustment (CVA);
- the risk of non-fulfilment of one's own contractual obligations (own credit risk), in order to calculate the Debt Valuation Adjustment (DVA).

The consideration of own credit risk in the designation of a financial liability at fair value is consistent with the valuation made for an entity that holds the same instrument as a financial asset and is expressly envisaged by IFRS 13 (non-performance risk).

CVA and DVA are determined for each separate legal entity belonging to the Group, on the basis of the expected future exposure of the derivative instruments, the Probability of Default (PD) of the parties, and the relative expected losses, or Loss Given Default (LGD). More specifically, the calculation of expected exposure takes into account the effects resulting from the existence of netting or collateral agreements, which are able to mitigate counterparty risk. Specifically, the "Credit Support Annex" (CSA) contracts negotiated with counterparties for derivative transactions govern the procedures for settling financial collateral, based on mark-to-market trends.

When estimating PD, maximum use of market parameters is made, referring to Credit Default Swap quotations, where available, against internal parameters.
The table below summarises the main types of derivatives existing in the Group, indicating the related valuation models and the main inputs.

Derivative category	Product	Valuation models	Main input of the model
Financial derivatives on interest rates	Swaps	Discounted cash flow and Libor Convexity adjustment	Interest rate curves, interest rate volatility, interest rate correlation
	Caps - Floors	Bachelier - Analytical	
	European Swaptions	Bachelier - Analytical	
	Bermuda Swaptions	Hull-White one-factor mixture - Trinomial tree	
	CMS Spread Options	Bachelier - Analytical	
	CMS caps/floors/swaps	Bachelier and CMS Convexity adjustment (Hagan)	
	FRA	Discounted Cash Flow – Analytical	
	Interest Rate Futures	Analytical with Hull-White one-factor convexity adjustment	
	Bond Option	Black - Analytical	
	Bond Futures and Bond Repo	Discounted Cash Flow - Analytical	
	Bond Futures options	Binomial tree	
Derivatives on inflation rates	Swaps, Caps - Floors	Lognormal Forward Inflation Model - Analytical	Interest rate and inflation rate curves, interest/inflation rate volatility/correlation, calibrated on market prices
Derivatives on shares/share indices/exchange rates	Single asset plain vanilla options	Black and Scholes - Analytical	Equity/forex volatility, interest rate and exchange rate curves, spot prices of equity indices, dividends, repo rates
	Single asset American options	Black and Scholes – Binomial tree (equity) – trinomial tree (forex)	
	European options on controlled volatility index	Local volatility – Monte Carlo	Equity/forex volatility, interest rate and exchange rate curves, spot prices of equity indices, repo rates
	Controlled volatility index options representative of an investment portfolio	Black and Scholes hybrid, Hull and White with two factors - Monte Carlo with Jumps	Equity/forex/interest rate volatility, correlations, interest rates, exchange rates, spot prices of equity indices, dividends, repo rates, Crash Put market prices
	Exotic options on basket equity	Local volatility – Monte Carlo	Equity/forex/interest rate volatility, correlations, interest rates, exchange rates, spot prices of equity indices, dividends, repo rates, retail credit curve
	American Barrier Options on basket equity	Local volatility – Monte Carlo	
	Autocallable options on basket equity	Hybrid Black and Scholes, two-factor Hull and White – Monte Carlo	
	Autocallable options on exchange rates	Local volatility – Monte Carlo	Forex, interest rate and exchange rate volatility
	American Barrier Options on exchange rates	Trinomial tree	Forex, interest rate and exchange rate volatility
	Dividend Swaps and Total Return Swaps	Discounted Cash Flow - Analytical	Interest rates, exchange rates, dividends, repo rates
Credit derivatives	Credit Default Swaps	Discounted Cash Flow - Analytical	Interest rates, Credit Default Swap curve

The techniques and parameters for determining fair value and the criteria for assignment under the fair value hierarchy are defined and formalised in a specific fair value policy adopted by the Group. The reliability of the fair value measurements is also guaranteed by the verifications carried out by a Risk Management department. This department, which is independent from the Front Office units that hold the positions, periodically reviews the list of pricing models to be used under the Fair Value Policy: these models must represent market standards or best practices and the related calibration techniques must guarantee a result in line with valuations capable of reflecting the "current market conditions". Specifically, to correctly determine the fair value, each product is associated to a pricing model generally accepted by the market and selected based on the characteristics and market variables underlying said product. For highly complex products or in the event that the existing valuation model for the products is deemed lacking or inadequate, an internal process is launched to supplement the current models. Based on this process, the Risk Management department conducts an initial stage of validation of the pricing models, which may be native to the position keeping system or issued by a specific internal department. This is followed by a stage conducted by the same department, to guarantee constant reliability of the previously validated model.
In detail, the validation aims at verifying the theoretical robustness of the model through independent repricing, possible calibration of the parameters and comparison with counterparties' prices. If the validation is successful, the use of the models is still subordinate to approval by specific internal committees of the Group. Following the validation stage, continuous revision is planned in order to confirm the accuracy and adherence to the market of the pricing models used by the Group, through suitable actions, if necessary, on the models and the related underlying theoretical assumptions. In order to cover the risk that the pricing models, though validated, may generate fair values not immediately comparable with market prices, a suitable adjustment will be made for "model risk", as described above.

Non-financial assets measured at fair value on a recurring basis

For Banco BPM Group, non-financial assets measured at fair value on a recurring basis are represented by owned real estate assets and valuable works of art.

Fair value of owned real estate assets

The fair value of properties, whether used in operations or for investment purposes, is determined by availing of specific appraisals drawn up by qualified independent companies operating in the specific field, capable of providing property appraisals based on the RICS Valuation standard.[1]
Those standards guarantee that:

- the fair value is determined in line with the indications of the international accounting standard IFRS 13, i.e. it represents the estimated amount at which an asset would be sold or purchased, at the valuation date, by a seller or a buyer without specific links, both interested in the purchase and sale, at arm's length conditions, following suitable marketing in which the parties acted in an informed and aware manner, without coercion;
- the experts have the professional, ethical and independence requirements in line with the provisions of international and European standards.

For properties of a significant amount, i.e. for properties with a value exceeding 5 million, full appraisals are conducted, i.e. conducted via an inspection of the property, in addition to a detailed analysis of the available documentation. For the remaining properties, a desktop appraisal is instead possible, i.e. appraisal based on the examination of documentation, without any inspection of the property.
With regard to the frequency of update of the appraisals, based on Group policy:

- for properties for investment purposes, an annual update is necessary, considering that the measurement criterion for those assets is fair value;
- for properties used in operations it is possible to request an update after more than one year, to be defined based on the specific characteristics of the property (such as, by way of example, materiality, location) and the changes in the real estate market, based on a scenario analysis, for the purpose of ensuring that the book value does not differ significantly from that which would have been determined using the fair value at the reporting date.

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

The methodologies used to determine the fair value can be based on the discounted cash flow method, the market multiples method or the transformation method, based on the characteristics of the property subject to valuation.

Lastly, it should be clarified that, based on IFRS 13, there is an assumption that the current use of the asset represents the highest and best use of the same, unless the market or other factors suggest that market participants could utilise the asset in a different way, in order to maximise the relative value ("highest and best use"). In line with this provision, for certain real estate investments, the measurement of the fair value can take the potential "upgrade" of the current use of the property into account, if it is retained that market participants are able to increase its potential through the future development of the property, for the purpose of defining a hypothetical transaction price.

Fair value of valuable works of art

The fair value measurement of works of art is determined through specific appraisals issued by qualified, independent companies.
In determining the value of the works, the following elements are considered: the quality of the style, the size (in some cases these are museum-level works), the degree of conservation, origin, presence of a notification of restriction by the state, and the art history notes proposed in the sheets drawn up by the assigned researchers. More specifically, the reference value for measurement in the financial statements is the "commercial or market value", i.e. the estimated minimum revenues expected on the sale of the work in a short period of time, assumed as a few months. For the purposes of measurement in the financial statements, thus, the "insured value", which is normally higher than the commercial value by a range of 20%-30%, was not considered, as that value configuration refers to the hypothetical opportunity to repurchase on the market a work equivalent to the one lost, at a significantly higher cost than the sale cost.
The Group policy states that the appraisal may be updated with a frequency of more than one year, to be defined based on the characteristics of the work of art and the performance of the market, taking account of the objective of ensuring that the book value is a reasonable approximation of the fair market value.

Fair value hierarchy of real estate assets and works of art

The fair value of property and works of art is classified in level 3 of the fair value hierarchy set out by the accounting standard IFRS 13, as it significantly depends on the estimates made by the management, which feature elements of judgement and subjectivity, in relation to the unique, distinctive characteristics of the object to be evaluated.
In particular, the selection of relevant inputs (income flows, discount rates, value per square meter, prices of similar transactions) for measuring the fair value of properties is influenced by their specific characteristics, such as, by way of example, their geographical and commercial position, accessibility and infrastructure, the urban context, the state of conservation, the size, any easements, the state of outdoor/indoor facilities. In addition, in the presence of situations where marketing and sale is difficult, further adjustments may be necessary based on the sales policy that the company management intends to pursue.
Theoretically, there could be circumstances deemed absolutely exceptional, in which the fair value of the properties could be considered in level 2, i.e., determined based on parameters considered observable in active markets. In that case, there must be a sufficient volume of transactions that have taken place in a recent period of time with respect to the valuation date and no significant adjustments can be made, due to the high similarity between the unit to be valued and the units involved in the said transactions (e.g. residential units that are part of a building/area with a sufficient number of comparable units or offices located in a business district with several similar buildings featuring comparable offices).
In that regard, it must be noted that, at the reporting date, the fair value of real estate assets and works of art is fully classified in level 3.

Financial assets and liabilities at amortised cost in the financial statements

For financial assets and liabilities recognised in the financial statements based on amortised cost, classified in the accounting categories of "Financial assets at amortised cost" (loans to banks and customers) and "Financial liabilities at amortised cost" (due to banks and customers and debt securities in issue), the determination of fair value is important only for reporting purposes, in line with the provisions of the reference accounting standard IFRS 7. In particular:

- for performing medium/long-term loans (mostly loans represented by mortgage loans and leases), fair value is determined on the basis of cash flows, suitably adjusted for expected losses, on the basis of PD and LGD parameters. These flows are discounted using a market interest rate adjusted to take account of a premium considered to express risks and uncertainties. For the above loans, the fair value is entirely classified at level 3 of the fair value hierarchy;

- for "non-performing" loans (bad loans, unlikely to pay and past due), the fair value is typically recorded as net book value and is included in level 3 of the fair value hierarchy. In this regard, it should be noted that, recently, the Italian market for NPLs (Non-Performing Loans) saw the completion of significant transactions for the sale of non-performing loans. However, the prices of the above transactions were affected by the specific characteristics of the assigned receivables and the variability of the returns requested by the purchasing counterparties. The fair value determined on the basis of the above transactions would therefore be characterised by a high dispersion of values, such as to render the identification of a reference value to be used for the purposes of information in the financial statements non-objective. For this reason, the fair value of non-performing loans has been traditionally set at the book value;
- for debt securities classified in the portfolio of "Loans to banks or customers" or "Debt securities in issue", the fair value is measured by using prices obtained on active markets or valuation models, as described in the previous paragraph "Assets and liabilities measured at fair value on a recurring basis", to which reference is made also as regards the assignment of fair value in the three-level fair value hierarchy;
- for demand or short-term receivables and payables, the book value is considered a good approximation of fair value, as permitted by IFRS 7. The relative fair value, which is typically recorded as book value and included in level 3.

With regard to medium-long term performing and non-performing loans, note that the methods and the assumptions used to estimate fair value are based on subjective valuations (level 3). For this reason, the fair value shown in the financial statements for reporting purposes only, could be significantly different to the values calculated for different purposes, just as it may not be comparable to those provided by other financial institutions.

A.4.2 Processes and sensitivity of valuations

For an examination of the techniques, inputs and valuation processes adopted by the Group for the instruments classified in level 3 of the fair value hierarchy, please refer to the previous paragraph.
Exposures in level 3 financial instruments totalled 1,034.1 million and are mostly represented by equity instruments, UCIT units and loans mandatorily measured at fair value as illustrated below:

Equity instruments and UCIT units

Investments in equity instruments and in UCIT units, classified as level 3, totalled 653.2 million (corresponding to 63.2% of level 3 financial assets measured at fair value), as illustrated in more detail in the paragraph below "A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: distribution by fair value hierarchy".
For the above instruments, it is not usually possible to make any quantitative sensitivity analysis of the fair value, with respect to the change in non-observable inputs, insofar as the fair value was acquired from external sources or was generated by a model with specific inputs (for example, the company's capital values) and for which the necessary information for a sensitivity analysis is not available.

Loans mandatorily measured at fair value

Level 3 financial instruments include loans to customers which, if they do not pass the SPPI test, are classified in the portfolio of assets mandatorily measured at fair value, equal to 328.6 million (corresponding to 31.8% of level 3 financial assets measured at fair value).
For these instruments, the fair value is significantly influenced by the forecasts of recovery of contractual cash flows and, to a lesser extent, by the financial component linked to the selection of discount rates.
In particular, for loans measured at fair value, following the introduction of certain contractual clauses to restructuring agreements, resulting in the failure of the SPPI test, totalling 79.1 million, a reduction of 10% in the cash flows with respect to those used to measure the fair value, largely based on the plans certified and approved, would result in a decrease of around 5% with respect to the book value; an increase in the discount rate of 1% would instead result in a reduction in the fair value of around 0.3% with respect to the book value.

A.4.3 Fair value hierarchy

For the purpose of preparing the disclosure on transfers between levels set out in paragraphs A.4.5.1, A.4.5.2 and A.4.5.3, it is noted that, for securities in the hierarchy as at 31 December 2020 which had a different level of fair value than as at 1 January 2020, it was assumed that the transfer between levels occurred with regard to the balances at the beginning of the reference period.

A.4.4 Other information

For derivative contracts included in the same Netting arrangement, to calculate counterparty risk, the Group did not use the option of measuring net exposure considering all of the instruments covered by the above-mentioned arrangement, as illustrated in paragraph "A.4.1 Fair value levels 2 and 3: valuation techniques and input used" above. In the presence of collateral agreements (CSA), the exposure associated with the individual derivative is determined in relation to its marginal contribution to the expected net exposure generated by all the contracts stipulated with a given counterparty within the same CSA.

QUANTITATIVE INFORMATION

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: distribution by fair value hierarchy

Given the above, the table below provides a breakdown of the assets and liabilities measured at fair value on a recurring basis, in the fair value hierarchy. As defined by the cited standard IFRS 13, recurring valuations refer to assets and liabilities measured at fair value in the balance sheet, based on that envisaged or permitted by the reference international accounting standards.

Financial assets/liabilities measured at fair value	31/12/2020			31/12/2019		
	L1	L2	L3	L1	L2	L3
1. Financial assets at fair value through profit and loss	3,491,133	4,705,654	846,738	3,284,928	2,804,401	1,092,148
a) financial assets held for trading	2,833,138	4,413,483	1,727	3,049,043	2,668,271	9,500
b) financial assets designated at fair value	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	657,995	292,171	845,011	235,885	136,130	1,082,648
2. Financial assets measured at fair value through other comprehensive income	10,408,048	115,435	187,313	12,052,829	213,602	260,341
3. Hedging derivatives	-	75,046	-	-	103,614	-
4. Property, plant and equipment	-	-	2,657,823	-	-	2,747,477
5. Intangible assets	-	-	-	-	-	-
Total	**13,899,181**	**4,896,135**	**3,691,874**	**15,337,757**	**3,121,617**	**4,099,966**
1. Financial liabilities held for trading	2,052,688	10,634,315	541	1,031,766	9,334,364	538
2. Financial liabilities designated at fair value	-	955,781	-	207,489	213,072	-
3. Hedging derivatives	-	585,680	-	-	552,761	-
Total	**2,052,688**	**12,175,776**	**541**	**1,239,255**	**10,100,197**	**538**

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

Financial assets measured at fair value on a recurring basis

As at 31 December 2020, financial instruments measured significantly on the basis of non-observable parameters (Level 3) were 81.7% comprised of instruments classified in the portfolio of "Other financial assets mandatorily measured at fair value" in the category of "Financial assets at fair value through profit and loss", and 18.1% of instruments classified

in the category of "Financial assets measured at fair value through other comprehensive income". The remainder is classified in "Financial assets held for trading".
More specifically, level 3 financial assets amounted to 1,034.1 million and are represented by the following types of investment:

- unlisted equity instruments of 218.4 million, mostly valued on the basis of internal equity models and transaction prices, which do not meet the requirements to be assigned to level 2;
- UCIT units of 434.8 million, represented by private equity, private debt and similar funds (376.4 million), real estate funds (52.2 million) and hedge funds (6.2 million). These funds are characterised by significant levels of illiquidity, and for which the process to evaluate the equity of the fund requires a considerable amount of assumptions and estimates. For more details on UCIT units held by the Parent Company in relation to sales of multi-originator loans, refer to that illustrated in "Section 2 – D. Sale transactions – Financial assets sold and fully derecognised" contained in Part E of these Notes;
- loans to customers amounting to 328.6 million, measured at fair value, for failure to pass the SPPI test, as the related cash flows do not exclusively represent the payment of interest and principal;
- debt securities amounting to 50.7 million, mainly relating to structured credit securities of 47.6 million;
- Over The Counter (OTC) derivatives amounting to 1.6 million, for which the fair value was conclusively measured by means of non-observable parameters that relied on third party sources.

With regard to derivative financial instruments held for trading and hedging, excluding the share of level 3 illustrated above, the same are almost all classified as level 2, with the exception of listed derivatives classified as level 1, as illustrated below:

- level 1 includes listed derivatives (futures and options), measured on the basis of the prices provided by the Clearing Houses, for a total of 99.7 million;
- level 2 includes Over The Counter (OTC) derivatives measured on the basis of models that use observable market parameters to a significant extent, or on the basis of prices originating from independent sources, for 2,560.4 million.

Financial liabilities measured at fair value on a recurring basis

Level 1 financial liabilities refer to listed trading derivatives for 112.3 million and to technical overdrafts listed in active markets for 1,940.3 million.
The remaining financial liabilities are entirely classified as level 2 of the fair value hierarchy and mainly regard the portfolio of "Financial liabilities held for trading" relating to Bond Repo trading for 4,809.6 million, financial and credit derivatives for 2,867 million and issues of Certificates unconditionally guaranteed by Banca Akros for 2,957.7 million. With regard to "Financial liabilities designated at fair value", these include instead Certificates with unconditionally guaranteed capital, issued by Banco BPM from 2020, for a book value of 742.2 million.

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

During 2020, the only significant transfers refer to a limited number of securities that passed from level 2 to level 1, of which:

- 100 million (value at beginning of year) belonging to the portfolio of "Financial assets measured at fair value through other comprehensive income";
- 8.9 million (value at beginning of year) belonging to the portfolio of "Financial assets held for trading".

Impact of Credit Valuation Adjustment (CVA) and Debt Valuation Adjustment (DVA) on the determination of the fair value of derivative financial instruments

Based on the method illustrated in the section above entitled "A.4.1 Fair value levels 2 and 3: valuation techniques and input used", as at 31 December 2020, cumulative adjustments made to the fair value of derivative instruments, other than issues of certificates, to account for counterparty risk "Credit Valuation Adjustment (CVA) and Debt Valuation Adjustment (DVA)", were positive overall for 1.5 million, and were comprised by:

- adjustments for CVA which resulted in a cumulative loss, in terms of lower assets/higher liabilities, of 13 million;
- adjustments for DVA which resulted in a cumulative benefit, in terms of higher assets/lower liabilities, of 14.5 million.

As at 31 December 2019, cumulative fair value adjustments to take account of counterparty risk (CVA/DVA) were positive overall for 0.8 million, equal to the imbalance between negative adjustments for CVA (-11.9 million) and positive adjustments for DVA (+12.7 million).
The resulting impact on the income statement for 2020 was therefore a positive 0.7 million.
With regard to the issues of certificates by Banca Akros, classified as financial derivatives, the cumulative effect of the "Debt Valuation Adjustment (DVA)" was negative overall, in terms of higher liabilities, for 3.3 million.

Property, plant and equipment measured at fair value on a recurring basis

Property, plant and equipment measured at fair value on a recurring basis, entirely classified as level 3, are represented by property and valuable works of art.
Sub-item "4. Property, plant and equipment" includes the assets classified in item 90 of balance sheet assets and measured at fair value. These regard:

- owned property used in operations and for investment purposes, for a total of 2,607.7 million;
- valuable works of art for 50.1 million.

In that regard, it is noted that, in addition to the above property, plant and equipment, the Group also holds property measured at fair value on a recurring basis, for 61.4 million (level 3 in the fair value hierarchy), classified in balance sheet item "120. Non-current assets and disposal groups held for sale", in relation to the sales negotiations under way.

A.4.5.2 Annual changes in assets measured at fair value on a recurring basis (level 3)

	Financial assets at fair value through profit and loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property, plant and equipment	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily measured at fair value				
1. Opening balance	**1,092,148**	**9,500**	**-**	**1,082,648**	**260,341**	**-**	**2,747,477**	**-**
2. Increases	**108,362**	**150**	**-**	**108,212**	**34,697**	**-**	**40,262**	**-**
2.1. Purchases	65,002	-	-	65,002	22,457	-	13,452	-
2.2. Profits charged to:	36,758	127	-	36,631	12,240	-	25,779	-
2.2.1. Income statement	36,758	127	-	36,631	-	-	19,862	-
- of which capital gains	35,074	-	-	35,074	-	-	16,817	-
2.2.2. Shareholders' equity	-	X	X	X	12,240	-	5,917	-
2.3. Transfers from other levels	23	23	-	-	-	-	-	-
2.4. Other increases	6,579	-	-	6,579	-	-	1,031	-
3. Decreases	(353,772)	(7,923)	-	(345,849)	(107,725)	-	(129,916)	**-**
3.1. Sales	(104,119)	(435)	-	(103,684)	(84,037)	-	(10,675)	-
3.2. Redemptions	(52,244)	(5)	-	(52,239)	(3,398)	-	-	-
3.3. Losses charged to:	(77,049)	(237)	-	(76,812)	(20,290)	-	(82,479)	-
3.3.1. Income statement	(77,049)	(237)	-	(76,812)	-	-	(72,651)	-
- of which capital losses	(54,175)	(229)	-	(53,946)	-	-	(70,777)	-
3.3.2. Shareholders' equity	-	X	X	X	(20,290)	-	(9,828)	-
3.4. Transfers to other levels	(109,045)	(1,613)	-	(107,432)	-	-	-	-
3.5. Other decreases	(11,315)	(5,633)	-	(5,682)	-	-	(36,762)	-
4. Closing balance	**846,738**	**1,727**	**-**	**845,011**	**187,313**	**-**	**2,657,823**	**-**

The "Transfers to other levels" of financial assets refer to the book value at the beginning of the year of certain securities for whose valuation, at the date of the financial statements, it was possible to rely on transaction prices and on observable parameters that led to the assignment to level 2 of the hierarchy.

Sub-items "2.2.1 Profits charged to the Income statement" and "3.3.1 Losses charged to the Income statement" include the profits and losses recognised in total in the income statement for the year, relating to the following items:

- "80. Net trading income" for "financial assets held for trading";
- "110. b) Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss" for the "other financial assets mandatorily measured at fair value";
- "260. Fair value gains (losses) on property, plant and equipment and intangible assets" for the adjustment to fair value of property, plant and equipment measured on the basis of the fair value criterion (IAS 40) or the revalued amount method (IAS 16);
- "210. Depreciation and impairment losses on property, plant and equipment" for depreciation charges on property used in operations, measured on the basis of the revalued amount criterion (IAS 16);
- "280. Gains (losses) on disposal of investments" for the recognition of the gain or loss made from the sale of property, plant or equipment, represented by property or by works of art and measured on the basis of the fair value/revalued amount criterion.

Sub-items "2.2.2 Profits charged to Shareholders' equity" and "3.3.2 Losses charged to Shareholders' equity" include the profits and losses recognised in total as a balancing entry of the shareholders' equity item "120. Valuation reserves", and shown in the statement of comprehensive income relating to the following items:

- "20. Equity instruments designated at fair value through other comprehensive income";
- "140. Financial assets (other than equity instruments) at fair value through other comprehensive income" for the other securities.
- "50. Property, plant and equipment".

A.4.5.3 Annual changes in liabilities measured at fair value on a recurring basis (level 3)

	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging derivatives
1. Opening balance	**538**	**-**	**-**
2. Increases	**3**	**-**	**-**
2.1. Issues	-	-	-
2.2. Losses charged to:	3	-	-
2.2.1. Income statement	3	-	-
- of which capital losses	3	-	-
2.2.2. Shareholders' equity	X	-	-
2.3. Transfers from other levels	-	-	-
2.4. Other increases	-	-	-
3. Decreases	**-**	**-**	**-**
3.1. Redemptions	-	-	-
3.2. Buy-backs	-	-	-
3.3. Profits charged to:	-	-	-
3.3.1. Income statement	-	-	-
- of which capital gains	-	-	-
3.3.2. Shareholders' equity	X	-	-
3.4. Transfers to other levels	-	-	-
3.5. Other decreases	-	-	-
4. Closing balance	**541**	**-**	**-**

A.4.5.4 Assets and liabilities not measured at fair value, or measured at fair value on a non-recurring basis: distribution by fair value hierarchy

Assets/Liabilities not measured at fair value, or measured at fair value on a non-recurring basis	31/12/2020				31/12/2019			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets at amortised cost	141,801,931	21,747,434	387,498	127,244,664	133,147,117	17,248,071	426,502	121,593,955
2. Property, plant and equipment held for investment purposes	-	-	-	-	-	-	-	-
3. Non-current assets and disposal groups held for sale	-	-	-	-	-	-	-	-
Total	**141,801,931**	**21,747,434**	**387,498**	**127,244,664**	**133,147,117**	**17,248,071**	**426,502**	**121,593,955**
1. Financial liabilities at amortised cost	151,420,894	13,059,867	1,871,203	136,929,751	138,333,959	13,816,992	2,139,139	122,698,802
2. Liabilities associated with assets classified as held for sale	-	-	-	-	-	-	-	-
Total	**151,420,894**	**13,059,867**	**1,871,203**	**136,929,751**	**138,333,959**	**13,816,992**	**2,139,139**	**122,698,802**

Assets and liabilities not measured at fair value

Financial assets and liabilities classified in level 1 and level 2 of the fair value hierarchy refer to debt securities/bonds in the portfolio (assets) or own issues (liabilities), for which listed prices available in active markets or valuation techniques whose relevant parameters are observable on the market were used. In greater detail, securities held in assets are mainly represented by government bonds classified in level 1.

The remaining financial assets and liabilities at amortised cost (loans, deposits, current accounts, other payables) are classified in level 3, as:

- fair value was determined on the basis of unobservable parameters, mainly attributable to estimates of expected losses determined on the basis of unobservable market indicators; or
- the fair value was not measured, as it was deemed approximately equal to the book value, as permitted by accounting standard IFRS 7.

For said types of financial instruments, the selection of techniques and parameters used in estimating the fair value to indicate in the financial statements only for disclosure purposes, as well as the appreciation of the significance of the unobservable inputs require significant judgements. It cannot therefore be ruled out that a different approach to said parameters or the use of alternative valuation techniques may lead to significantly different fair values, also depending on the purpose for which the same are being calculated.

For the disclosure on the methods of determining the fair value of financial assets and liabilities at amortised cost, refer to that illustrated in the previous paragraphs "Financial assets and liabilities at amortised cost in the financial statements".

Lastly, it must be noted that as at 31 December 2020, as in 2019, there were no assets recognised in items "2. Property, plant and equipment held for investment purposes" due to the change in the measurement criteria adopted by the Group for owned property, starting from 2019.

Assets and liabilities measured at fair value on a non-recurring basis

In line with the provisions envisaged by Circular 262 for assets and liabilities measured at fair value on a non-recurring basis, a disclosure of the three-level fair value hierarchy has to be provided. By way of example, this case would arise if a tangible asset, usually measured on the basis of the cost criterion, were to be measured at fair value, net of costs to sell, following its IFRS 5 classification as a non-current asset held for sale.
In this regard, it must be clarified that as at 31 December 2020, as in the previous year, no disclosure on the fair value hierarchy of assets and liabilities measured at fair value on a non-recurring basis is not provided, as the Group does not own this type of asset.
The only assets classified as held for sale are actually represented by property, which are nevertheless measured at fair value on a recurring basis, following change of the valuation criterion starting from 2019.
For non-current assets and disposal groups held for sale and associated liabilities measured at cost, reference should be made to the specific disclosure provided in Section 12 "Non-current assets and disposal groups held for sale and associated liabilities" in Part B of these notes.

A.5 DISCLOSURE OF "DAY ONE PROFIT/LOSS"

Pursuant to IFRS 7, paragraph 28, in the area of Group financial instruments, note that at the reporting date, there were no impacts deriving from the "Day 1 Profit/Loss", understood as the difference between the fair value at the time of initial recognition (transaction price) and the amount determined at that date using a measurement technique.

PART B – INFORMATION ON THE CONSOLIDATED BALANCE SHEET

ASSETS

Section 1 - Cash and cash equivalents - Item 10

1.1 Cash and cash equivalents: breakdown

	Total 31/12/2020	Total 31/12/2019
a) Cash	858,079	912,742
b) Demand deposits with Central Banks	8,000,000	-
Total	**8,858,079**	**912,742**

The sub-item b) "Demand deposits with Central Banks", of 8,000 million, shows one short-term deposit with the Bank of Italy.

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

2.1 Financial assets held for trading: breakdown by product

Items/Amounts	Total 31/12/2020			Total 31/12/2019		
	L1	L2	L3	L1	L2	L3
A. On-balance sheet assets						
1. Debt securities	2,033,591	4,905	-	1,822,525	14,994	1,613
1.1 Structured securities	88,342	4,337	-	73,069	10,497	1,613
1.2 Other debt securities	1,945,249	568	-	1,749,456	4,497	-
2. Equity instruments	695,179	-	18	1,090,054	-	19
3. UCIT units	4,692	-	144	3,132	-	444
4. Loans	-	1,923,234	-	-	834,324	-
4.1 Repurchase agreements	-	1,923,234	-	-	834,324	-
4.2 Other	-	-	-	-	-	-
Total (A)	**2,733,462**	**1,928,139**	**162**	**2,915,711**	**849,318**	**2,076**
B. Derivative instruments	-	-	-	-	-	-
1. Financial derivatives	99,676	2,485,033	1,565	133,332	1,818,953	7,424
1.1 held for trading	99,676	2,479,944	1,565	133,332	1,811,333	7,424
1.2 connected with the fair value option	-	5,086	-	-	7,605	-
1.3 other	-	3	-	-	15	-
2. Credit derivatives	-	311	-	-	-	-
2.1 held for trading	-	311	-	-	-	-
2.2 connected with the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	**99,676**	**2,485,344**	**1,565**	**133,332**	**1,818,953**	**7,424**
Total (A+B)	**2,833,138**	**4,413,483**	**1,727**	**3,049,043**	**2,668,271**	**9,500**

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

Sub-item "1.2 Other debt securities" includes subordinated financial assets issued by banks, insurance companies and financial companies of 49.2 million classified as level 1 and 0.1 million classified as level 2. The previous year they came to 55.3 million.

Item 4. "Loans" is fully represented by trading repurchase agreements, mainly entered into with banking counterparties and with Cassa Compensazione e Garanzia.

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

Items/Amounts	31/12/2020	31/12/2019
Share Funds	4,815	3,551
Real Estate Funds	21	25
Total	**4,836**	**3,576**

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

Items/Amounts	Total 31/12/2020	Total 31/12/2019
A. On-balance sheet assets		
1. Debt securities	**2,038,496**	**1,839,132**
a) Central Banks	-	-
b) Public Administrations	1,825,805	1,630,157
c) Banks	88,368	130,827
d) Other financial companies	76,502	47,424
of which: insurance companies	12,199	10,234
e) Non-financial companies	47,821	30,724
2. Equity instruments	**695,197**	**1,090,073**
a) Banks	14,772	90,215
b) Other financial companies	48,570	125,389
of which: insurance companies	2,355	50,637
c) Non-financial companies	631,812	874,465
d) Other issuers	43	4
3. UCIT units	**4,836**	**3,576**
4. Loans	**1,923,234**	**834,324**
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	962,046	658,427
d) Other financial companies	961,188	175,897
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total (A)	**4,661,763**	**3,767,105**
B. Derivative instruments		
a) Central counterparties	48,073	24,314
b) Other	2,538,512	1,935,395
Total (B)	**2,586,585**	**1,959,709**
Total (A+B)	**7,248,348**	**5,726,814**

2.3 Financial assets designated at fair value: breakdown by product

At 31 December 2020, as in the previous year, the Group had no assets classified in the portfolio in question.

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

At 31 December 2020, as in the previous year, the Group had no assets classified in the portfolio in question.

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

Items/Amounts	Total 31/12/2020			Total 31/12/2019		
	L1	L2	L3	L1	L2	L3
1. Debt securities	40,407	-	49,348	42,083	105,622	99,367
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	40,407	-	49,348	42,083	105,622	99,367
2. Equity instruments	41,686	292,171	32,377	35,836	30,508	154,227
3. UCIT units	575,902	-	434,639	157,966	-	443,427
4. Loans	-	-	328,647	-	-	385,627
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	328,647	-	-	385,627
Total	**657,995**	**292,171**	**845,011**	**235,885**	**136,130**	**1,082,648**

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

Exposure to debt securities amounts to a total 89.7 million, represented almost entirely by bonds issued by financial companies and banks.

More specifically, the sub-item 1.2 "Other debt securities" includes:

- subordinated financial assets due to banks and insurance companies classified as level 1 for 39.1 million (nominal value of 35.4 million) compared to 40.8 million (nominal value of 37.3 million) in 2019 classified in the same level;
- Asset Backed Securities (ABS) for 46.3 million (48.2 million in 2019), of which 16.1 million with subordination clauses, finalised through the following vehicles: Pharma Finance S.r.l., Bnt Portfolio SPV, Berenice SPV (indirectly held through the investment in the Voluntary Scheme), Red Sea SPV, Leviticus SPV, Tiberina SPV, Titan SPV and Pop Npls 2020 S.r.l. Those securities are classified as level 3. For further details please refer to paragraph "C. Securitisation transactions" in Part E of these Notes.

The item in question includes, with nil value, the investment directly held in Banca Carige through the Voluntary Scheme of the Interbank Deposit Guarantee Fund, as illustrated in "Part A – Accounting policies" of these Notes, to which reference should be made for further details.

Among equity instruments, which amount to a total of 366.2 million, the main investment, classified under level 2, is represented by an interest in the capital of S.I.A. S.p.A. for an amount of 253.4 million.

The table below presents the breakdown of UCIT units.

Items/Amounts	31/12/2020	31/12/2019
Share Funds	165,923	132,299
Balanced Funds	28,639	534
Bond Funds	587,934	177,758
Flexible Funds	5,015	17,179
Hedge Funds	6,225	9,326
Real Estate Funds	52,236	70,220
Private Debt and similar funds	164,569	194,077
Total	**1,010,541**	**601,393**

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

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

	Total 31/12/2020	Total 31/12/2019
1. Equity instruments	**366,234**	**220,571**
of which: banks	6,720	9,288
of which: other financial companies	56,583	52,121
of which: non-financial companies	302,930	159,162
2. Debt securities	**89,755**	**247,072**
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	23,569	130,204
d) Other financial companies	63,115	65,719
of which: insurance companies	16,838	17,501
e) Non-financial companies	3,071	51,149
3. UCIT units	**1,010,541**	**601,393**
4. Loans	**328,647**	**385,627**
a) Central Banks	-	-
b) Public Administrations	3,623	6,666
c) Banks	-	-
d) Other financial companies	108,003	105,815
of which: insurance companies	-	-
e) Non-financial companies	161,692	215,005
f) Households	55,329	58,141
Total	**1,795,177**	**1,454,663**

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

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

Items/Amounts	Total 31/12/2020			Total 31/12/2019		
	L1	L2	L3	L1	L2	L3
1. Debt securities	10,383,882	-	1,302	11,790,398	100,077	4,698
1.1 Structured securities	6,531	-	1,302	6,510	-	4,698
1.2 Other debt securities	10,377,351	-	-	11,783,888	100,077	-
2. Equity instruments	24,166	115,435	186,011	262,431	113,525	255,643
3. Loans	-	-	-	-	-	-
Total	**10,408,048**	**115,435**	**187,313**	**12,052,829**	**213,602**	**260,341**

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

Exposure in debt securities amounted to a total of 10,385.2 million (11,895.2 million as at 31 December 2019) and was mainly represented by bonds issued by governments and banks.

Subordinated assets amounted to 125.2 million (114.5 million in terms of nominal value) and refer to securities issued by banks, insurance companies and financial companies. In greater detail, said assets are shown under the sub-item "1.2 Other debt securities", under level 1. In the previous year, those assets amounted to 177.7 million (161 million in terms of nominal value), classified under level 1.

The securities deriving from securitisation transactions amounted to 1.3 million and are stated under the sub-item "1.1 Structured securities" under level 3. For more details on exposures to securitisations, please refer to that illustrated in paragraph "C. Securitisation transactions" in Part E of these Notes.

The exposure held in equity instruments amounted to a total of 325.6 million (631.5 million as at 31 December 2019). More specifically:

- Level 2 equity instruments include the stakes held in the share capital of the Bank of Italy (4,541 units), equal to 1.5137% of the entire share capital. The book value of 113.5 million is obtained by applying the value of 25,000 to each unit. Note that these shares derive from the capital increase operation carried out by Bank of Italy in 2013 as an effect of Decree Law 133 of 30 November 2013, converted with Law 5 of 29 January 2014, leading to the issuing of new shares, with a value of 25,000 euro per unit;
- Level 3 equity instruments include shares held in C.R. Asti S.p.A. and Palladio Holding S.p.A. for 64.1 million and 30 million, respectively.

Equity instruments deriving from the recovery of impaired financial assets came to 45.7 million.

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

Items/Amounts	Total 31/12/2020	Total 31/12/2019
1. Debt securities	**10,385,184**	**11,895,173**
a) Central Banks	-	-
b) Public Administrations	7,533,717	9,078,233
c) Banks	1,636,868	1,935,062
d) Other financial companies	858,961	777,213
of which: insurance companies	73,953	96,327
e) Non-financial companies	355,638	104,665
2. Equity instruments	**325,612**	**631,599**
a) Banks	177,667	194,969
b) Other issuers:	147,945	436,630
- other financial companies	61,695	381,510
of which: insurance companies	16	25
- non-financial companies	86,250	55,120
- other	-	-
3. Loans	**-**	**-**
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**10,710,796**	**12,526,772**

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

	Gross value				Total value adjustments			Total partial write-offs (*)
	Stage 1	of which: instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	10,243,005	7,524,927	144,937	-	(2,085)	(673)	-	-
Loans	-	-	-	-	-	-	-	-
Total 31/12/2020	**10,243,005**	**7,524,927**	**144,937**	**-**	**(2,085)**	**(673)**	**-**	**X**
Total 31/12/2019	**11,651,216**	**11,651,216**	**247,478**	**-**	**(2,207)**	**(1,314)**	**-**	**X**
of which: originated or acquired impaired financial assets	X	X	-	-	X	-	-	-

(*) = Value to be shown for disclosure purposes

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

As at 31 December 2020, there were no loans measured at fair value through other comprehensive income subject to Covid-19 support measures. Therefore, the related table is omitted.

Section 4 – Financial assets at amortised cost – Item 40

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

Transaction type/Amounts	Total 31/12/2020						Total 31/12/2019					
	Book value			Fair value			Book value			Fair value		
	Stage 1 and Stage 2	Stage 3	of which: originated or acquired impaired	L1	L2	L3	Stage 1 and Stage 2	Stage 3	of which: originated or acquired impaired	L1	L2	L3
A. Loans to Central Banks	**7,826,884**	**-**	**-**	**-**	**-**	**7,826,884**	**6,556,632**	**-**	**-**	**-**	**-**	**6,556,632**
1. Fixed-term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Minimum reserve	7,816,232	-	-	X	X	X	6,544,572	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	10,652	-	-	X	X	X	12,060	-	-	X	X	X
B. Loans to banks	**4,147,915**	**23**	**-**	**699,298**	**183,155**	**3,315,955**	**4,277,823**	**63**	**-**	**623,937**	**184,855**	**3,492,670**
1. Loans	3,293,774	23	-	-	-	3,315,955	3,487,732	63	-	-	-	3,492,670
1.1 Current accounts and demand deposits	552,585	23	-	X	X	X	908,802	63	-	X	X	X
1.2. Fixed-term deposits	75,366	-	-	X	X	X	134,493	-	-	X	X	X
1.3. Other loans:	2,665,823	-	-	X	X	X	2,444,437	-	-	X	X	X
- Reverse repurchase agreements	854,645	-	-	X	X	X	971,491	-	-	X	X	X
- Loans for leases	1,311	-	-	X	X	X	1,688	-	-	X	X	X
- Other	1,809,867	-	-	X	X	X	1,471,258	-	-	X	X	X
2. Debt securities	854,141	-	-	699,298	183,155	-	790,091	-	-	623,937	184,855	-
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	854,141	-	-	699,298	183,155	-	790,091	-	-	623,937	184,855	-
Total	**11,974,799**	**23**	**-**	**699,298**	**183,155**	**11,142,839**	**10,834,455**	**63**	**-**	**623,937**	**184,855**	**10,049,302**

Item B.1.3 "Other loans – other" includes security deposits for "ISMA" and "CSA" contracts for 751.0 million, loans with medium/long-term repayment plans, loans for securities trading transactions not yet settled and receivables for discounts on bills.
The item in question also includes operating receivables in the amount of approximately 5 million (7 million in 2019), associated with revenues accruing in 2020 but not yet received as of the end of the year.

Item B.2 "Debt securities" includes subordinated securities for an amount of 12.1 million.

For details on non-performing assets, please see "Part E - Information on risks and related hedging policies, Section 1, Credit risk".

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

Transaction type/Amounts	Total 31/12/2020						Total 31/12/2019					
	Book value			Fair value			Book value			Fair value		
	Stage 1 and Stage 2	Stage 3	of which: originated or acquired impaired	L1	L2	L3	Stage 1 and Stage 2	Stage 3	of which: originated or acquired impaired	L1	L2	L3
1. Loans	**102,725,809**	**4,292,674**	**341,499**	**-**	**-**	**113,698,693**	**97,798,968**	**5,544,384**	**533,881**	**-**	**-**	**108,939,965**
1.1. Current accounts	8,015,334	523,059	126,433	X	X	X	10,501,931	844,065	190,742	X	X	X
1.2. Reverse repurchase agreements	3,482,261	-	-	X	X	X	5,724,258	-	-	X	X	X
1.3. Mortgage loans	74,011,269	2,381,922	164,059	X	X	X	62,514,221	2,827,713	281,330	X	X	X
1.4. Credit cards, personal loans and salary-backed loans	1,879,094	11,643	59	X	X	X	1,992,109	27,885	91	X	X	X
1.5. Loans for leases	863,992	627,585	5,110	X	X	X	951,825	763,583	6,082	X	X	X
1.6. Factoring	58,316	56	-	X	X	X	142,082	89	-	X	X	X
1.7. Other loans	14,415,543	748,409	45,838	X	X	X	15,972,542	1,081,049	55,636	X	X	X
2. Debt securities	**22,808,626**	**-**	**-**	**21,048,136**	**204,343**	**2,403,132**	**18,969,247**	**-**	**-**	**16,624,134**	**241,647**	**2,604,688**
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	22,808,626	-	-	21,048,136	204,343	2,403,132	18,969,247	-	-	16,624,134	241,647	2,604,688
Total	**125,534,435**	**4,292,674**	**341,499**	**21,048,136**	**204,343**	**116,101,825**	**116,768,215**	**5,544,384**	**533,881**	**16,624,134**	**241,647**	**111,544,653**

Net loans to customers amounted to 129,827.1 million (122,312.6 million as at 31 December 2019).Excluding debt securities, the analysis of the portfolio by type shows mortgage loans accounting for the largest part, representing 71% of the total (63% in 2019), followed by current accounts totalling 8,538.4 million and accounting for 8%, down compared to 11% in 2019.

Item "1.7. Other loans" mainly includes loans for advances on bills, documents and similar instruments subject to collection, subsidies not settled in the current account and functional receivables associated with the provision of financial services. In particular, functional receivables include 187.6 million for fees and commissions accruing in 2020, against ordinary contacts with customers, which will be received during 2021 (mainly relative to securities placement for 89.1 million and the distribution of insurance products for third parties for 82 million). In 2019 these amounted to 236.7 million, almost fully collected during 2020. For further details, please refer to that set out at the bottom of Table "2.1 Fee and commission income: breakdown" of Part C – Information on the Consolidated Income Statement.

Non-performing loans (Stage 3) amounted to 4,292.7 million, marking a decrease compared to the previous year (5,544.4 million), also due to additional derisking transactions finalised during the year.

For more details about credit quality, please see Part E - Information on risks and related hedging policies, Section 1 - Risks of the consolidated book, Quantitative information, Credit quality and Section 2 - Risks of prudential consolidation, 1.1 Credit risk, Quantitative information, Credit quality.

Item 2. Debt securities, classified under level 3, include securities issued as part of own securitisation transactions for 2,322.5 million (2,531.5 million in 2019) of which:

- 1,078.2 million (1,255 million in 2019) relating to senior securities issued by the SPE Red Sea SPV;
- 1,122 million (1,247.1 million in 2019) relating to senior securities issued by the Leviticus SPV;
- 84.1 million relating to senior securities issued by the Tiberina SPV;
- 32.3 million relating to senior securities issued by the Titan SPV;

and third party securitisations for 6 million relating to securities issued by the Faw3 SPV.

For more details, please see that described in Part E, Section 1, "C. Securitisation transactions".

Securities lacking subordination clauses, issued by insurance companies, amounted to a total of 27.1 million.

4.3 Financial assets at amortised cost: breakdown by debtor/issuer of loans to customers

Transaction type/Amounts	Total 31/12/2020			Total 31/12/2019		
	Stage 1 and Stage 2	Stage 3	of which: originated or acquired impaired financial assets	Stage 1 and Stage 2	Stage 3	of which: originated or acquired impaired financial assets
1. Debt securities	**22,808,626**	**-**	**-**	**18,969,247**	**-**	**-**
a) Public Administrations	19,701,602	-	-	15,745,361	-	-
b) Other financial companies	2,840,092	-	-	2,993,948	-	-
of which: insurance companies	27,058	-	-	26,919	-	-
c) Non-financial companies	266,932	-	-	229,938	-	-
2. Loans to:	**102,725,809**	**4,292,674**	**341,499**	**97,798,968**	**5,544,384**	**533,881**
a) Public Administrations	1,758,681	1,883	-	1,828,804	3,341	-
b) Other financial companies	12,515,904	61,697	4,461	13,773,149	110,825	9,239
of which: insurance companies	105,750	-	-	71,051	-	-
c) Non-financial companies	55,563,175	3,375,878	308,375	49,786,768	4,506,579	488,503
d) Households	32,888,049	853,216	28,663	32,410,247	923,639	36,139
Total	**125,534,435**	**4,292,674**	**341,499**	**116,768,215**	**5,544,384**	**533,881**

4.4 Financial assets at amortised cost: gross value and total value adjustments

	Gross value				Total value adjustments			Total partial write-offs (*)
	Stage 1	of which: instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	23,462,491	19,681,761	206,422	-	(3,910)	(2,236)	-	-
Loans	107,116,766	-	7,195,621	8,586,241	(155,447)	(310,473)	(4,293,544)	551,237
Total 31/12/2020	**130,579,257**	**19,681,761**	**7,402,043**	**8,586,241**	**(159,357)**	**(312,709)**	**(4,293,544)**	**551,237**
Total 31/12/2019	**121,859,332**	**19,535,457**	**6,078,247**	**10,086,886**	**(127,186)**	**(207,723)**	**(4,542,439)**	**512,582**
of which: originated or acquired impaired financial assets	X	X	26,813	732,412	X	(1,772)	(415,954)	71,264

(*) Value to be shown for disclosure purposes.

The amount shown in the column "of which: Instruments with low credit risk" mainly regards Italian and foreign government securities.

4.4a Loans at amortised cost subject to Covid-19 support measures: gross value and total value adjustments

	Gross value				Total value adjustments			Total partial write-offs (*)
	Stage 1	of which: instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
1. Loans subject to forbearance measures in line with the GL	10,472,262	-	1,826,309	54,728	(25,502)	(93,905)	(16,279)	-
2. Loans subject to other forbearance measures	54,163	-	55,135	11,182	(240)	(2,315)	(4,212)	-
3. New loans	9,727,995	-	482,918	9,049	(6,213)	(3,839)	(1,882)	-
Total 31/12/2020	**20,254,420**	**-**	**2,364,362**	**74,959**	**(31,955)**	**(100,059)**	**(22,373)**	**-**

(*) Value to be shown for disclosure purposes.

Based on Bank of Italy communication of 15 December 2020, the table sets out several details (gross value by risk stage and related adjustments) relating to the Covid-19 support measures in force at the reporting date, represented by the loans subject to moratoria or other forbearance measures, or which constitute new liquidity granted with the support of government guarantees.
In greater detail, the loans subject to moratoria which comply with the EBA Guidelines (EBA/GL/2020/02), set out in sub-item 1, amount to a total of 12,353.3 million, in gross value, 84.8% of which is classified under stage 1 performing exposures.
New loans disbursed with government guarantees, outstanding as at 31 December 2020, amount to a total of 10,220.0 million, in gross value, around 95.2% of which is classified under stage 1 performing exposures.

For an examination of the support measures of the Group, refer to that set out in the section dedicated to "Significant events during the year" in the Report on Operations. For further details on the credit quality of the exposures in question, refer to Tables A.1.3a and A.1.5a in Part E of these Notes, in the section dedicated to credit risk.

Section 5 - Hedging derivatives – Item 50

5.1 Hedging derivatives: breakdown by hedge type and by level

	Fair Value 31/12/2020			NV 31/12/2020	Fair Value 31/12/2019			NV 31/12/2019
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1. Fair value	-	74,864	-	13,035,374	-	103,614	-	10,933,503
2. Cash flows	-	-	-	-	-	-	-	-
3. Foreign investments	-	182	-	-	-	-	-	-
B. Credit derivatives								
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**75,046**	**-**	**13,035,374**	**-**	**103,614**	**-**	**10,933,503**

NV = notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

5.2 Hedging derivatives: breakdown by portfolio hedged and type of hedge

Operations/Hedge type	Fair Value							Cash flows		Foreign investments
	Micro hedging						Macro Hedging	Micro hedging	Macro Hedging	
	debt securities and interest rates	equity instruments and share indices	currencies and gold	credit	commodities	other				
1. Financial assets measured at fair value through other comprehensive income	151	-	-	-	X	X	X	-	X	X
2. Financial assets at amortised cost	971	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	14,852	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**1,122**	**-**	**-**	**-**	**-**	**-**	**14,852**	**-**	**-**	**-**
1. Financial liabilities	58,350	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	540	X	-	X
Total liabilities	**58,350**	**-**	**-**	**-**	**-**	**-**	**540**	**-**	**-**	**-**
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	182

Section 6 - Fair value change of financial assets in macro fair value hedge portfolios - Item 60

6.1 - Fair value change of hedged assets: breakdown by hedged portfolios

Fair value change of hedged assets/Amounts	Total 31/12/2020	Total 31/12/2019
1. Increase	**52,365**	**49,379**
1.1 of specific portfolios:	52,365	49,379
a) financial assets at amortised cost	52,365	49,379
b) financial assets measured at fair value through other comprehensive income	-	-
1.2 total	-	-
2. Decrease	**(77)**	**(20,218)**
2.1 of specific portfolios:	(77)	(20,218)
a) financial assets at amortised cost	(77)	(20,218)
b) financial assets measured at fair value through other comprehensive income	-	-
2.2 total	-	-
Total	**52,288**	**29,161**

The fair value change of financial assets in macro fair value hedge portfolios refers to fair value changes in certain specific portfolios of assets at amortised cost, due to interest rate fluctuations.

Fair value gains and losses relative to hedging derivatives and the portfolio hedged are indicated in item 90 “Fair value gains/losses on hedging derivatives”.

Section 7 - Interests in associates and joint ventures – Item 70

At 31 December 2020, the book value of the item “Interests in associates and joint ventures” totalled 1,664.8 million, relative to:

- significant interests of 1,248.2 million (993.7 million as at 31 December 2019), as represented in table 7.2 below, by individual investment;
- non-significant interests of 416.6 million (392.4 million as at 31 December 2019), as shown in table 7.4 below, as a whole.

The scope of “significant interests” was determined by considering the materiality of the book value of the investment and the stake held in the investee’s assets with respect to the overall amounts indicated in the consolidated financial statements.

7.1 Interests in associates and joint ventures: information on investment relationships

Company name	Registered office	Operational headquarters	Type of relationship (a)	Investment relationship		Available
				Holder	% held	% votes
A. Companies subject to joint control						
N/A						
B. Companies subject to significant influence						
1. Agos Ducato S.p.A. Share capital € 638,655,160.00	Milan	Milan	1	Banco BPM	39.000%	39.000%
2. Alba Leasing S.p.A. Share capital € 357,953,058.13	Milan	Milan	1	Banco BPM	39.189%	39.189%
3. Anima Holding S.p.A. Share capital € 7,291,809.72	Milan	Milan	1	Banco BPM	19.385%	19.385%
4. Aosta Factor S.p.A. Share capital € 14,993,000.00	Aosta	Aosta	1	Banco BPM	20.690%	20.690%
5. Arcene Immobili S.r.l. in liquidation Share capital € 12,000.00	Lodi	Lodi	1	Banco BPM	50.000%	50.000%
6. Arcene Infra S.r.l. in liquidation Share capital € 12,000.00	Lodi	Lodi	1	Banco BPM	50.000%	50.000%
7. Bipiemme Vita S.p.A. (*) Share capital € 179,125,000.00	Milan	Milan	1	Banco BPM	19.000%	19.000%
8. Bussentina S.c.a.r.l. in liquidation Share capital € 25,500.00	Rome	Rome	1	Bipielle Real Estate	20.000%	20.000%
9. Calliope Finance S.r.l. in liquidation Share capital € 600,000.00	Milan	Milan	1	Banco BPM	50.000%	50.000%
10. CF Liberty Servicing S.p.A. Share capital € 150,000.00	Rome	Rome	1	Banco BPM	30.000%	30.000%
11. Etica SGR S.p.A. (*) Share capital € 4,500,000.00	Milan	Milan	1	Banco BPM	19.444%	19.444%
12. Factorit S.p.A. Share capital € 85,000,002.00	Milan	Milan	1	Banco BPM	39.500%	39.500%
13. GEMA Magazzini Generali BPV-BSGSP S.p.A. Share capital € 3,000,000.00	Castelnovo Sotto (RE)	Castelnovo Sotto (RE)	1	Banco BPM	33.333%	33.333%
14. HI-MTF SIM S.p.A. Share capital € 5,000,000.00	Milan	Milan	1	Banca Akros	25.000%	25.000%
15. SelmaBipiemme Leasing S.p.A. Share capital € 41,305,000.00	Milan	Milan	1	Banco BPM	40.000%	40.000%
16. S.E.T.A. Società Edilizia Tavazzano S.r.l. in liquidation Share capital € 20,000.00	Milan	Milan	1	Banco BPM	32.500%	32.500%
17. Vera Assicurazioni S.p.A. Share capital € 63,500,000.00	Verona	Verona	1	Banco BPM	35.000%	35.000%
18. Vera Vita S.p.A. Share capital € 219,600,005.00	Verona	Verona	1	Banco BPM	35.000%	35.000%

(a) Type of relationship:
1 = investment in share capital
(*)Companies subject to significant influence based on partnership agreements or shareholders' agreements with other shareholders.

7.2 Significant interests in associates and joint ventures: book value, fair value and dividends received

Company name	Book value	Fair value	Dividends received
A. Companies subject to joint control			
N/A			
B. Companies subject to significant influence			
Agos Ducato S.p.A.	627,857	-	69,030
Alba Leasing S.p.A.	159,318	-	-
Anima Holding S.p.A.	203,559	277,406	
Vera Vita S.p.A.	257,473	-	-
Total	**1,248,207**	**277,406**	**69,030**

Note that dividends received during the year were recognised as decreasing the book value of the interest (as described in "Part A - Accounting policies" in these Notes), in that the profits which gave rise to them were indicated in the financial statements as at 31 December 2019, as a result of measuring the investment using the equity method.

7.3 Significant interests in associates and joint ventures: accounting information

The table below provides data obtained from the draft financial statements at 31 December 2020 approved by the Boards of Directors and provided by associated companies or, when not available, the most recent balance sheets (relative to 100% of the investment and not the percentage held by the Group, as established under IFRS 12). Note that measurement using the equity method was performed on the basis of this data.[1]

[1] At the date of preparation of this Financial Report, Anima Holding S.p.A. has not yet approved its draft financial statements. The measurement of that interest at equity was consequently carried out using as reference the most recent balance sheet and income statement, referring to 30 September 2020.

Company name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Net interest income	Value adjustments and recoveries on property, plant and equipment and intangible assets	Profit (loss) before tax from continuing operations	Profit (loss) after tax from continuing operations	Profit (loss) after tax from discontinued operations	Net profit (loss) for the year (1)	Other income components after tax (2)	Comprehensive income (3) = (1) + (2)
A. Companies subject to joint control														
N/A														
B. Companies subject to significant influence														
Agos Ducato S.p.A.	X	14,022,346	2,323,823	14,132,085	288,172	1,323,715	X	X	225,311	211,085	-	211,085	105	211,190
Alba Leasing S.p.A.	X	5,017,246	121,679	4,571,489	160,241	255,203	X	X	58	(194)	-	(194)	(56)	(250)
Anima Holding S.p.A.	X	421,577	1,725,552	680,037	208,435	719,949	X	X	154,556	103,258	_	103,258	(1,723)	101,535
Vera Vita S.p.A.	X	8,104,714	266,987	7,792,674	169,661	1,498,957	X	X	29,045	22,514	-	22,514	12,047	34,561

Reconciliation of net assets and the book value of the investee in the financial statements

	Net assets (*)	% Investment stake	Net assets held	Adjustments	Book value
A. Companies subject to joint control					
N/A					
B. Companies subject to significant influence					
Agos Ducato S.p.A.	1,925,912	39.000%	751,106	(123,249)	627,857
Alba Leasing S.p.A.	407,195	39.189%	159,576	(258)	159,318
Anima Holding S.p.A.	1,258,657	19.385%	243,991	(40,432)	203,559
Vera Vita S.p.A.	409,366	35.000%	143,278	114,195	257,473

(*) The amount of net assets, equal to the sum of "Financial assets" and "Non-financial assets", minus "Financial liabilities" and "Non-financial liabilities" indicated in table 7.3, corresponds to the total shareholders' equity of the investee.

Agos Ducato is a financial company controlled by the international Crédit Agricole Group through Crédit Agricole Consumer Finance. The company works in the household loan sector within which it provides loans, mainly for the purchasing of goods and services, as well as personal loans.
Alba Leasing operates in the lease sector and originated from the restructuring of the former Banca Italease Group. The company offers financing in the form of lease contracts, placing its products through the banking channel, including Banco BPM network.
Anima Holding S.p.A. is a financial holding company that is the parent company of Anima Group, which carries out collective asset management by managing mutual investment funds and pension funds.
Vera Vita S.p.A. is an insurance company offering life insurance, controlled by the Società Cattolica Assicurazioni Group. Outside of Banco BPM distribution network, it is the sole distributor of its life insurance products.

7.4 Non-significant interests in associates and joint ventures: accounting information

The table below provides accounting information, cumulative by type of investment relationship, with reference to non-significant companies subject to significant influence. The information is taken from the most recent financial statements or most recent accounting statement available and calculated with reference to the stake held by the Group, as established under IFRS 12.

		Book value of investments	Total assets	Total liabilities	Total revenues	Profit (loss) after tax from continuing operations	Profit (loss) after tax from discontinued operations	Net profit (loss) for the year (1)	Other income components after tax (2)	Comprehensive income (3) = (1) + (2)
A.	Companies subject to joint control									
	N/A									
B.	Companies subject to significant influence	416,565	3,534,046	3,204,374	301,777	22,565	-	22,565	3,843	26,408

7.5 Interests in associates and joint ventures: annual changes

	31/12/2020	31/12/2019
A. Opening balance	**1,386,079**	**1,434,163**
B. Increases	**349,766**	**182,664**
B.1 Acquisitions	68,240	
B.2 Recoveries		
B.3 Revaluations		
B.4 Other changes	281,526	182,664
C. Decreases	**(71,073)**	**(230,748)**
C.1 Sales		(1)
C.2 Value adjustments		
C.3 Write-downs		
C.4 Other changes	(71,073)	(230,747)
D. Closing balance	**1,664,772**	**1,386,079**
E. Total revaluations	-	-
F. Total adjustments	**(625,921)**	**(625,921)**

Item B.1 includes the purchases of Anima Holding (50.7 million) and the capital contribution of 17.5 million to the subsidiary Vera Vita S.p.A., against a total capital contribution of 50 million.

The other increases (item B.4) include the portion of profits for the year achieved by the investees pertaining to the Group for a total amount of 130.8 million (for details, please see "Section 17 - Gains (losses) of associates and joint ventures" in Part C of these Notes). These also include the effects pertaining to the Group of valuation reserves and other reserves of associates (+9.0 million). These also include the reclassification of the interest in Anima Holding held up to 1 April 2020, as illustrated in "Part A – Accounting policies" (+141.5 million).

The other decreases (item C.4) include the effects of the reduction in the equity of Agos Ducato (-69.0 million), of Anima Holding (-0.9 million), and of Etica SGR (-0.9 million), following distribution of dividends.

7.6 Valuations and significant assumptions to establish the existence of joint control or significant influence

Significant influence exists when the power to participate in the entity's management and financial decisions is held, based on voting rights held or the in the presence of special contractual agreements, as better described in "Part A - Accounting policies" of these Notes. As at 31 December 2020, the scope of companies subject to significant influence involved companies in which 20% or more of voting rights is held, without, however, holding the right to exclusively direct the entity's significant activities, as can be seen in table 7.1 above.
With regards to Bipiemme Vita S.p.A., although a less than 20% shareholding is held in the company, it is held that significant influence exists based on the shareholders' agreement signed with the other shareholder Covéa (which holds 81% of voting rights), containing corporate governance rules, as well as industrial aspects of the partnership.
Also with regard to Anima Holding S.p.A., although a less than 20% shareholding is held in the company, it is held that significant influence exists based on the weight on the decision-making process through representation in the Board of Directors, as well as due to the partnership agreements in force between Banco BPM and Anima.

As at 31 December 2020 there were no companies under joint control, that is entities for which unanimous consent of all parties sharing control is required to make strategic financial and management decisions.

7.7 Commitments relative to interests in companies under joint control

There are no interests in companies under joint control.

7.8 Commitments relative to interests in companies subject to significant influence

Commitments deriving from agreements with Crédit Agricole for consumer loans

On 28 June 2019, in execution of the agreements signed at the end of 2018 by Banco BPM, Crédit Agricole Consumer Finance SA, Crédit Agricole SA and Agos Ducato, the reorganisation of the Group's consumer credit segment was completed. The reorganisation, which confirms the partnership between Banco BPM Group and Crédit Agricole for the next 15 years:

(i) formalised, inter alia: (a) a new Shareholders' Agreement, (b) a new Distribution Agreement, and (c) a new Funding Agreement;

(ii) resulted in the transfer of ProFamily to Agos Ducato, through the finalisation of a demerger of ProFamily's non-captive operations in favour of a newly established company, 100%-owned by Banco BPM, which retained the name ProFamily.

On 18 December 2020, an Amendment Agreement was signed between the parties, to further consolidate the existing partnership related to the consumer finance activities in Italy of Agos Ducato. This agreement made several amendments to the agreements signed in 2018. Those amendments provide new opportunities for Agos Ducato to further expand its customer base, and extends up to an additional 24 months, and therefore, up to 31 July 2023, the term for the exercise of the put option referring to a 10% investment in the capital of Agos Ducato held by Banco BPM, at the previously agreed strike price of 150 million.

Those agreements also provide, in the event that an extraordinary transaction is finalised (understood as: acquisition of control of Banco BPM by a third party operator or several third party operators in concert; merger of Banco BPM with third party operators; acquisition by Banco BPM of another bank or other distribution channels; or acquisition by Banco BPM of a third party operator) the parties shall discuss in good faith, inter alia, depending on the case: i) the possible acquisition by Agos Ducato, at market value, of the entity which, due to the extraordinary transaction, works in the consumer credit segment; ii) the extension of the new Distribution Agreement to the third party operator's distribution network; or iii) the inclusion of the additional distribution channel acquired in the distribution network of Banco BPM Group.

Commitments deriving from bancassurance agreements

On 29 March 2018 - following on from the agreement for the establishment of a strategic partnership in life and non-life bancassurance signed on 9 November 2017 between Banco BPM and Società Cattolica di Assicurazione ("Cattolica") - the purchase of 50% + 1 share of Avipop Assicurazioni (Vera Assicurazioni, at the date of this report) and Popolare Vita (Vera Vita, at the date of this report) was finalised, bringing the shareholding of Banco BPM Group in the capital of the two insurance companies to 100%. On the same date, the sale to Cattolica of 65% of the total share capital held by the Group in the two insurance companies was finalised.

The Shareholders' Agreement signed on 29 March 2018 by Banco BPM S.p.A. and Cattolica, subsequently amended on 29 October 2018, envisages, among other things, the granting of a put option to Cattolica and a call option to Banco BPM, with regards to the entire interests held by Cattolica in Vera Vita and Vera Assicurazioni.

The triggering events that shall grant Banco BPM the right to exercise the call option include a change of control over Cattolica.
In that regard, Banco BPM deems that the corporate and industrial deal executed on 23 October 2020 between Assicurazioni Generali and Cattolica, announced to the market on 25 June 2020, led to a change in control over Cattolica. On the basis of that conviction, on 15 December 2020 the Bank notified Cattolica of the exercise of the call option on the controlling stakes held by Cattolica in the capital of the joint ventures.
In its correspondence sent to the Bank, Cattolica contested the occurrence of a change of control; however, it stated that the Bank has a right to exercise the call option. The Bank fully rejected Cattolica's objections, also reserving all rights in that regard. In any case, the completion of the purchase of the interests is subject to the authorisation from the competent Authorities under the law.
As at 31 December 2020 the shareholding structure of the joint ventures Vera Vita and Vera Assicurazioni was unchanged in relation to the existing situation prior to the exercise of the call option challenged by Cattolica:

- Banco BPM holds exclusively 35% of the capital of the insurance companies, an interest which continues to be classified under interests in companies subject to significant influence;

- In turn, Cattolica continues to hold control over the insurance companies and carry out the management and coordination thereof.

It is noted that the Shareholders' Agreement signed between Cattolica and Banco BPM in March 2018 (as amended) also governs the essential economic terms and conditions relating to the Partnership, including the minimum expected levels and objectives and certain protection and guarantee mechanisms related to the failure to achieve them. Moreover, under the Agreement, Banco BPM committed to pay Cattolica the amount of 26 million by way of indemnity, should Banco BPM and Covèa decide to renew for at least one year the distribution agreement relating to the insurance products on the former BPM network or should Banco BPM decide to exercise the right of withdrawal set out in the transfer agreement. The exercise of the call option on the controlling interests in the JV Vera Vita and Vera Assicurazioni illustrated above was considered in assessing the probability of actually paying the indemnity in question to Cattolica, as described in greater detail in Section B – Liabilities, paragraph 10.6.3 "Other provisions" of these Notes.

Commitments to Covéa

The former Banca Popolare di Milano (now Banco BPM) and Covéa have signed a shareholders' agreement containing corporate governance rules, as well as clauses involving industrial aspects of the partnership which establish inter alia, that the company has access to the former BPM Group's distribution network for 10 years, as of the closing date (8 September 2011), with the possibility of renewal at expiry.

The agreements signed on 8 September 2011, subsequently amended on 28 November 2018, involve reciprocal options which the parties can exercise if certain exceptional events occur in relation to one or both of the parties (known as "triggering events") such as, by way of example:

- breach of and/or non-renewal of the partnership agreements (termination due to breach of the shareholders' agreement or the distribution agreements);
- any changes of control over the parties;
- the liquidation or declaration of insolvency/bankruptcy by the parties;
- the occurrence of a decision-making impasse involving the proposal to wind up and liquidate Bipiemme Vita and/or Bipiemme Assicurazioni, revocation of liquidation status or the appointment or revocation of liquidators;
- the expiry of the shareholders' agreement due to non-renewal or the termination of efficacy for the same for any reason;
- the expiry of the distribution agreements due to non-renewal.

Banco BPM or Covéa may, based on the party in relation to which event has occurred, exercise the option to purchase the interest held by the other party in Bipiemme Vita's equity, or to sell its interest to the other party. The exercise price of the reciprocal options will be determined on the basis of a pre-established mechanism associated with the valuation of the life and non-life businesses.
For the first five-years of the strategic partnership, a penalty in favour of the Covéa Group is established in the case the option is exercised in connection to certain types of triggering events originating with Banco BPM (termination due to breach of the shareholders' agreement or the distribution agreements). The amount of this penalty decreases over time, starting from the date the partnership agreements are signed. If, instead, the triggering event occurs during the second five-year period of the partnership, no penalty will be due from Banco BPM and the Covéa Group may make use of their right to compensation for damages.

The sales contract includes an increase mechanism in favour of Banco BPM if certain pre-established sales objectives for Bipiemme Vita or Bipiemme Assicurazioni are achieved during the period between financial years ending as at 31 December 2011 and 31 December 2020, respectively referred to as the "Earn Out Life" (for a maximum of 11.7 million) and the "Earn Out Non-Life" (for a maximum of 2.5 million). Calculation of any price adjustment will occur at the end of the period indicated above, subordinate to renewal of the strategic partnership with the Covéa Group.
Based on the figures relating to business achieved up to 31 December 2020, it is confirmed that neither earn out will be paid.

Commitments arising from agreements with Anima on Asset Management

It should be noted that during 2017 and subsequent years, in execution of the agreements signed on 9 November 2017 between Banco BPM and Anima Holding, a series of agreements were signed to regulate:

(i) the sale to Anima Holding of Aletti Gestielle SGR;
(ii) the long-term partnership in the asset management sector between Banco BPM Group and Anima Group;
(iii) the sale by Banca Aletti to Anima SGR of the mandates for the exclusive management of certain insurance assets distributed through the Banco BPM network as part of the existing joint ventures between Banco BPM and the Cattolica Group.

These agreements, which have a total duration of 20 years from their origin, include (i) exclusive preferential access by the Anima Group to Banco BPM Group's present and future distribution networks, with different characteristics between the "retail" network and the other networks (ii) the distribution of products such as UCITs and Individual Portfolio Management and other products and services of the Anima Group, (iii) the essential economic terms relating to the Partnership, including the minimum expected levels and objectives and certain protection and guarantee mechanisms related to the failure to achieve them.

On 14 May 2020, Anima Group and Banco BPM Group (Banco BPM and Banca Aletti) renegotiated the framework partnership agreement, concerning both the redefinition of the expected target levels and the deadline for achieving them.

Provisions for risks and charges established to cover the commitments arising on the disposal of interests and any related partnership agreements are illustrated in paragraph 10.6.3 "Other provisions" below of Part B – liabilities of these Notes.

7.9 Significant restrictions

For interests subject to significant influence, no significant restrictions on the transfer of funds relative to companies in Banco BPM Group were identified, other than those associated with regulatory standards, which may require that a minimum amount of own funds be maintained, or those associated with the provisions of the Italian Civil Code with regards to profits and distributable reserves.

7.10 Other information

The associated company SelmaBipiemme Leasing ended its financial year on 30 June 2020. For the purposes of measuring it using the equity method, the income statement was reconstructed from the second half of the financial year, 1/7/2019 - 30/6/2020, and an income statement approved by the company relative to the half 1/7/2020 - 31/12/2020.

Section 8 - Technical reserves of reinsurers - Item 80

The Group does not have any interests in insurance companies.

Section 9 - Property, plant and equipment – Item 90

Property, plant and equipment totalled 3,552.5 million as at 31 December 2020, compared with the amount of 3,624.3 million of the previous year.

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

Asset/Amounts	Total 31/12/2020	Total 31/12/2019
1. Owned assets	**100,866**	**115,292**
a) land	-	-
b) buildings	-	-
c) furniture	21,728	26,142
d) electronic systems	55,554	54,487
e) other	23,584	34,663
2. Rights of use acquired through leases	**793,793**	**761,543**
a) land	-	-
b) buildings	781,132	760,865
c) furniture	10,605	55
d) electronic systems	-	-
e) other	2,056	623
Total	**894,659**	**876,835**
of which: obtained through the enforcement of guarantees received	-	-

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

Starting last year, following the change in the valuation criterion for the Group's real estate, there are no more property, plant and equipment held for investment purposes at cost. Therefore, the related table is omitted.

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

Asset/Amounts	Total 31/12/2020			Total 31/12/2019		
	L1	L2	L3	L1	L2	L3
1. Owned assets	**-**	**-**	**1,497,783**	**-**	**-**	**1,431,706**
a) land	-	-	1,101,844	-	-	1,043,095
b) buildings	-	-	345,839	-	-	336,504
c) furniture	-	-	-	-	-	-
d) electronic systems	-	-	-	-	-	-
e) other	-	-	50,100	-	-	52,107
2. Rights of use acquired through leases	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
c) furniture	-	-	-	-	-	-
d) electronic systems	-	-	-	-	-	-
e) other	-	-	-	-	-	-
Total	**-**	**-**	**1,497,783**	**-**	**-**	**1,431,706**
of which: obtained through the enforcement of guarantees received	-	-	54,741	-	-	-

Revalued owned assets refer to the owned real estate used for business operations of the Group companies and valuable works of art.

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

Asset/Amounts	Total 31/12/2020			Total 31/12/2019		
	L1	L2	L3	L1	L2	L3
1. Owned assets	**-**	**-**	**1,160,040**	**-**	**-**	**1,315,771**
a) land	-	-	829,624	-	-	952,657
b) buildings	-	-	330,416	-	-	363,114
2. Rights of use acquired through leases	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
Total	**-**	**-**	**1,160,040**	**-**	**-**	**1,315,771**
of which: obtained through the enforcement of guarantees received	-	-	644,449	-	-	736,737

Owned assets measured at fair value are represented by the owned real estate not used for business operations of Banco BPM Group.
In that regard, it is specified that the Group does not hold investment assets represented by the rights of use acquired through leases. Instead, property held for investment purposes granted through operating leases amounted to 717.0 million.

9.5 Inventories of property, plant and equipment governed by IAS 2: breakdown

The Group does not hold any property, plant and equipment classified as inventories pursuant to IAS 2.

9.6 Property, plant and equipment used in operations: annual changes

	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balance	**1,047,939**	**1,323,757**	**466,445**	**844,839**	**348,844**	**4,031,824**
A.1 Total net impairment	(4,844)	(226,388)	(440,248)	(790,352)	(261,451)	(1,723,283)
A.2 Net opening balance	**1,043,095**	**1,097,369**	**26,197**	**54,487**	**87,393**	**2,308,541**
B. Increases:	**71,082**	**225,040**	**17,732**	**20,867**	**6,023**	**340,744**
B.1 Acquisitions	-	15,692	17,717	20,867	5,813	60,089
B.2 Capitalised expenses for improvements	-	4,465	-	-	131	4,596
B.3 Recoveries	-	20,403	-	-	-	20,403
B.4 Positive changes in fair value recognised to	3,661	5,560	-	-	-	9,221
a) shareholders' equity	1,337	4,580	-	-	-	5,917
b) income statement	2,324	980	-	-	-	3,304
B.5 Exchange gains	-	13	-	-	2	15
B.6 Transfers from property held for investment purposes	67,393	17,512	X	X	X	84,905
B.7 Other changes	28	161,395	15	-	77	161,515
C. Decreases:	**(12,333)**	**(195,438)**	**(11,596)**	**(19,800)**	**(17,676)**	**(256,843)**
C.1 Sales	-	(51)	-	-	-	(51)
C.2 Depreciation	-	(131,992)	(11,588)	(19,797)	(15,633)	(179,010)
C.3 Losses on impairment recognised to	-	(6,824)	(6)	-	-	(6,830)
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	(6,824)	(6)	-	-	(6,830)
C.4 Negative changes in fair value recognised to	(10,645)	(2,923)	-	-	(1,727)	(15,295)
a) shareholders' equity	(6,311)	(1,790)	-	-	(1,727)	(9,828)
b) income statement	(4,334)	(1,133)	-	-	-	(5,467)
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to:	(1,688)	(757)	-	-	-	(2,445)
a) property, plant and equipment held for investment purposes	(1,465)	(603)	X	X	X	(2,068)
b) non-current assets and disposal groups held for sale	(223)	(154)	-	-	-	(377)
C.7 Other changes	-	(52,891)	(2)	(3)	(316)	(53,212)
D. Net closing balance	**1,101,844**	**1,126,971**	**32,333**	**55,554**	**75,740**	**2,392,442**
D.1 Total net impairment	-	(348,346)	(451,520)	(807,469)	(275,040)	(1,882,375)
D.2 Gross closing balance	**1,101,844**	**1,475,317**	**483,853**	**863,023**	**350,780**	**4,274,817**
E. Measurement at cost	775,179	376,887	-	-	10,935	1,163,001

To ensure better understanding of the changes in the assets in question, it must be specified that:

- the changes refer to owned property, plant and equipment and the rights of use acquired through leases;
- the sub-items "B.4 Positive changes in fair value" and "C.4 Negative changes in fair value" include the effects of the fair value measurement of the Group's real estate and valuable art assets, negative overall for 6 million. Said effects are reported in the statement of comprehensive income for 3.9 million and in the income statement item "260. Fair value gains (losses) on property, plant and equipment and intangible assets" for 2.1 million;
- sub-items "B.7 – Other changes" and "C.7 – Other changes", for the column "buildings" represent the increases and decreases, respectively, correlated with the rights of use of several properties, resulting from the renegotiations finalised during the year. In particular, the increase refers to the renegotiation of the master agreement for several properties leased from the Eracle Fund, which envisaged, *inter alia*, an extension of the duration. For the details of the operation, refer to the section "Other events during the year" set out in the Group Report on Operations;
- sub-items "B.3 Recoveries" and "C.3 Losses on impairment" include the economic effects of the measurement of impairment of the rights of use of real estate leases. In particular, the recovery refers to

several properties leased from the Eracle Fund, resulting from the renegotiation illustrated in the previous point, which introduced, *inter alia*, greater flexibility in exiting the lease. That flexibility resulted in the recognition of a positive economic effect of 20.4 million, resulting from the recovery of the impairment recognised in the previous years, attributable to the rents to be paid for the contractual period which cannot be cancelled for branches closed or to be closed.

For the details of the movements in the rights of use acquired through leases, refer to Table 9.6 bis below.

Lastly, sub-item "E. Measurement at cost" represents the amount that would result from the measurement at cost of property, plant and equipment (real estate and works of art) that are measured in the financial statements using the restatement approach, in compliance with the instructions set out in Bank of Italy Circular no. 262.

9.6 bis Property, plant and equipment used in operations - Rights of use acquired through leases: annual changes

The changes during the year in the rights of use acquired through leases, already included in table 9.6 above, are shown below, referring to that previously illustrated for the related dynamics.

	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balance	**-**	**913,534**	**129**	**-**	**1,607**	**915,270**
A.1 Total net impairment	-	(152,669)	(74)	-	(984)	(153,727)
A.2 Net opening balance	**-**	**760,865**	**55**	**-**	**623**	**761,543**
B. Increases:	-	**194,726**	**13,137**	**-**	**3,507**	**211,370**
B.1 Acquisitions	-	10,946	13,137	-	3,431	27,514
B.2 Capitalised expenses for improvements	-	2,004	-	-	-	2,004
B.3 Recoveries	-	20,403	-	-	-	20,403
B.4 Positive changes in fair value recognised to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Exchange gains	-	13	-	-	-	13
B.6 Transfers from property held for investment purposes	-	-	X	X	X	-
B.7 Other changes	-	161,360	-	-	76	161,436
C. Decreases:	**-**	**(174,459)**	**(2,587)**	**-**	**(2,074)**	**(179,120)**
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	(114,758)	(2,587)	-	(2,074)	(119,419)
C.3 Losses on impairment recognised to	-	(6,824)	-	-	-	(6,824)
a) shareholders' equity	-					-
b) income statement	-	(6,824)				(6,824)
C.4 Negative changes in fair value recognised to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) property, plant and equipment held for investment purposes	-	-	X	X	X	-
b) non-current assets and disposal groups held for sale	-	-	-	-	-	-
C.7 Other changes	-	(52,877)	-	-	-	(52,877)
D. Net closing balance	**-**	**781,132**	**10,605**	**-**	**2,056**	**793,793**
D.1 Total net impairment	-	(254,887)	(2,661)	-	(3,079)	(260,627)
D.2 Gross closing balance	**-**	**1,036,019**	**13,266**	**-**	**5,135**	**1,054,420**
E. Measurement at cost	-	-	-	-	-	-

9.7 Property, plant and equipment held for investment purposes: annual changes

	Total	
	Land	Buildings
A. Opening balance	**952,657**	**363,114**
B. Increases	**13,269**	**9,736**
B.1 Acquisitions	2,326	3,544
- of which business combinations	-	-
B.2 Capitalised expenses for improvements	23	352
B.3 Positive changes in fair value	8,879	4,634
B.4 Recoveries	-	-
B.5 Exchange gains	-	-
B.6 Transfers from properties used in operations	1,465	603
B.7 Other changes	576	603
C. Decreases	**(136,302)**	**(42,434)**
C.1 Sales	(6,824)	(2,349)
- of which business combinations	-	-
C.2 Depreciation	-	-
C.3 Negative changes in fair value	(32,145)	(15,926)
C.4 Losses on impairment	-	-
C.5 Exchange losses	-	-
C.6 Transfers to:	(97,128)	(23,938)
a) properties used in operations	(67,393)	(17,512)
b) non-current assets and disposal groups held for sale	(29,735)	(6,426)
C.7 Other changes	(205)	(221)
D. Closing balance	**829,624**	**330,416**
E. Measurement at fair value through profit and loss	-	-

As at 31 December 2020 assets held for investment purposes, fully represented by owned properties at fair value, amounted to 1,160.0 million (1,315.8 million as at 31 December 2019).

For the purpose of understanding the changes in the assets in question, it is specified that:

- the changes attributable to changes in the estimate of fair value, equal to the mismatch between sub-items B.3 and C.3, which totals a negative amount of 34.6 million, are recognised under the income statement item “260. Fair value gains (losses) on property, plant and equipment and intangible assets”.
- the sub-item “E. Measurement at fair value through profit and loss”, to be completed for properties for investment purposes measured at cost, is blank as all the properties are measured at fair value.

9.8 Inventories of property, plant and equipment governed by IAS 2: annual changes

The Group does not hold any property, plant and equipment classified as inventories pursuant to IAS 2.

9.9 Commitments to purchase property, plant and equipment

At the reporting date, there were no commitments for the purchase of property, plant and equipment of a significant amount.

Section 10 - Intangible assets – Item 100

10.1 Intangible assets: breakdown by type of asset

Asset/Amounts	Total 31/12/2020		Total 31/12/2019	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	**X**	**51,100**	**X**	**76,200**
A.1.1 attributable to the Group	X	51,100	X	76,200
A.1.2 attributable to non-controlling interests	X	-	X	-
A.2 Other intangible assets	**663,260**	**504,272**	**688,888**	**504,272**
A.2.1 Assets at cost:	663,260	504,272	688,888	504,272
a) Internally generated intangible assets	-	-	-	-
b) Other assets	663,260	504,272	688,888	504,272
A.2.2 Assets at fair value:	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
Total	**663,260**	**555,372**	**688,888**	**580,472**

Intangible assets with a finite life include the value of "Client Relationships" acquired as part of the business combination of BPM Group and Banca Popolare Italiana Group for a total of 335.8 million. The remaining portion mainly refers to software.

Intangible assets with an indefinite life recognised in the financial statements are comprised:
- of 51.1 million in goodwill from the combination of Banca Popolare Italiana (Bancassurance CGU), decreased compared to 76.2 million in the previous year, due to the impairment of the goodwill of Vera Vita S.p.A. following the annual impairment test conducted;
- of 504.3 million in business trademarks.

Intangible assets with a finite life - Client Relationship

The Client Relationship identifies the activities linked to measuring the relationship with customers that arise on Purchase Price Allocation (PPA) following business combinations recorded pursuant to IFRS 3.
Those assets, which are part of intangible assets with a finite life, represent the ability of the relationships existing at the date of the business combination to generate income flows over the expected residual life of those relationships.
In line with guidelines of IFRS 3, to measure the Client Relationship, only those relationships established prior to the acquisition date are considered. Therefore, the generation capacity of new relationships are not measured.
The measurement method used to estimate the value of the Client Relationship at the date of PPA is based on the discounting of net future cash flows over the period that expresses the estimated residual duration of the relationships existing at the date the business combination occurred.
Each intangible asset representing a Client Relationship is assigned a useful life, defining the percentage of amortisation represented by the estimated rate of decay in volumes.
Thus, amortisation is estimated based on the useful life, which takes account of the decay curves physiologically observable over the historical time period deemed significant.
Intangible assets with a finite life are also subject to impairment when the presence of indicators of loss are present that deem it impossible to recover the value recorded in the financial statements.

That being said, the Client Relationships recognised in the financial statements of Banco BPM Group represent the assets attributable to customer relationships, for Asset Management/Assets Under Custody (AuM/AuC) and for Core Overdrafts/Core Deposits, recognised as part of the following business combinations:
- acquisition of Banca Popolare Italiana Group by Banca Popolare di Verona, effective on 1 July 2007, through which intangible assets were identified attributable to Core Overdrafts/Core Deposits and Asset Management/Assets Under Custody (AuM/AuC). As at 31 December 2020 the residual value of said assets amounted to 135.0 million, following the recognition of the amortisation for the year of 15.2 million;
- acquisition of Banca Popolare di Milano by Banco Popolare, effective on 1 January 2017, which gave rise to intangible assets exclusively referring to Asset Management/Assets Under Custody (AuM/AuC). As at

31 December 2020 the residual value of said assets amounted to 200.8 million, following the recognition of the amortisation for the year of 20.8 million.

The respective measurement and amortisation criteria for the types of Client Relationships arising following the aforementioned business combinations are illustrated below.

Core Deposits/Core Overdrafts
The recognition of an intangible asset related to Core Deposits and Core Overdrafts depends on the fact that core deposits generally have an economic duration that is longer than the contractual duration, thereby resulting more cost-effective for the Bank than alternative sources of financing or investments.
Those assets were measured based on the evolution of the estimated amounts, considering the probability of closing the accounts. That estimate, which is based on historic data, makes it possible to identify a physiological decay curve which will reflect on the amortisation process. This entails variable charges based on preset annual percentages.
In measuring the assets, in addition to the estimated evolution of the amounts, revenues (in terms of interest and net fee and commission income), certain operating expenses, costs relating to credit risk (only for core overdrafts) and a figurative tax effect, with a discount rate determined based on the risk profile of the assets measured were considered. Lastly, the valuation included the Tax Amortisation Benefit, which expresses the tax benefit for a potential third party buyer connected with the deductibility of amortisation of the asset in the event of a transaction settled in cash.

Asset Management/Assets Under Custody (AuM/AuC)
The assets linked to asset management and assets under custody are linked to the relationship that the Bank establishes with customers, through contracts that envisage specific services, which are assigned an economic duration higher than the contractual duration, which is measured through net fee and commission income of the Bank from the products and services of asset management and assets under custody that are provided to customers.
The measurement of those assets is based on the discounting of future net cash flows referring to indirect funding, and takes account of the evolution of assets under administration and managed over the time horizon estimated, considering the probability of closing the accounts, based on a physiological decay curve which will reflect on the amortisation process. This entails variable charges based on preset annual percentages.
In measuring the assets, in addition to the estimated evolution of the amounts, revenues in terms of net fee and commission income, certain operating expenses and a figurative tax rate, with a discount rate determined based on the risk profile of the assets measured were considered. Lastly, the valuation included the Tax Amortisation Benefit, which expresses the tax benefit for a potential third party buyer connected with the deductibility of amortisation of the asset in the event of a transaction settled in cash.

Amortisation of the Client Relationship
With regard to the situation as at 31 December 2020, the Client Relationship recognised in the financial statements amounts to 335.8 million, of which 89.3 million in core deposits, fully referring to the PPA of Banca Popolare Italiana Group, and 246.5 million in AuM/AuC.
Those assets are recognised in the financial statements of Banco BPM for 294.1 million, of which 130.7 million attributable to the PPA of BPI Group and 163.5 million to the PPA of BPM Group. The remaining assets related to the subsidiary Banca Aletti, following the company reorganisation processes, and in particular refer to 4.3 million for the PPA of BPI Group and 37.3 million to the PPA of BPM Group.
The amortisation charge for the year, recorded under the item "Amortisation and impairment losses on intangible assets", amounts to 36.0 million, gross of tax effects.
The residual useful life of the Client Relationship of the PPA relating to Banca Popolare Italiana Group, estimated based on a curve of termination of relationships, amounts to 16 years (expiry 2036). Considering the decreasing growth of the curve of termination of relationships, it must be noted that more than half of the residual value recorded as at 31 December 2020 will be amortised by 2026.
The residual useful life of the Client Relationships attributable to the PPA of Banca Popolare di Milano Group, estimated based on the curve of termination of relationships, is 21 years (expiry 2041). Considering the decreasing growth of the curve of termination of relationships, it must be noted that more than half of the residual value recorded as at 31 December 2020 will be amortised by 2027.

(in millions of euro)	BPI PPA			BPM PPA	Total
	Core Deposits	Core Overdrafts	Aum/AuC	Aum/AuC	
A. Opening balance	**343**	**31**	**154**	**299**	**827**
A.1 Total net impairment	(244)	(31)	(103)	(77)	(455)
A.2 Net opening balance	**99**	**-**	**51**	**222**	**372**
B. Increases	-	-	-	-	-
C. Decreases	(10)	-	(5)	(21)	(36)
of which: amortisation	(10)	-	(5)	(21)	(36)
D. Net closing balance	**89**	**-**	**46**	**201**	**336**
D.1 Total net adjustments	(254)	(31)	(109)	(98)	(491)
E. Closing balance	343	31	154	299	827

Intangible assets with an indefinite life are represented by goodwill and trademarks, for which an impairment test was performed, as indicated in paragraph 10.1.1 below.

Intangible assets with an indefinite life - Trademarks

A trademark defines a set of intangible assets that are complementary to each other, linked to marketing activities (in addition to the name and logo, the expertise, trust of consumers, quality of services, etc.).
The recognition of an intangible asset linked to the trademark derives from the fact that elements such as the ability to attract customers and maintain their loyalty or the commercial name may be assigned differentiated expected economic benefits (in terms of net cash flows) that can be reliably measured. A trademark is an identifiable intangible asset, as it can be separated from the company as a whole, and can be associated with a significant ability to attract customers and maintain their loyalty.
This is an intangible asset with an indefinite useful life, as it is deemed that that intangible component may contribute for an indefinite period to the formation of income flows. As such, it is subject to annual impairment testing, for which reference is made to that set out below.

That being said, in the consolidated financial statements of Banco BPM Group, trademarks are recorded for a total amount of 504.3 million (of which 485.6 million in the Parent Company's financial statements), recognised:

- for 222.2 million following the acquisition of Banca Popolare Italiana Group by Banca Popolare di Verona, effective on 1 July 2007;
- for 282.1 million following the acquisition of Banca Popolare di Milano Group by Banco Popolare, effective on 1 January 2017.

10.1.1 Intangible assets with an indefinite life: impairment testing

Pursuant to IAS 36, all intangible assets with an indefinite useful life must undergo impairment testing at least once a year to verify the recoverability of their value. The Group decided to conduct the impairment test with reference to 31 December of each year and, in any event, each time indicators of loss are present.

The impairment test as at 31 December 2020 has taken the following into account:

- the provisions of the reference international accounting standard IAS 36;
- the recommendations issued through the joint letter of the Bank of Italy, CONSOB and IVASS of 3 March 2010;
- the main suggestions found in the document issued on 14 June 2012 by the Italian Measurement Body (OIV), entitled "Goodwill impairment test under situations of real and financial crises", as well as the Discussion Paper "Guidelines for the impairment test after the effects of the Covid-19 pandemic" issued by the same OIV on 10 July 2020;
- the recommendations issued by CONSOB in communication no. 3907 of 19 January 2015;
- the recommendations published by ESMA on 20 May 2020 "Implication of the Covid-19 outbreak on the interim financial report", set out in "Part A - Accounting policies";
- the Covid-19 financial disclosures published by CONSOB on 9 April 2020 (no. 6/20) and 16 July 2020 (no. 8/20), as illustrated in "Part A - Accounting policies".

Also note that, as requested by the cited supervisory bodies, the procedure and parameters for assessing the impairment test for goodwill and other intangible assets with indefinite useful lives were approved by the Board of Directors, independently and in advance with respect to approval of the draft 2020 Financial Statements.

That said, for the purposes of impairment testing of the assets in question, IAS 36 requires that their recoverable value be determined as the higher of fair value and value in use. If it is not possible to directly determine the recoverable value of a specific intangible asset recognised in the financial statements, it is necessary to determine the recoverable value of the cash generating units to which the asset belongs (hereinafter "CGU - Cash Generating Unit"). In order to identify the CGUs to which the assets undergoing impairment tests are allocated, the potentially identified units must generate incoming cash flow in amounts that are clearly independent from those deriving from other identified units.

With specific reference to the verification of the recoverability of goodwill acquired in a business combination, paragraph 80 of the aforementioned accounting standard specifies that it must be allocated, from the acquisition date, to each cash generating unit or groups of cash generating units, which can benefit from the synergies created by the business combination, regardless of whether other assets or liabilities of the business acquired are assigned to said units or groups of units.
Each unit or group of units to which goodwill is thus allocated must:

(a) represent the minimum level within the entity for which the goodwill is monitored for the purposes of internal management control;
(b) not be larger than an operating segment, as determined in accordance with IFRS 8.

Based on the regulatory references illustrated above, as at 31 December 2020, the CGUs identified for which intangible assets, with an indefinite life (trademarks and goodwill as specified below) to be tested for impairment, were allocated are as follows:

- Retail CGU, comprised of activities for private individuals and small businesses, for testing the trademarks recognised following the business combination with the former Banca Popolare Italiana Group in 2007 (222.2 million) and with the former Banca Popolare di Milano Group in 2017 (263.5 million);
- Banca Akros CGU, consisting of Banca Akros S.p.A., for testing the corresponding trademark following the business combination with the former Banca Popolare di Milano Group in 2017 (18.6 million);
- Bancassurance Life CGU, consisting of the investee Vera Vita S.p.A. for the purposes of the goodwill impairment test relative to this operating segment, following the business combination with the former Banca Popolare Italiana Group in 2007 (25.1 million);
- Bancassurance Protection CGU, consisting of the investee Vera Assicurazioni S.p.A. for the purposes of the goodwill impairment test relative to this operating segment, following the business combination with the former Banca Popolare Italiana Group in 2007 (51.1 million).

Evidence is provided below of the method used to conduct the impairment test of the assets under review, the related results and sensitivity analysis.

A. Method for calculating the book value of the single CGUs

The book value of the Retail CGU, in line with the 2020 Interim Financial Report and the 2019 Financial Statements, was determined according to management metrics based on regulatory capital absorption. In particular, the reference book value is obtained by considering the Common Equity Tier 1 (CET1) capital allocated to the CGU, i.e. the capital allocated on a management basis in relation to its risk-weighted assets. In detail, the allocated capital is obtained by multiplying the risk-weighted assets of the CGU by the "CET1 fully-phased" capital ratio, equal to 12.48%, defined in terms of "CET1 budget target", as it is considered to be the expressive measure of the actual capital used, under ordinary conditions. Goodwill and other intangible assets with an indefinite and finite useful life associated with the CGU are also added to the capital thus attributed.
For the Bancassurance CGUs, corresponding to the two legal entities Vera Vita and Vera Assicurazioni, the reference value was specifically identified as the sum of the book values of the balance sheet assets and liabilities of the cited entities and the goodwill allocated to the same.

With regard to the "Banca Akros" trademark, in line with the 2020 Interim Financial Report and 2019 Financial Statements, the methodology used is based on the royalties method. This method makes it possible to directly verify the recoverability of the book value of the trademark, without it being necessary to determine the recoverable value of the entire CGU to which this intangible asset is allocated.

The following table shows the reference book values of the CGUs, as determined above, including goodwill and trademarks to be tested for impairment (values prior to any impairment determined).

CGU	Reference book value	of which: goodwill	of which: trademarks
Retail	3,212	-	486
Banca Akros (*)	19	-	19
Bancassurance Life	283	25	-
Bancassurance Protection	159	51	-
Total	**3,672**	**76**	**504**

(*) In line with the royalties valuation model, the values of the Banca Akros CGU shall be understood as referring only to the "Banca Akros" trademark.

These CGU reference values are in line with the methods used to determine the respective recoverable values, as illustrated below.

B. Criteria used to determine the recoverable value of the CGUs

On the basis of IAS 36, the amount of any impairment is determined as the difference between the book value of the CGU, identified on the basis of the criteria already described, and its recoverable value, if lower. The recoverable value is defined as the higher of:

- The Value in Use, i.e. the present value of future cash flows expected to arise from the continuous use of a specific asset or from a CGU;
- The Fair Value, after costs to sell, or the amount which could be obtained by selling an asset, in a free transaction between knowledgeable and willing parties.

For the Retail CGU and for the Bancassurance Life and Protection CGUs, the impairment test was conducted using the Value in Use, obtained through the application of the Dividend Discount Model (DDM).
According to the Dividend Discount Model, the value of a business is based on the dividend flows that it is capable of generating on a forward-looking basis. In the case in question, the method used is the Excess Capital variant of the DDM, which assumes that the economic value of a business is equal to the sum of the present value of future cash flows (Expected Dividends) generated over the selected planning time horizon and distributable to shareholders while maintaining an adequate level of capitalisation to guarantee the expected future development, and the perpetual capitalisation of the normalised dividend of the last year of the forecast, based on a pay-out ratio, depending on fully phased profitability. The application of the DDM entails the use of the following formula:

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

where:
W = General value of economic capital
Ke = Cost of equity (Ke)
Dt = Dividends distributable in the explicit period, with a level of capitalisation consistent with current regulations
n = Number of years in the explicit period
TV = Terminal Value determined as the present value of perpetual income represented by the average sustainable dividend for the years following the explicit planning period
SA = Value of any surplus assets.

In analytical terms, the Terminal Value is calculated as follows:

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

where:
Dn+1 = Average sustainable dividend expected after the explicit planning period
g = Expected long-term growth rate of the dividend after the explicit planning period. This rate is placed in relation to the nominal growth rate of the economy over the long term. In fact, it is prudently assumed that over the long term each sector and each company in the sector will convert toward a growth rate equal to that of the economy as a whole
Ke = Cost of equity.

For the Banca Akros CGU, the methodological approach used to measure the trademark involved valuing the intangible asset on the basis of the royalties, which the owner of the trademark would receive following its sale for use to third parties. The present value of the trademark is therefore expressed as the present value of future royalties, estimated with reference to specific parameters (royalty rate, percentage of revenues) after the relative tax effects.
The valuation also included the Tax Amortisation Benefit, i.e. the tax benefit for a potential third party buyer connected with the deductibility of amortisation of the asset in the event of a transaction settled in cash. In detail, the following formula has been used to enhance the trademark:

$$W = \left[\frac{\sum_{t=1}^{n} S_t \cdot r \cdot (1-T)}{(1+ke)^t} + TV \right] + \text{TAB}$$

where:
W = Value of the trademark
St = Operating income 2021-2023
R = Royalty rate
T = Tax rate
Ke = Discount rate
TV = Terminal Value obtained through capitalisation in perpetuity of the expected royalty flows during the period following the last forecast, considering a long-term growth rate
TAB = Tax Amortisation Benefit

B.1 - Estimates of cash flows

The estimates of cash flows underlying the determination of the Value in Use is normally made using the latest publicly available plan or alternatively through the formulation of a forecast plan developed internally by management.

With regard to the Retail CGU, it should be noted that the crisis caused by the current health pandemic still under way has made the objectives of the Group’s 2020-2023 Strategic Plan, presented to the market on 3 March 2020, no longer relevant because they were developed assuming a macroeconomic scenario that is significantly different from the one that is gradually emerging. Therefore, it was necessary to revise the 2021-2023 targets.

The new projections were drawn up in line with the 2021 budget figures and, for the years 2022-2023, with the strategies approved by the Board of Directors in preparation for the revision of the 2021-2023 Strategic Plan.
The projections refer to a scope consisting only of the Group’s Retail activities (households and businesses with turnover of less than 75 million), in line with segment reporting.

In light of the above considerations, in accordance with the practice for evaluation exercises to be conducted in contexts characterised by extreme uncertainty, it was considered appropriate to adopt a “multi scenario” approach. The cash flow projections have therefore been prepared using three separate macroeconomic scenarios, in line with the other significant company valuation processes, to which a different probability of occurrence has been attributed. In greater detail, in line with the other valuation processes (probability test of DTAs and expected losses on performing loans), the above scenarios were drawn up based on the macroeconomic forecasts published by Prometeia in October 2020.

The macroeconomic scenarios used as reference and their probability of occurrence envisage a baseline scenario deemed most probable, a favourable scenario (mild)and adverse scenario ("severe but plausible"), to which the following respective probabilities of occurrence were assigned: 60%, 20% and 20%.

For further details on macroeconomic scenarios and the related probability of occurrence, please refer to the paragraph "Measurement methods for expected losses" contained in "Part E - Information on risks and related hedging policies" of these Notes.

The main assumptions and hypotheses underlying the development of the aforementioned projections are illustrated below:

- Commercial volumes: the most significant technical forms of direct/indirect lending and funding have been forecast taking into account the expected values for the end of 2021, the development initiatives of the commercial structures and the dynamics of the scenario. The 2020-23 CAGR of net loans in the baseline scenario, of 1.5%, is included between the -0.3% of the adverse scenario and the 2.5% of the mild scenario. The 20-23 CAGR of total (direct and indirect) funding is 2.9% in the baseline scenario (1.5% in the adverse scenario and 3.9% in the mild scenario), reflecting above all the growth in indirect funding (20-23 CAGR of 5.9% due to the increase in asset management);
- Net interest income: starting from the spread and volumes forecast for 2020, the lending and funding spreads for the three-year period 2021-2023 incorporate the impacts of the interest rate scenario (Euribor substantially flat at around -0.40) and assuming a slight contraction in the mark up on lending (from 1.99% to 1.90%) due to maturities and new business. Overall, net interest income is expected to increase over 2021-23 in all three scenarios, and amounts to +3.5% in the baseline scenario (+9.1% in the mild scenario, +0.9% in the severe but plausible scenario);
- Income from services: benefits both from the dynamics of volumes and the diversification of the offering towards products with higher added value. In particular, in the three-year period 2021-23, the negative "step" generated in 2020 is expected to be recovered for the part attributable to the lockdown, with varying degrees, depending on the type of service and the underlying macro scenario;
- Operating income: this shows a 2020-23 CAGR in the baseline scenario of +5.6%, specifically benefiting from the growth in net fee and commission income (20-23 CAGR of +8.2%) due to the trend in volumes and the repricing, especially of asset management products. Instead, the net financial result was impacted by the cost of placement of certificates issued by Banco BPM starting in 2020. In the mild scenario, the 20-23 CAGR of operating income is +8.3%, while in the adverse scenario it is +4.1%;
- Operating expenses: a containment of costs is expected (20-23 CAGR of -3.4% in the baseline scenario) in line with the assumption of operational reorganisation and rationalisation of the branch network. In detail, the projection was drawn up starting from the consolidated amounts. The allocation of costs to the scope of the Retail CGU was established based on the evidence from the latest available segment reporting. Banking industry charges were updated to take account of the most recent regulatory figures;
- Adjustments to loans: the projection includes the latest assumptions available at the current date, in line with the forecast of gradual improvement in risk KPIs following the shock of 2020, in line with the development of the scenario. The projections were analytically processed taking account of the development of amounts and with the support of satellite risk models, fuelled by three different macroeconomic scenarios (baseline/mild/adverse) and the development of geographical and sector-based decay rates, in line with the ECL methodology. The development also takes account of the mitigation effects of the moratoria and the various types of public guarantees resulting from the government measures introduced to reduce the effects of the pandemic on economic operators.

To estimate the terminal value, the average sustainable dividend after the explicit planning period was calculated as a function of expected profitability in the long term, also obtained by weighting the flows of the above three scenarios. In detail, revenue and cost items were assumed to be equal to the last year of the explicit period (2023), suitably normalised to take account of those components not recurring in perpetuity in each scenario, with the exception of amortisation/depreciation, which take account of the expected savings. For the cost of credit, a "normalised" long-term target at consolidated level was assumed (equal to 74 bps), recalibrated to the volumes, differentiated in the various scenarios. Banking industry charges were sterilised both regarding the portion of allocations to the Single Resolution Fund (SRF) and the Deposit Guarantee Scheme (DGS) which, ending in 2023 and in 2024, respectively, do not recur in perpetuity. Long-term profitability was then estimated using a reference long-term business growth rate of 2%, taken as equal to the nominal growth rate of the economy, in line with the inflation objective in the context of the ECB's long-term monetary stability policy.

The distributable cash flows in the explicit period (Dt) were thus determined starting with 2021-2023 economic-financial figures, as illustrated above, taking into consideration a minimum estimated capital level based on a Common Equity Tier 1 (CET1), representing the minimum capital level that the ECB has asked the Banco BPM Group to meet on an ongoing basis upon completion of the Supervisory Review and Evaluation Process (SREP), which is 8.518%. The choice of this value is considered to be consistent with the DDM, as it represents the minimum capital threshold below which dividends cannot be distributed.

In order to verify the recoverability of the "Banca Akros" trademark, the projections were prepared taking into account the effects of the deterioration resulting from Covid-19 on the individual operating segments of the company, with particular reference to the trend in the placement of structured products, consistent with the strategic development lines, in preparation for the revision of the Group Strategic Plan. As for the Retail CGU, the projections for the Banca Akros CGU are based on three different scenarios, one more probable, one favourable and one adverse.

For the Bancassurance Life and Protection CGUs, the projections were estimated starting with the forecast cash flows resolved by the individual insurance companies in 2020, in relation to the periodic processing of economic and capital plans, taking account of the new levels of business expected by the distributor, different for Life and Non-Life, starting from the 2021 budget. For the purposes of estimating distributable dividends, the maintenance of a target Solvency Capital Ratio (SCR) of 130% for Bancassurance Protection and 140% for Bancassurance Life was considered as a constraint.

B.2 - Cash flow discount rates

For the discounting of dividends distributable to shareholders, a cost of capital was used in line with the requested return for investments with characteristics equivalent to those being assessed. The cost of capital (Ke) was determined on the basis of the Capital Asset Pricing Model (CAPM), based on which the return of a risk asset is equal to the sum of a risk free rate (R_f) and a risk premium (MRP), determined taking account of the specific risk of the asset:

$$K_e = R_f + \beta \times (MRP)$$

In detail, the risk-free (R_f) component, which in any case encompasses the so-called "Country risk" is determined, using the same methodological approach followed for the Interim Financial Report as at 30 June 2020 and the 2019 Financial Statements, by using the 1-year average yield on 10-year Italian government BTPs (1.14% is the value as at 31 December 2020).

With reference to the beta coefficient (ß) - which measures the riskiness of the specific business or operating sector in terms of correlation between the effective return of a share and the overall return of the reference market - the following was used:

a) for the Retail CGU, an indicator relative to a sample of comparable companies (listed Italian banks) obtained from Bloomberg. As at 31 December 2020 the coefficient ß was 1.19;
b) for the Banca Akros CGU, an average indicator relative to a sample of companies in the Private and Investment Banking sector, obtained from Bloomberg. As at 31 December 2020 the coefficient ß was 1.21;
c) for the Bancassurance Life and Bancassurance Protection CGUs, an indicator relating to a comparable sample of companies active in the insurance sector surveyed by Bloomberg. As at 31 December 2020 the coefficient ß was 1.26.

The above coefficients have been measured, on a weekly basis, over a time horizon of 5 years.

Lastly, the risk premium requested from the market (MRP - Market Risk Premium) was determined to be 5.2%, based on the use of sources in line with measurement practices.

C. Summary of methodologies used and the main measurement parameters

In light of that illustrated above, the following table summarises the methodologies used to determine the recoverable value and the quantities of the main parameters represented by the cost of capital (Ke) and the income flows receivables factor (g) for each CGU:

CGU	Criteria used to determine the recoverable value	Discount rate "Ke"	Growth rate "g"
Retail	Value in use – Dividend Discount Model	7.32%	2.00%
Bancassurance Life	Value in use – Dividend Discount Model	7.70%	2.00%
Bancassurance Protection	Value in use – Dividend Discount Model	7.70%	2.00%
Banca Akros	Fair Value – Royalty Rate	7.45%	2.00%

D. Summary of results

Based on the guidelines illustrated, the impairment test as at 31 December 2020 showed the need to recognise the impairment of intangible assets with an indefinite useful life referring only to the Bancassurance Life CGU for an amount of 25.1 million.
In this regard, it should be noted that the parameters and assumptions underlying the determination of the value in use are significantly influenced by the macroeconomic framework assumed.
As also specified in the paragraph "Risks, uncertainties and the impacts of the Covid-19 pandemic" set out in "Part A – Accounting policies" of these Notes, given the special and uncertain situation relative to the overall macroeconomic framework, it cannot be excluded that the hypotheses adopted, however reasonable and prudential, might not be confirmed by future scenarios in which the Group finds itself operating. In particular, any worsening of the macroeconomic scenario could adversely affect the projections of estimated cash flows, the cost of capital and the growth factor, resulting in different results from those estimated for the purposes of this Annual Financial Report.

E. Sensitivity Analysis

In compliance with the dictates of IAS 36, for each CGU a sensitivity analysis of the recoverable value was conducted, in order to calculate the variability of this value in relation to reasonable changes in the underlying parameters.

In particular, the figures shown in the tables below represent the differential (in absolute value and percentage) between the recoverable value and the reference book value, in the hypothesis of an increase or decrease in the growth rate (g) and/or the cost of capital (Ke) with respect to the rates effectively used, keeping all the remaining assumptions unchanged. Specifically, the tables show the level that the "Ke" rate should take on in order to decrease to zero the positive delta between the recoverable value and the book value, if the growth rate "g" is kept constant at 2%.
In particular, the table below shows that an increase in the cost of capital at a value of 8.68% combined with a decrease in the growth rate of the terminal value at 1.5% would result in a scenario of impairment.

Retail CGU (probability scenario: baseline (60%), favourable (20%), adverse (20%) Growth rates of terminal value "g"/Discount rates "ke" (difference between recoverable value and reference value in millions of euro) (percentage impact on value in use)					
		(Ke)			
		7.32%		8.68%	
(g)	1.50%	670	17.3%	-116	-3.7%
	2.00%	885	21.6%	0	0.0%
	2.50%	1,145	26.3%	135	4.0%

The table below shows that an increase in the cost of capital at a value of 29.2% combined with a decrease in the growth rate of the terminal value at 1.5% would result in a scenario of impairment.

Banca AKROS CGU (probability scenario: baseline (60%), favourable (20%), adverse (20%) Growth rates of terminal value "g"/Discount rates "ke" (difference between recoverable value and reference value in millions of euro) (percentage impact on fair value)					
		(Ke)			
		7.45%		29.2%	
(g)	1.50%	71	79.1%	-0.2	-1.2%
	2.00%	78	80.7%	0	0.0%
	2.50%	87	82.4%	0.2	1.2%

The table below shows that an increase in the cost of capital at a value of 8.40% combined with a decrease in the growth rate of the terminal value at 1.5% would result in a scenario of impairment.

Bancassurance Protection CGU Growth rates of terminal value "g"/Discount rates "ke" (difference between recoverable value and reference value in millions of euro) (percentage impact on value in use)					
		(Ke)			
		7.70%		8.40%	
(g)	1.50%	5	3.1%	-10	-6.5%
	2.00%	17	9.9%	0	0.0%
	2.50%	32	16.8%	11	6.7%

In addition, for the Retail CGU, a sensitivity analysis was conducted with respect to the projected income flows and the CET 1 ratio constraint for dividend distribution, while for the Bancassurance Protection CGU, a sensitivity analysis was conducted with respect to the cost of capital and the constraint on dividend distribution equal to the Solvency Capital Ratio (hereinafter "SCR") target. The results of those analyses are summarised in the tables below, which show the differential (in absolute value and percentage) between the recoverable value and the reference book value, in the hypothesis of an increase or decrease in the CET 1 or the Solvency Ratio and/or net profit with respect to the data effectively used. Specifically, the tables show the levels that the CET 1/% change of the profit or Solvency Ratio would have to assume to decrease to zero the positive delta between the recoverable value and the book value.
In particular, the table below shows that, in the event of a need to increase the target CET 1 to 15% combined with a decrease in the forecast profits by over 5% would result in impairment scenarios of significant amounts.

Retail CGU (probability scenario: baseline (60%), favourable (20%), adverse (20%) % change in net profit/target CET 1 constraint (difference between recoverable value and reference value in millions of euro) (percentage impact on value in use)					
		CET 1			
		8.52%		15.0%	
PROFIT	5.00%	1,104	25.6%	222	6.5%
	0.00%	885	21.6%	0	0.0%
	-5.00%	666	17.2%	-222	-7.4%
	-20.2%	0	0%	-898	-38.8%

The table below shows that an increase in the target SCR at a value of 204% combined with an increase in the cost of capital at 8.05% would result in a scenario of impairment.

Bancassurance Protection CGU
Change in ke/Target SCR
(difference between recoverable value and reference value in millions of euro)
(percentage impact on value in use)

		SCR			
		130%		204%	
Ke	7.45%	25	13.5%	7	4.5%
	7.70%	17	9.9%	0	0.0%
	8.05%	8	4.9%	-9	-6.2%

F. External signs of impairment

The measurements expressed for the purposes of preparing these financial statements are the result of an extrapolation of the economic value of the CGUs based on their specific profit capacities, not fully recognised by the financial markets. That measurement takes shape over a longer period than the one assumed by the financial community, and is not based on the particular characteristics of the current economic and financial context, though this has been duly considered.

As at 31 December 2020, Group consolidated shareholders' equity amounted to 11.5 billion (net of equity instruments), against stock capitalisation of 2.7 billion (based on the stock market prices recorded at the end of December 2020). This situation is certainly not new as it was also present in previous years; the Covid-19 emergency - with an additional drop in the prices of the main securities in the banking sector (despite the recovery on the minimum prices recorded during the year) - has further increased the impact of this phenomenon. In fact, stock prices indicate significant discounts for all Italian banks, even with respect to tangible shareholders' equity. The justifications continuously provided in the financial statements are attributable to the structural misalignment between the valuations of the financial community that, by their nature, are focused on short term objectives and estimates, as well as the methods usually used to perform impairment tests, which give a significant value to medium/long-term growth potential. In fact, the measurements expressed for the purposes of preparing these financial statements are the result of an extrapolation of the economic value of the CGUs based on their specific profit capacities, using a much longer time horizon than that used by the financial community.

10.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		FIN	INDEF	FIN	INDEF	
A. Opening balance	**4,603,814**	**-**	**-**	**2,600,415**	**504,272**	**7,708,501**
A.1 Total net impairment	(4,527,614)	-	-	(1,911,527)	-	(6,439,141)
A.2 Net opening balance	**76,200**	**-**	**-**	**688,888**	**504,272**	**1,269,360**
B. Increases	**-**	**-**	**-**	**86,508**	**-**	**86,508**
B.1 Acquisitions	-	-	-	86,508	-	86,508
B.2 Increases in internal intangible assets	X	-	-	-	-	-
B.3 Recoveries	X	-	-	-	-	-
B.4 Positive changes in fair value	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	**(25,100)**	**-**	**-**	**(112,136)**	**-**	**(137,236)**
C.1 Sales	-	-	-	(14)	-	(14)
C.2 Value adjustments	(25,100)	-	-	(112,122)	-	(137,222)
- Amortisation	X	-	-	(109,891)	-	(109,891)
- Write-downs	(25,100)	-	-	(2,231)	-	(27,331)
+ shareholders' equity	X	-	-	-	-	-
+ income statement	(25,100)	-	-	(2,231)	-	(27,331)
C.3 Negative changes in fair value:	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Net closing balance	**51,100**	**-**	**-**	**663,260**	**504,272**	**1,218,632**
D.1 Total net adjustments	(4,552,714)	-	-	(2,023,666)	-	(6,576,380)
E. Gross closing balance	**4,603,814**	**-**	**-**	**2,686,926**	**504,272**	**7,795,012**
F. Measurement at cost	-	-	-	-	-	-

FIN: finite life
INDEF: indefinite life

With regard to the main changes recorded during 2020:

- sub-item "B.1 Acquisitions" primarily refers to software;
- sub-item "C.2 Value adjustments – Amortisation" includes the amortisation charge relating to the Client Relationship acquired through business combinations, for an amount of 36.0 million. The residual balance refers to the amortisation of software;
- the sub-item "C.2 Value adjustments – Write-downs", of 27.3 million, relates for 25.1 million to the impairment of the goodwill of the Bancassurance Life CGU described above and 2.2 million for the impairment of software no longer used.

10.3 Other information

At 31 December 2020 there were no commitments relative to intangible assets.

Section 11 - Tax assets and liabilities – Item 110 of the assets and Item 60 of the liabilities

Disclosure on Deferred Tax assets (DTA), convertible DTAs and checks on recoverability

Below is an illustration of the main categories of DTAs recognised in the financial statements as at 31 December 2020 and the checks performed to support their recoverability.

A.Deferred tax assets – breakdown

As at 31 December 2020, total DTAs amounted to 4,467.2 million (4,459.8 million as at 31 December 2019), of which 4,446.9 million had an impact on the income statement, while 20.3 million was recorded as a balancing entry in shareholders' equity, in accordance with the entries referred to. For a review of the breakdown of these DTAs, please see the table "11.1 Deferred tax assets: breakdown".

In greater detail, as at 31 December 2020, the deferred tax assets that meet the requirements of Italian Law no. 214 of 22 December 2011 ("Law 214/2011") for convertibility into tax credit amounted to 2,576.3 million (2,582.6 million as at 31 December 2019). The provisions under this law and, subsequently, under Italian Law 147/2013 (2014 Stability Law), provide for the conversion of DTAs into tax credits in the case of a "statutory loss", a "tax loss" for IRES purposes and a "net negative value of production" for IRAP purposes. For the purposes of these regulations, write-downs on loans not yet deducted based on temporal limits in effect at the time pursuant to Article 106, paragraph 3 of the Italian Consolidated Tax Law (TUIR) are included, as are negative components relative to goodwill and other intangible assets, not yet deducted according to the temporal limits in effect at the time (known as "qualified DTAs").
Specifically, as at 31 December 2020, the Group's eligible DTAs derive from:

- temporary deductible differences relative to write-downs on loans exceeding immediate deductibility limits envisaged in the tax regulations solely with reference to credit and financial entities for 1,895.0 million (1,901.2 million as at 31 December 2019);
- temporary deductible differences relative to goodwill and other intangible assets recognised in previous years for 681.3 million (681.3 million as at 31 December 2019).

For further details on the breakdown and on changes in eligible DTAs, please refer to the tables contained in the paragraph below entitled "11.4 Changes in deferred tax assets pursuant to Law 214/2011".
It should be specified that, specifically with reference to these DTAs, their continued convertibility to tax credits is subordinate to the payment of the fee pursuant to Decree Law 59 of 3 May 2016, amended and converted into law with Law no. 119 of 30 June 2016. Italian Law no. 15 of 17 February 2017, converting the "Salva risparmio" Decree Law postponed the period for which the fee is due to 31 December 2030. In order to guarantee the convertibility of DTAs into tax credit and avoid the negative impacts that would otherwise result on Own Funds, Banco BPM Group availed of the option by paying said fee.
The fee for 2020 amounted to 25.4 million, as shown in the table breaking down other administrative expenses contained in Part C of these Notes, to which reference should be made for further details.

It is also noted that Italian Law no. 126 of 13 October 2020 converted, with amendments, Decree Law no. 104 of 14 August 2020. The amendments regarded, inter alia, art. 44 bis of Decree Law no. 34 of 30 April 2019, previously amended by the measured introduced by art. 55 of Decree Law 18/2020 of 17 March 2020 ("Heal Italy" Decree). The measure in question consists of the option to convert into tax credit the DTAs, even if they are not recorded in the financial statements, referring to tax losses not yet calculated as a decrease in the IRES taxable income, as well as the portion of benefits deriving from the Aid to Economic Growth (ACE) regulations not yet used at the assignment date. For the purpose of conversion, financial receivables due from debtors in default must be assigned against consideration by 31 December 2020. In particular, for the purpose of converting the DTAs, it is possible to use the losses and ACE surplus within the limit of 20% of the nominal value of the loans assigned, with a maximum limit of 2 billion in value referring to the total assignments of all the Group companies connected with each other through control relationships. To avail of the conversion option it is necessary to pay the annual fee set out in Decree Law no. 59 of 2016 to convert eligible DTAs, as illustrated above. By virtue of the above regulations, considering the operations finalised from the date of entry into force of the "Heal Italy" Decree (17 March 2020) to the date of 31 December 2020, the Group has converted DTAs into tax credits for a total amount of 90.7 million.

As at 31 December 2020, residual deferred tax assets (non-convertible DTAs) amounted to 1,890.8 million (1,877.2 million as at 31 December 2019), of which 1,042.0 million deriving from IRES tax losses which can be carried forward (949.6 million as at 31 December 2019) and 848.8 million deriving from costs and value adjustments deductible in years subsequent to those of recognition in the financial statements (927.6 million as at 31 December 2019).
Note that not all ineligible DTAs were recognised in the financial statements by Banco BPM and its subsidiaries. The amount of DTAs not posted as at 31 December 2020 came to 62.3 million, of which 20.3 million of IRES DTAs and 42 million of IRAP DTAs.

B.Deferred tax assets - recoverability checks

In compliance with the provisions of IAS 12 and the ESMA communication of 15 July 2019, Banco BPM Group recognised Deferred Tax Assets (DTAs), after verifying that the values recognised were supported by judgements that it was probable they could be recovered. In order to make these judgements, the current tax provisions were taken into consideration, in particular with reference to rules regarding whether certain deferred tax assets can be converted into tax credits, and the Group's capacity to generate future taxable income, also taking the "tax consolidation" option into account.
As regards eligible DTAs that can be converted into tax credits, equal to 2,576.3 million - corresponding to 57.7% of the total DTAs posted in the financial statements as at 31 December 2020 - the tax regulations introduced by Italian Law 214/2011, along with the exercise of the option for the annual fee regime illustrated above make their recoverability certain. This treatment is in line with the indications contained in the Bank of Italy/CONSOB/ISVAP document no. 5 of 15 May 2012 "Accounting treatment of deferred tax assets deriving from Italian Law 214/2011".
The recognition and subsequent maintenance in the financial statements of the remaining tax assets (non-convertible DTAs), totalling 1,890.8 million, strictly depends on the ability of the Group and/or the single companies to generate future taxable income ("tax capability").

To that end non-convertible DTAs were subject to three separate recoverability tests, based on a model that predicts future taxable income, as illustrated below:

- IRES taxable income resulting from the consolidated financial statements or the ordinary IRES tax rate (24%);
- IRES taxable income at individual level for Banco BPM, for the purpose of the additional IRES tax rate applicable to banks (3.5%);
- IRAP value of production at individual level for Banco BPM, for the purposes of IRAP.

The recoverability test was conducted based on the following information and assumptions:

- Banco BPM and its subsidiaries that have recorded DTAs reflected in the consolidated financial statements operate in Italy and, as a result, reference was made to the tax regulations in force in that country;
- said tax regulations do not establish time limits on the recovery of the IRES tax loss (art. 84, paragraph 1 of Presidential Decree 917 of 22 December 1986);
- IAS 12 does not set out a maximum time horizon for forecasting taxable income;
- estimates of future taxable income have been made using a multi-scenario approach, taking as a reference the Banco BPM Group's or Banco BPM's income flow projections for the period 2021 - 2023 and an annual growth rate of 2% for "normalised" income in the last year of the forecast;
- the estimates referred to in the previous point have been adjusted to take account of the uncertainty that characterises the actual realisation of long-term forecasts, applying a discount factor defined on the basis of a risk premium (so-called Risk-adjusted profit approach), in line with the recommendations set out by ESMA in the aforementioned Communication of 15 July 2019;
- Deferred Tax Liabilities (DTL) were offset by DTAs in the event that their reversal over time is expected to occur in the same year.

Below is detailed information on the assumptions used for probability testing, their outcomes and sensitivity analysis.

B.1 Estimated future taxable income

The future taxable income was estimated starting with the income projections of Banco BPM and the Group for the years 2021-2023, drawn up in line with the 2021 budget figures and, for the years 2022-2023, with the strategies

approved by the Board of Directors in preparation for the revision of the 2021-2023 Strategic Plan. In that regard, as previously illustrated in "Section 10 – Intangible assets" and in "Part A – Accounting policies" of these Notes, the 2020-2023 Strategic Plan, announced to the market on 3 March 2020, is no longer deemed current, as it was drawn up based on hypotheses and assumptions formulated prior to the spread of Covid-19 and, thus, based on macroeconomic forecasts different from those that are gradually taking shape.
Taking account of the current context of uncertainty, said projections were drawn up with regard to three separate macroeconomic scenarios, to which a different probability of occurrence was assigned, in line with the tests conducted for the purpose of the recoverability of intangible assets with an indefinite useful life and the measurement of expected losses on credit exposures. In detail, alongside a baseline scenario, deemed most probable, a favourable scenario and an adverse scenario were drawn up, to which the following respective probabilities of occurrence were assigned: 60%, 20% and 20%. For further details on the macroeconomic projections used as reference and their probabilities, please refer to the paragraph "2.3 Measurement methods for expected losses" contained in the credit risk section of "Part E - Information on risks and related hedging policies" of these Notes.
For long-term profitability, starting from 2024, we took as reference the expected income in 2023, determined by weighting the three aforementioned scenarios, appropriately normalised to take account of a number of components considered non-recurring. This income has been projected, from 2025 onwards, at an annual growth rate (g) of 2%, i.e. the expected nominal growth rate of the economy, in line with the ECB's long-term monetary stability policy inflation target.

B.2 Adjustment of future taxable income

In order to take into account the uncertainty that characterises the actual realisation of long-term forecasts, a discount factor of 6.19% has been introduced (slightly down on the 6.44% used as reference for the financial statements as at 31 December 2019). This factor has been defined as a function of the risk premium required by the market (MRP - Market Risk Premium), equal to 5.2%, multiplied by the Beta coefficient (ß), equal to 1.19%, i.e. the coefficient that expresses the specific riskiness of the Group's business.
In more detail, the adjustment of taxable income is obtained by discounting each year's forecasts for the discount factor of 6.19%, applied according to the compound capitalisation formula, from 2024 onwards. This formula therefore makes it possible to adjust future forecasts according to an increasing abatement factor depending on the time horizon of the estimated taxable flows.
It should be noted that the estimates of income flows, the growth rate (g), and the parameters to factor in the uncertainty of forecasts (MRP and ß) are consistent with those used for the impairment test of intangible assets with an indefinite life; reference should therefore be made to the previous "Section 10 - Intangible assets – Item 100" for further details.

B.3 Outcomes of the probability test and sensitivity analysis

Based on the valuation exercise conducted using the model described in points B.1 and B.2 above, the results are illustrated below, distinguishing between the consolidated IRES DTAs at an ordinary tax rate of 24%, IRES DTAs with an additional tax rate of 3.5% at the individual level of Banco BPM and IRAP DTAs at the individual level of Banco BPM, which represent almost all of the DTAs recognised in the consolidated financial statements.
The IRES DTAs recognised based on the ordinary tax rate of 24%, which can be recovered through the income generated by all the companies participating in the tax consolidation, amount to 1,579.6 million, of which 695.3 million relating to temporary differences other than those that can be converted into tax credit and 884.3 million referring to tax losses that can be carried forward. Full recovery of those DTAs is expected by the end of 2039 (19 years). It must also be noted that over 83% of the DTAs can be recovered by 2035 (15 years). In the event that the projections of taxable income are not adjusted using the adjusting factor set out in point B.2 above, the full recovery of the DTAs in question would be quicker, finishing in 2033 (13 years).
The IRES DTAs recognised based on the additional tax rate of 3.5%, which can be recovered through the income generated in the separate financial statements of Banco BPM, amount to 234 million, of which 77.1 million relating to temporary differences other than those that can be converted into tax credit and 156.9 million referring to tax losses that can be carried forward. Over 81.6% of the DTAs in question are expected to be recovered by the end of 2040 (20 years), with an amount of DTAs remaining beyond that date of only 43 million. In the event that the projections of taxable income are not adjusted using the adjusting factor set out in point B.2 above, the full recovery of the DTAs in question may occur by the end of 2036 (16 years).

Lastly, referring to the IRAP DTAs, which can be recovered through income generated individually by Banco BPM, the projections of taxable income show, for each year, full recovery of the DTAs from temporary differences which shall reverse in that year.

Sensitivity analysis of the consolidated IRES DTAs based on the tax rate of 24%

Considering that the model used includes assumptions and hypotheses that could significantly affect the assessments of the recoverability of the DTAs, for the IRES DTAs recognised based on the tax rate of 24% (1,579.6 million, equal to 87% of the total non-convertible IRES DTAs) a sensitivity analysis of the main assumptions and hypotheses with respect to the recovery time horizon was carried out. In particular, the sensitivity analyses were developed on the basis of the following factors:

- discount rate of forecasts of future taxable income: any 1.5% increase/decrease in the adjusting factor (7.69% and 4.69% respectively) would result respectively in an extension of the time horizon by 4 years or a reduction of the time horizon by 2 years;
- a growth rate (g) of long-term incomes: a reduction of 0.5% (from 2% to 1.5%) would result in a 1 year longer payback forecast;
- a "normalised" taxable income expected from 2024 onwards: a 10% reduction in that income would lengthen the expected return of the DTAs by 4 years.

Furthermore, as previously discussed in the event that the projections of taxable income developed based on income flows not adjusted using the adjusting factor were confirmed by the results that the Group will generate in the future, the full recovery of the DTAs, including those relating to previous years' tax losses, would be quicker, finishing in 2033 (13 years).
For the DTAs in question, the following table summarises the different time horizons for the return of DTAs in the various alternative scenarios illustrated above, compared with the recovery forecasts as at 31 December 2020 drawn up on the basis of the assumptions and hypotheses described in points B.1 and B.2 above.

Expected time horizon of return of the IRES DTAs based on the tax rate of 24%	Risk-adjusted profit approach					Income projections (without discount factor)
		Sensitivity				
	Forecasts as at 31/12/2020	Discount factor (+1.5%)	Discount factor (-1.5%)	Growth factor g (-0.5%)	Expected taxable income at the end of the plan (-10%)	
31/12/2025 (5 years)	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%
31/12/2030 (10 years)	56.8%	54.6%	59.3%	56.2%	53.2%	68.8%
31/12/2033 (13 years)	73.7%	69.1%	78.9%	72.3%	67.6%	100.0%
31/12/2034 (14 years)	78.8%	73.3%	85.0%	77.1%	72.0%	
31/12/2035 (15 years)	83.6%	77.3%	91.0%	81.6%	76.2%	
31/12/2036 (16 years)	88.3%	80.9%	96.8%	85.9%	80.1%	
31/12/2037 (17 years)	92.7%	84.4%	100.0%	90.0%	83.9%	
31/12/2038 (18 years)	96.9%	87.6%		93.8%	87.4%	
31/12/2039 (19 years)	100.0%	90.7%		97.6%	91.0%	
31/12/2040 (20 years)		93.7%		100.0%	94.4%	
31/12/2041 (21 years)		96.4%			97.6%	
31/12/2042 (22 years)		99.6%			100.0%	
31/12/2042 (22 years)		100.0%			100.0%	

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

Note that as at 31 December 2020, the DTAs deriving from IRES tax losses that can be carried forward amount to 1,042.0 million, compared to 949.6 million as at 31 December 2019.
With specific reference to said DTAs posted in previous years, they were recorded following the exact identification of the causes that generated the tax losses and the assessment that they would not repeat in the future on a recurring basis, in line with the provisions of IAS 12. The origin of the tax losses recorded in the previous years is specifically attributable to the significant loan losses deemed extraordinary, recognised as part of the process of reducing the amount of non-performing loans and, to a lesser extent, to the other extraordinary charges attributable to the business combination that gave rise to Banco BPM Group (e.g. charges relating to the reduction of redundant

personnel, the integration of IT systems, the rationalisation of the territorial network) or deriving from the need to favour the rescue of other banks external to the Group in order to protect the stability of the banking system.
The loss recorded during 2020 also derives from extraordinary circumstances, as it is rooted in the scenario created by the Covid pandemic and the resulting extraordinary actions implemented as a reaction to that situation.

11.1 Deferred tax assets: breakdown

	IRES	IRAP	Other taxes	31/12/2020	31/12/2019
A) As balancing entry in the Income Statement					
A.1) Convertible DTAs pursuant to Italian Law 214/2011	**2,289,393**	**286,959**	**-**	**2,576,352**	**2,582,568**
Write-downs of loans deductible in subsequent years	1,728,173	166,836	-	1,895,009	1,901,224
Costs deductible in subsequent years deriving from the tax relief on goodwill and other intangible assets	561,220	120,123	-	681,343	681,344
A.2) DTAs - Other types	**1,803,687**	**66,860**	**-**	**1,870,547**	**1,829,711**
Tax losses that can be carried forward	1,042,031	-	-	1,042,031	949,642
ECL adjustments of FTAs pursuant to IFRS 9 on loans to customers deductible in the subsequent years	291,225	56,873	-	348,098	391,610
Provisions and value adjustments deductible in subsequent years	137,462	941	-	138,403	172,033
Personnel expenses and provisions for employee severance pay deductible in subsequent years	172,930	980	-	173,910	156,645
Value adjustments to real estate deductible in subsequent years	121,718	3,448	-	125,166	123,662
Book values lower than the recognised tax values resulting from value adjustments to goodwill and other intangible assets	22,392	4,568	-	26,960	29,063
Book values lower than the recognised tax values resulting from fair value measurement of financial assets	1,184	48	-	1,232	4,223
Other cases of misalignment between book and tax values	14,745	2	-	14,747	2,833
Total A	**4,093,080**	**353,819**	**-**	**4,446,899**	**4,412,279**
B) As a balancing entry in Shareholders' Equity					
Book values lower than the recognised tax values deriving from fair value measurement of financial assets measured as a balancing entry in shareholders' equity	2,074	1,446	-	3,520	22,091
Other cases of misalignment between book and tax values	15,030	1,754	-	16,784	25,421
Total B	**17,104**	**3,200**	**-**	**20,304**	**47,512**
Total (A+B)	**4,110,184**	**357,019**	**-**	**4,467,203**	**4,459,791**

11.2 Deferred tax liabilities: breakdown

	IRES	IRAP	Other taxes	31/12/2020	31/12/2019
A) As balancing entry in the Income Statement:					
Book values exceeding the recognised tax values following the process of tax amortisation or value adjustments to goodwill and other intangible assets	105,198	21,271	-	126,469	280,467
Recoveries in fair value of real estate taxable in coming years	6,415	1,266	-	7,681	38,036
Book values exceeding the recognised tax values resulting from fair value measurement of financial instruments	10,698	8,183	-	18,881	23,212
Book values exceeding the recognised tax values resulting from fair value measurement of loans to customers	13,539	2,737	-	16,276	19,062
Book values exceeding the recognised tax values following the Purchase Price Allocation at the time of business combinations	7,281	1,475	-	8,756	15,280
Other cases of misalignment between book and tax values	31,718	2,557	-	34,275	12,038
Total A	**174,849**	**37,489**	**-**	**212,338**	**388,095**
B) As a balancing entry in Shareholders' Equity					
Book values exceeding the recognised tax values resulting from fair value measurement of owned properties and works of art	149,610	29,310	-	178,920	181,616
Book values exceeding the recognised tax values resulting from fair value measurement of financial assets measured as a balancing entry in shareholders' equity	54,905	12,589	-	67,494	37,133
Other cases of misalignment between book and tax values	143	3	-	146	3,190
Total B	**204,658**	**41,902**	**-**	**246,560**	**221,939**
Total (A+B)	**379,507**	**79,391**	**-**	**458,898**	**610,034**

11.3 Changes in deferred tax assets (balancing entry in the income statement)

	31/12/2020	31/12/2019
1. Opening balance	**4,412,373**	**4,567,742**
2. Increases	**346,148**	**210,740**
2.1 Deferred tax assets recognised during the year	319,536	160,084
a) relative to previous years	16,676	22,126
b) due to changes in accounting criteria	-	729
c) recoveries	-	898
d) other	302,860	136,331
2.2 New taxes or increases in tax rates	-	17,634
2.3 Other increases	26,612	33,022
3. Decreases	**(311,622)**	**(366,203)**
3.1 Deferred tax assets cancelled during the year	(295,243)	(278,732)
a) reclassifications	(187,174)	(258,168)
b) write-downs due to unrecoverability	-	(2)
c) due to changes in accounting criteria	-	-
d) other	(108,069)	(20,562)
3.2 Decreases in tax rates	-	-
3.3 Other decreases:	(16,379)	(87,471)
a) conversion into tax credits pursuant to Law 214/2011	(5,233)	(45,933)
b) other	(11,146)	(41,538)
4. Closing balance	**4,446,899**	**4,412,279**

11.4 Changes in deferred tax assets pursuant to Law 214/2011

	Total 31/12/2020	Total 31/12/2019
1. Opening balance	**2,582,568**	**2,628,399**
2. Increases	**-**	**375**
3. Decreases	**(6,216)**	**(46,206)**
3.1 Reclassifications	(984)	(3)
3.2 Conversion into tax credits	(5,232)	(45,933)
a) deriving from losses for the year	(5,232)	(45,933)
b) deriving from tax losses	-	-
3.3 Other decreases	-	(270)
4. Closing balance	**2,576,352**	**2,582,568**

11.5 Changes in deferred tax liabilities (balancing entry in the income statement)

	Total 31/12/2020	Total 31/12/2019
1. Opening balance	**390,452**	**372,578**
2. Increases	**15,311**	**170,232**
2.1 Deferred tax liabilities recognised during the year	3,604	70,919
a) relative to previous years	-	6,109
b) due to changes in accounting criteria	-	39,106
c) other	3,604	25,704
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	11,707	99,313
3. Decreases	**(193,425)**	**(154,715)**
3.1 Deferred tax liabilities cancelled during the year	(191,943)	(110,826)
a) reclassifications	(35,799)	(63,967)
b) due to changes in accounting criteria	-	-
c) other	(156,144)	(46,859)
3.2 Decreases in tax rates	-	-
3.3 Other decreases	(1,482)	(43,889)
4. Closing balance	**212,338**	**388,095**

11.6 Changes in deferred tax assets (balancing entry in shareholders' equity)

	Total 31/12/2020	Total 31/12/2019
1. Opening balance	**47,419**	**114,299**
2. Increases	**11,930**	**31,477**
2.1 Deferred tax assets recognised during the year	11,930	25,053
a) relative to previous years	-	-
b) due to changes in accounting criteria	-	594
c) other	11,930	24,459
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	6,424
3. Decreases	**(39,045)**	**(98,264)**
3.1 Deferred tax assets cancelled during the year	(26,542)	(95,135)
a) reclassifications	(20,140)	(95,135)
b) write-downs due to unrecoverability	-	-
c) due to changes in accounting criteria	-	-
d) other	(6,402)	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	(12,503)	(3,129)
4. Closing balance	**20,304**	**47,512**

11.7 Changes in deferred tax liabilities (balancing entry in shareholders' equity)

	31/12/2020	31/12/2019
1. Opening balance	**219,582**	**113,619**
2. Increases	**68,059**	**159,750**
2.1 Deferred tax liabilities recognised during the year	67,155	159,750
a) relative to previous years	-	-
b) due to changes in accounting criteria	-	3,949
c) other	67,155	155,801
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	904	-
3. Decreases	**(41,081)**	**(51,430)**
3.1 Deferred tax liabilities derecognised during the year	(37,354)	(17,487)
a) reclassifications	(37,354)	(17,487)
b) due to changes in accounting criteria	-	-
c) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	(3,727)	(33,943)
4. Closing balance	**246,560**	**221,939**

11.8 Other information

Group tax situation

For an examination of the risks associated with existing disputes with the Tax Authorities and the relative developments during 2020 (new disputes arising or disputes concluded and/or settled), please see that found in Section 10 - Provisions for risks and charges - Item 100 of the Liabilities, which provide details of provisions carried out against liabilities judged to be probable, pursuant to that required under the reference accounting standard IAS 37.

Consolidated tax regime on a national basis

Banco BPM and the subsidiaries listed below exercised the right to make use of the Group taxation regime (pursuant to art. 117 et seq. of Presidential Decree 917/1986 - TUIR - Italian Consolidated Tax Law). This option refers to all the companies in the Group which meet the requirements established under the cited law, specifically:

1. Aletti Fiduciaria S.p.A.
2. Banca Aletti & C. S.p.A.
3. Banca Akros S.p.A.
4. Bipielle Real Estate S.p.A.
5. BP Trading Immobiliare S.r.l.
6. BRF Property S.r.l.
7. Ge.Se.So. S.r.l.
8. Lido dei Coralli S.r.l.
9. P.M.G. S.r.l.
10. ProFamily S.p.A.
11. Release S.p.A.
12. Sirio Immobiliare S.r.l.
13. Tecmarket Servizi S.p.A.
14. Terme Ioniche S.r.l.
15. Terme Ioniche Società Agricola S.r.l.

There are no associated companies which opted for the tax transparency regime pursuant to art. 115 et seq. of Presidential Decree 917/86.

Banco BPM VAT Group

By resolution of the Board of Directors on 25 September 2018, Banco BPM decided to establish the Banco BMP VAT Group, pursuant to articles 70-bis to 70-duodecies of Presidential Decree 633 of 26 October 1972 ("VAT Law") and the related Implementing Ministerial Decree of 6 April 2018, effective from 1 January 2019.
In 2020 the participating companies were as follows:

1. Banco BPM S.p.A.
2. Banca Aletti & C. S.p.A.
3. Aletti Fiduciaria S.p.A.
4. Banca Akros S.p.A.
5. Bipielle Real Estate S.p.A.
6. BP Covered Bond S.r.l.
7. BPM Covered Bond 2 S.r.l.
8. BPM Covered Bond S.r.l.
9. BRF Property S.p.A.
10. Consorzio AT1
11. GE.SE.SO Gestione Servizi Sociali S.r.l.
12. Immobiliare Marinai d'Italia S.r.l. (*)
13. Lido dei Coralli S.r.l.
14. Meleti S.r.l.
15. Perca S.r.l.
16. ProFamily S.p.A.
17. Release S.p.A.
18. Sirio Immobiliare S.r.l.
19. Tecmarket Servizi S.p.A.

(*) During 2020 voluntary liquidation was opened, with exit from the VAT Group.

Section 12 - Non-current assets and disposal groups held for sale and associated liabilities – Item 120 in the assets and item 70 in the liabilities

12.1 Non-current assets and disposal groups held for sale: breakdown by type of asset

	Total 31/12/2020	Total 31/12/2019
A. Assets held for sale		
A.1 Financial assets	11,374	93,838
A.2 Interests in associates and joint ventures	-	-
A.3 Property, plant and equipment	61,449	33,594
of which: obtained through the enforcement of guarantees received	21,527	220
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	3,650
Total A	**72,823**	**131,082**
of which at cost	11,374	97,488
of which at fair value level 1	-	-
of which at fair value level 2	-	-
of which at fair value level 3	61,449	33,594
B. Discontinued operations		
B.1 Financial assets at fair value through profit and loss	-	-
- Financial assets held for trading	-	-
- Financial assets designated at fair value	-	-
- Other financial assets mandatorily measured at fair value	-	-
B.2 Financial assets measured at fair value through other comprehensive income	-	-
B.3 Financial assets at amortised cost	-	-
B.4 Interests in associates and joint ventures	-	-
B.5 Property, plant and equipment	-	-
of which: obtained through the enforcement of guarantees received	-	-
B.6 Intangible assets	-	-
B.7 Other assets	-	-
Total B	**-**	**-**
of which at cost	-	-
of which at fair value level 1	-	-
of which at fair value level 2	-	-
of which at fair value level 3	-	-
C. Liabilities associated with assets classified as held for sale		
C.1 Payables	-	-
C.2 Securities	-	-
C.3 Other liabilities	-	(5,096)
Total C	**-**	**(5,096)**
of which at cost	-	(5,096)
of which at fair value level 1	-	-
of which at fair value level 2	-	-
of which at fair value level 3	-	-
D. Liabilities associated with discontinued operations		
D.1 Financial liabilities at amortised cost	-	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities designated at fair value	-	-
D.4 Provisions	-	-
D.5 Other liabilities	-	-
Total D	**-**	**-**
of which at cost	-	-
of which at fair value level 1	-	-
of which at fair value level 2	-	-
of which at fair value level 3	-	-

As at 31 December 2020, assets held for sale included the following types:
- owned properties for which sales negotiations in progress as at 31 December 2020 render probable the completion of the sales during the next year (indicated under item A.3 "Property, plant and equipment");
- the remaining exposures are attributable to the residual amount of loans in the "ACE Leasing" Project, for which the definitive sale has not yet been formalised, and to several loans whose sale will be finalised in 2021.

As at 31 December 2019, assets held for sale included the following types:
- owned properties for which sales negotiations were in progress as at 31 December 2019 (indicated under item A.3 "Property, plant and equipment");
- the remaining exposures were fully attributable to the loans subject to sale as part of the "ACE Leasing" Project.

For assets and liabilities indicated in correspondence with the sub-items "of which at fair value level 1/level 2/level 3", please see that set out in "Part A.4 - Fair value disclosure".

12.2 Other information

There is no other information worthy of note.

Section 13 - Other assets – Item 130

13.1 Other assets: breakdown

	31/12/2020	31/12/2019
Receivables due from tax authorities (not classifiable among tax assets)	1,149,121	1,115,319
Receivables for sales of goods and provision of services	20,796	31,193
Other income to be received	4,987	10,128
Cash and other values on hand	6,620	7,559
Items being processed	560,322	744,278
Items in transit between branches	7,926	20,409
Illiquid items for portfolio transactions	1,326	1,099
Securities and coupons to be settled	58,235	33,395
Other transactions to be settled	10,841	15,018
Accrued income and prepayments not included under their own item	50,137	20,135
Other items	60,301	108,316
Total	**1,930,612**	**2,106,849**

The item "Receivables due from tax authorities" mainly includes:
- receivables for applications for refund of direct taxes for a total of 298.4 million, of which 202.0 million relating to 2018, requested for refund in 2019. The item also includes the IRPEG/ILOR receivables relative to 1995 for the former Banca Popolare di Novara of 92.3 million, repayment of which was denied by the Tax Authority - Novara Provincial Office. In the context of the dispute begun by the former Banco Popolare, both the Provincial Tax Commission and the Regional Tax Commission accepted the appeals presented, ordering the Italian Revenue Agency to also pay legal expenses. The Italian Revenue Agency's appeal to the Supreme Court is pending;
- receivables for applications for VAT refund for a total of 185.0 million, of which 175.9 million relating to 1998, 1999 and 2000 of the former Banca Italease S.p.A. As part of the dispute initiated against the silent refusal of the Tax Authority, both the Provincial and Regional Tax Commissions accepted the appeals submitted by the Bank. On 21 March 2019, following the appeal of the Tax Authority, the Supreme Court decided to transfer to another section of the Regional Tax Commission the verification of the actual existence of the unpaid taxes highlighted by the Authority in justification of the refusal of refund. The lawsuit was discussed with resumption of the proceedings before the Regional Tax Commission of Milan on 9 November 2020. Given that the above tax charges have been paid off, the Bank is confident that it will fully recover the credits in question. The residual amount, equal to 9.1 million, comprises 7.5 million

referring to the dispute of the former Mercantile Leasing S.p.A. relating to the partial refusal of the refund of VAT for the first and second quarters of 2007. An appeal has been presented to the Provincial Tax Commission. An additional amount of 1.6 million refers to the compliance proceedings against the Municipality of Rome regarding the challenge to a payment injunction for INVIM (tax on increases in value of real estate) purposes relating to a real estate purchase made in 1976;

- receivables recorded as balancing entries to the provisional payments made pending the final judgment of the pending tax disputes, for a total of 210.2 million, of which 201.9 million relating to the dispute concerning the claimed non-deductibility of the costs incurred in 2005 by the former Banca Popolare Italiana attributable to the attempted takeover of Banca Antonveneta;
- residual receivables deriving from the application for refund of the IRAP deductible from IRES referring to labour costs for the tax periods 2005 to 2011 following the issue of Decree Law no. 185/2008 for a total of 80.4 million;
- receivables deriving from excess advance stamp duty payments, substitute taxes applied to customers during the year and which will be recovered through offsetting during 2020 totalling 301.5 million;
- tax credits connected with the interest accrued on loans disbursed to customers resident in areas hit by earthquakes for 50.5 million;
- tax credits connected with the payment of Group VAT for 7.0 million;
- other receivables for withholdings incurred in a higher amount than that established by the Conventions on the avoidance of double taxation on share dividends, for which refunds are expected from foreign governments for 1.8 million;
- other tax credits for 10.5 million.

The item “Items being processed” essentially contains sums awaiting definitive assignment and various suspended items, as well as charges received from external companies relative to the payment of utilities to be settled using customer current accounts.

LIABILITIES

Section 1 – Financial liabilities at amortised cost – Item 10

1.1 Financial liabilities at amortised cost: breakdown by product for amounts due to banks

Transaction type/Amounts	Total 31/12/2020				Total 31/12/2019			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**27,820,559**	X	X	X	**20,783,964**	X	X	X
2. Due to banks	**6,124,039**	X	X	X	**7,739,371**	X	X	X
2.1 Current accounts and demand deposits	521,475	X	X	X	636,642	X	X	X
2.2 Fixed-term deposits	152,328	X	X	X	113,156	X	X	X
2.3 Loans	5,215,642	X	X	X	6,777,309	X	X	X
2.3.1 Repurchase agreements	4,619,012	X	X	X	5,870,652	X	X	X
2.3.2 Other	596,630	X	X	X	906,657	X	X	X
2.4 Payables for commitment to repurchase own capital instruments	-	X	X	X	-	X	X	X
2.5 Lease payables	7,075	X	X	X	7,650	X	X	X
2.6 Other payables	227,519	X	X	X	204,614	X	X	X
Total	**33,944,598**	**-**	**-**	**33,944,596**	**28,523,335**	**-**	**-**	**28,523,336**

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

"Amounts due to central banks" include refinancing operations with the European Central Bank. As at 31 December 2020 TLTRO III long-term refinancing operations were present for a nominal value of 27,500 million, while in 2019 these referred to TLTRO II for a nominal value of 15,440 million, TLTRO III for a nominal value of 1,500 million and MRO short-term financing operations for a nominal value of 4,000 million.

For more details, please see the section "Other significant aspects relating to Group accounting policies", found in Part A of these Notes.

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

Transaction type/Amounts	Total 31/12/2020				Total 31/12/2019			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	98,490,060	X	X	X	86,155,794	X	X	X
2. Fixed-term deposits	1,474,004	X	X	X	1,626,230	X	X	X
3. Loans	1,169,988	X	X	X	4,685,184	X	X	X
3.1 Repurchase agreements	495,505	X	X	X	3,866,166	X	X	X
3.2 Other	674,483	X	X	X	819,018	X	X	X
4. Payables for commitment to repurchase own capital instruments	-	X	X	X	-	X	X	X
5. Lease payables	753,205	X	X	X	724,886	X	X	X
6. Other payables	1,028,409	X	X	X	907,818	X	X	X
Total	**102,915,666**	**-**	**-**	**102,915,666**	**94,099,912**	**-**	**-**	**94,099,912**

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

Sub-item 3.1 "Repurchase agreements" includes transactions with Cassa Compensazione e Garanzia of 390.8 million (last year, they amounted to 2,756.0 million).

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

Security type/Amounts	Total 31/12/2020				Total 31/12/2019			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. Bonds	14,491,141	13,059,867	1,871,203	-	15,635,158	13,816,992	2,139,139	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	14,491,141	13,059,867	1,871,203	-	15,635,158	13,816,992	2,139,139	-
2. Other securities	69,489	-	-	69,489	75,554	-	-	75,554
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	69,489	-	-	69,489	75,554	-	-	75,554
Total	**14,560,630**	**13,059,867**	**1,871,203**	**69,489**	**15,710,712**	**13,816,992**	**2,139,139**	**75,554**

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

Debt securities in issue include the covered bonds issued by Banco BPM Group with a book value totalling 6,546.8 million (compared to 6,550.1 million as at 31 December 2019).

1.4 Breakdown of subordinated debt/securities

At the reporting date, the only subordinated liabilities issued by the Group, classified under debt securities in issue at amortised cost, refer to 8 issues of securities for a book value of 3,129.3 million (in the previous year, 9 issues occurred, for a book value of 3,168.5 million), of which one issue was represented by preference shares for an amount of 104.9 million (as at 31 December 2019 2 issues occurred for 131.7 million).
The latter “preference share” instrument is grandfathered in additional Tier 1 capital.

In March 2020 a “preference share” alternative capitalisation instrument (with perpetual duration) was redeemed for a nominal value of 25 million, through the exercise of the first call option, which terminated its grandfathering in additional Tier 1 capital.

In September 2020 a new, 10-year subordinate security was issued for a nominal value of 500 million, with a redemption option after five years, which is eligible for calculation in Tier 2 capital.

In November 2020, two subordinated securities were redeemed at maturity - the first a 10-year security for a nominal value of 710 million and lump-sum redemption. The second was a 7-year security for a nominal value of 110 million and redemption through a repayment plan of five equal instalments.

In December 2020 a new, 10-year subordinate security was issued for a nominal value of 350 million, with a redemption option after five years, which is eligible for calculation in Tier 2 capital.

In addition to the above liabilities at amortised cost, the financial statement item “140. Equity instruments” includes two issues of instruments that can be calculated in additional Tier 1 capital for a total of 695 million (in the previous year, one instrument was present for 298 million).

The amount of additional regulatory capital was increased through a new issue of 397 million (eligible for calculation) placed in January, with perpetual duration and a five-year redemption option subject to authorisation by the competent authorities.

During the year, no liability management operations were carried out referring to securities that can be calculated in regulatory capital.

Trading of own subordinate instruments was eliminated, as a consequence of the rules introduced under Delegated Regulation 241/2014 of the European Commission and the latest authorisation granted by the ECB to Banco BPM Group.

The features of subordinated liabilities used in calculations for regulatory purposes are indicated in the document Disclosure to the Public by Entities - Pillar III.

1.5 Breakdown of structured debt

As at 31 December 2020, as in the previous year, there were no payables which required the separation of incorporated derivatives ("structured debt").

1.6 Lease payables

Breakdown of flows from lease contracts based on contractual duration	31/12/2020		31/12/2019	
	Due to banks	Due to customers	Due to banks	Due to customers
Up to 3 months	262	34,632	269	34,258
From 3 months to 1 year	789	101,815	805	99,698
From 1 year to 5 years	3,698	384,698	3,247	466,071
Over 5 years	2,812	284,205	3,463	174,982
Total	**7,561**	**805,350**	**7,784**	**775,009**
Time effect	**(486)**	**(52,145)**	**(134)**	**(50,123)**
Present value of lease payables	**7,075**	**753,205**	**7,650**	**724,886**

Section 2 - Financial liabilities held for trading – Item 20

2.1 Financial liabilities held for trading: breakdown by product

Transaction type/Amounts	Total 31/12/2020					Total 31/12/2019				
	NV	Fair Value			Fair Value *	NV	Fair Value			Fair Value *
		L1	L2	L3			L1	L2	L3	
A. On-balance sheet liabilities										
1. Due to banks	1,693	2,715	-	-	2,715	1,424	5,306	-	-	5,306
2. Due to customers	6,275,407	1,937,630	4,809,615	-	6,747,245	4,249,510	898,778	3,581,206	-	4,479,984
3. Debt securities	2,968,222	-	2,957,698	-	2,908,690	3,225,246	-	3,239,661	-	3,207,220
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	2,968,222	-	2,957,698	-	2,908,690	3,225,246	-	3,239,661	-	3,207,220
3.2.1 Structured	2,968,222	-	2,957,698	-	X	3,225,246	-	3,239,661	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**9,245,322**	**1,940,345**	**7,767,313**	**-**	**9,658,650**	**7,476,180**	**904,084**	**6,820,867**	**-**	**7,692,510**
B. Derivative instruments										
1. Financial derivatives	-	112,343	2,865,897	541	-	-	127,682	2,512,331	538	-
1.1 Held for trading	X	112,343	2,836,179	541	X	X	127,682	2,511,881	538	X
1.2 Connected with the fair value option	X	-	29,478	-	X	X	-	289	-	X
1.3 Other	X	-	240	-	X	X	-	161	-	X
2. Credit derivatives	-	-	1,105	-	-	-	-	1,166	-	-
2.1 Held for trading	X	-	1,105	-	X	X	-	1,166	-	X
2.2 Connected with the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**112,343**	**2,867,002**	**541**	**-**	**X**	**127,682**	**2,513,497**	**538**	**-**
Total (A+B)	**X**	**2,052,688**	**10,634,315**	**541**	**9,658,650**	**X**	**1,031,766**	**9,334,364**	**538**	**7,692,510**

NV = nominal or notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3
*Fair value * = Fair value calculated excluding changes in value due to changes in the issuer's credit risk with respect to the issue date*

The items "1. Due to banks" and "2. Due to customers" refer to technical overdrafts on securities listed on active markets, classified as level 1, and repurchase agreements classified as level 2.

Item 3.2.1 "Other securities - structured", which as at 31 December 2020 totalled 2,957.7 million, is represented by certificates issued by Banca Akros, which include protection for the premium paid by the customer or a portion of the same, unconditional with respect to the trend in the financial parameters to which they are indexed. As at 31 December 2019, the balance of these issues was 3,239.7 million.
For those issues, the change in the Group's credit risk compared to the issue date resulted in the recognition of cumulative capital losses of 49 million (equal to the difference between the fair value in the financial statements and that on the date indicated in the column "Fair value*"). As at 31 December 2019, the recognition of cumulative capital losses came to 32.4 million.
In addition, for certificates classified under financial derivatives (364.7 million as at 31 December 2020), the cumulative effect of the change in the Group's credit risk was also negative for 3.3 million (1.7 million as at 31 December 2019). Specifically, these are conditionally protected certificates or certificates with a portion of protection of less than 50% of the premium paid.

2.2 Breakdown of "Financial liabilities held for trading": subordinated liabilities

As at 31 December 2020, technical overdrafts on securities included subordinated securities for 3 million.

2.3 Breakdown of "Financial liabilities held for trading": structured debt

As at 31 December 2020, as well as in the previous year, there were no payables which required the separation of incorporated derivatives.

Section 3 - Financial liabilities designated at fair value – Item 30

3.1 Financial liabilities designated at fair value: breakdown by product

Transaction type/Amounts	Total 31/12/2020					Total 31/12/2019				
	NV	Fair value			Fair Value *	NV	Fair value			Fair Value *
		L1	L2	L3			L1	L2	L3	
1. Due to banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	-	-	-	-	X	-	-	-	-	X
of which:										
- commitments to disburse funds	-	X	X	X	X	X	X	X	X	X
- financial guarantees given	-	X	X	X	X	X	X	X	X	X
2. Due to customers	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Structured	-	-	-	-	X	-	-	-	-	X
2.2 Other	-	-	-	-	X	-	-	-	-	X
of which:										
- commitments to disburse funds	-	X	X	X	X	X	X	X	X	X
- financial guarantees given	-	X	X	X	X	X	X	X	X	X
3. Debt securities	**949,433**	**-**	**955,781**	**-**	**943,781**	**416,988**	**207,489**	**213,072**	**-**	**424,907**
3.1 Structured	739,433	-	742,203	-	X	-	-	-	-	X
3.2 Other	210,000	-	213,578	-	X	416,988	207,489	213,072	-	X
Total	**949,433**	**-**	**955,781**	**-**	**943,781**	**416,988**	**207,489**	**213,072**	**-**	**424,907**

FV = Fair Value
FV = FV calculated excluding changes in value due to changes in the issuer's credit risk with respect to the issue date.*
NV = nominal value
L1 = Level 1
L2 = Level 2
L3 = Level 3

Financial liabilities designated at fair value refer to several bond issues and protected capital certificates, the latter recognised under item 3.1 “Debt securities: structured”, as illustrated in paragraph 16 “Other information – financial liabilities designated at fair value” of Part A.2 of these Notes to the consolidated financial statements.

For those issues, the change in the Group’s credit risk compared to the issue date resulted in the recognition of cumulative capital losses of 12.0 million (equal to the difference between the fair value in the financial statements and the figure indicated in the column “Fair value*”), mainly referring to certificates.

3.2 Breakdown of item 30 “Financial liabilities designated at fair value”: subordinated liabilities

As at 31 December 2020, as well as in the previous year, there were no subordinated liabilities.

Section 4 - Hedging derivatives – Item 40

4.1 Hedging derivatives: breakdown by hedge type and by level

	Fair value 31/12/2020			NV 31/12/2020	Fair value 31/12/2019			NV 31/12/2019
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives	**-**	**585,680**	**-**	**20,287,784**	**-**	**552,761**	**-**	**13,299,333**
1) Fair value	-	527,000	-	20,012,784	-	484,935	-	13,024,333
2) Cash flows	-	58,680	-	275,000	-	67,353	-	275,000
3) Foreign investments	-	-	-	-	-	473	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**585,680**	**-**	**20,287,784**	**-**	**552,761**	**-**	**13,299,333**

NV = notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

4.2 Hedging derivatives: breakdown by portfolio hedged and type of hedge

Operations/Hedge type	Fair Value							Cash flows		Foreign investments
	Micro hedging					Other	Macro Hedging	Micro hedging	Macro Hedging	
	Debt securities and interest rates	Equity instruments and share indices	Currencies and gold	Credit	Commodities					
1. Financial assets measured at fair value through other comprehensive income	241,681	-	-	-	X	X	X	-	X	X
2. Financial assets at amortised cost	233,194	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	58,681	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**474,875**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**58,681**	**-**
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	52,124	X	-	X
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**52,124**	**-**	**-**	**-**
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

Section 5 Fair value change of financial liabilities in macro fair value hedge portfolios - Item 50

5.1 Fair value change of hedged financial liabilities

Fair value change of hedged liabilities/Group components	31/12/2020	31/12/2019
1. Positive fair value change of financial liabilities	130,944	71,880
2. Negative fair value change of financial liabilities	(32)	(9,581)
Total	**130,912**	**62,299**

Section 6 - Tax liabilities – Item 60

This section is commented in Section 11 of the balance sheet assets, in Part B - Information on the Balance sheet in these Notes.

Section 7 - Liabilities associated with assets classified as held for sale - Item 70

The information in this section is commented in Section 12 of the balance sheet assets, in Part B - Information on the Balance sheet, in these Notes.

Section 8 - Other liabilities – Item 80

8.1 Other liabilities: breakdown

	31/12/2020	31/12/2019
Due to tax authorities (not classifiable under tax liabilities)	126,042	115,265
Due to personnel	3,688	5,746
Due to social security institutions	59,882	58,463
Due to suppliers	246,953	261,400
Items in transit between branches not attributable to specific accounts	37,915	47,181
Sums on hand to be paid to third parties	300,003	324,281
Bank transfers for clearance	545,078	497,530
Items related to securities transactions	371,414	62,711
Other items being processed	959,981	782,506
Adjustments for illiquid items in portfolio	877,670	837,296
Accrued expenses and deferred income not included under their own item	40,833	31,689
Other items	227,768	279,755
Total	**3,797,227**	**3,303,823**

"Due to tax authorities (not classifiable under tax liabilities)" includes net tax liabilities such as VAT payable, substitute tax on loans, withholdings on interest expense and income from employed work and similar, withholdings and other tax items not recognised under item 60 "Tax liabilities".

"Due to social security institutions" is mainly composed of charges relating to mandatory social security contributions.

"Bank transfers for clearance" mainly regard bank transfers to be credited.

"Items related to securities transactions" is comprised of securities cash purchase and sale transactions made between the end of one year and the beginning of the next, and amounts awaiting final allocation.

"Other items being processed" relate to transactions pending clearing or settlement.

"Adjustments for illiquid items in portfolio" includes mismatches of bills in the portfolio ("Portfolio of non-controlling interests" and "Own portfolio").
"Other items" is mainly comprised of liabilities relating to collections of F24 tax form mandates and other residual items linked to normal banking operations.

Section 9 - Provisions for employee severance pay - Item 90

9.1 Provisions for employee severance pay: annual changes

	31/12/2020	31/12/2019
A. Opening balance	**384,886**	**377,498**
B. Increases	**7,658**	**33,360**
B.1 Allocation for the year	2,431	5,285
B.2 Other changes	5,227	28,075
C. Decreases	**(23,046)**	**(25,972)**
C.1 Settlements	(12,361)	(22,151)
C.2 Other changes	(10,685)	(3,821)
D. Closing balance	**369,498**	**384,886**

The sub-item B.1 "Allocation for the year" refers to charges recognised in item 190 a) administrative expenses - personnel expenses, sub-item 1.e) provisions for employee severance pay in the income statement.

The increases, sub-item B.2 "Other changes" include the actuarial losses of 4.8 million (28.0 million as at 31 December 2019), while decreases, sub-item C.2 "Other changes" include actuarial gains of 9.4 million (1 million as at 31 December 2019). Actuarial gains and losses are recognised as a balancing entry to the related valuation reserve of shareholders' equity "Actuarial gains (losses) on defined benefit plans" and are reported in the statement of comprehensive income.

9.2 Other information

As described in "Part A - Accounting policies", "16 Other information – Provisions for employee severance pay and other employee benefits", following the reform of supplementary pension plans, the provisions for employee severance pay recognised in the present item refer only to the portion accruing since 31 December 2006, for companies with an average of at least 50 employees in 2006, which refers to almost all Group companies.
For said companies, the provision does not include benefits that, as a result of said reform, have been paid into supplementary pension plans or the INPS Treasury Fund. The employee severance pay accruing from 1 January 2007 is considered a "defined benefit plan" and is recognised in personnel costs, based on the contributions owed, without actuarial calculations, as a balancing entry to the balance sheet item "Other liabilities" or for the outflow of cash:

- under the sub-item "severance indemnities" if paid to the INPS Treasury fund;
- under the sub-item "payments to external supplementary pension funds - defined contribution" if paid to supplementary pension funds.

Main actuarial assumptions

Actuarial measurement of provisions for employee severance pay is performed by independent external actuaries, on the basis of "accrued benefit" methodology, using the Projected Unit Credit criteria, as established in IAS 19. The table below indicates the main demographic and economic/financial assumptions used as the basis for the measurement as at 31 December 2020, compared to that as at 31 December 2019.

Main actuarial assumptions for measuring provisions for employee severance pay	
Demographic assumptions (2020-2019):	
Employee mortality rate	IPS55 with Age-Shifting demographic basis for annuity insurance
Frequency and amount of advances on employee severance pay	**2020:** 0.50% **2019**: up to 1.5%
Frequency of turnover	**2020:** 1.50% **2019**: 1.0%-3.5%
Probability of retirement	According to the latest legislative provisions, upon reaching the first pension qualifying condition, based on the provisions of Compulsory General Insurance
Financial assumptions (2020-2019):	
Yearly discount rate	**2020**: weighted average of the rates in the Eur Composite AA curve as at 12.2020(*): from -0.04 to 0.72% depending on the plan **2019**: Iboxx Corporate AA index, with time reference corresponding to the average duration of the plans. As at 31 December 2019 the Iboxx Euro AA 7-10 year Corporate Index was 0.37% and the Iboxx Euro Corporate AA10+ Index was 0.77%
Yearly inflation rate	**2020**: weighted average of the rates in the European Zero-Coupon Inflation-Indexed Swap curve as at 31.12.2020 (**): 1.10% **2019**: 1.50%

(*) weighted average of the rates of the Eur Composite AA curve as at 31.12.2020, using as weights the ratio of the amount paid and advanced for each maturity to the total amount to be paid and advanced up to the discharge of the population considered;
(**) weighted average rate equal to 1.10%, taken as the weighted average of the rates of the European Zero-Coupon-Inflation-Indexed Swap curve as at 31.12.2020, using as weights the ratio of the amount paid and advanced for each maturity to the total amount to be paid and advanced up to the discharge of the population considered (with reference to all the Companies in BPM Group)

Actuarial gains/losses recognised in the statement of comprehensive income

As illustrated in paragraph 9.1 above, the changes to certain actuarial assumptions for the valuation of employee severance pay as at 31 December 2020, with respect to the previous year, led to an overall increase in the provisions of 4.6 million, equal to the combined effect of the following elements:

- actuarial losses of 4.6 million, attributable to changes in financial assumptions. In detail, these entail gains relating to the change in the inflation rate for 8.2 million and losses relating to the change in the discount rate for 12.8 million;
- actuarial gains of 9.1 million, attributable to other actuarial assumptions. In detail, as these are gains relating to past experience, i.e. the difference between the actual experience in the reference period and the forecast made in the previous valuation, for 3.4 million, and gains relating to the change in demographic assumptions for 5.8 million.

With regards to the discount rate, which is one of the most important assumptions used in measuring obligations associated with defined benefit plans, reference was made to the returns for companies with an "AA" rating, considered to be the best expression of returns for high quality companies. In fact, the reference accounting standard IAS 19 specifies that this rate must reflect the time value of money, but not the specific credit risk of the entity, nor the actuarial or investment risk, nor the risk that, in the future, the actual figures may differ with respect to the actuarial assumptions used. Additionally, the standard states that this rate must be calculated in reference to market yields of the securities of primary companies in the country in which the entity operates (or, the High Quality Corporate Bond yield), as at the annual reporting date, and alternatively, if there is no market for such securities, with reference to market yields on government securities. Starting in 2020, Banco BPM Group uses as the discount rate the Eur Composite AA curve, using as weights the ratio of the amount paid and advanced for each maturity to the total amount to be paid and advanced up to the discharge of the population considered. In detail, only securities issued by corporate issues included in the "AA" rating class, issued by companies in various sectors, including Utilities, Telephony, Financial, Banking and Industrial companies, were considered. As regards geographical area, reference was made to the Eurozone. The curve was taken from the information provider Bloomberg.

The decrease in the discount rate is attributable to the change in the rate (Eur Composite AA interest rate curve as at 31 December 2020 compared to the "Iboxx Corporate AA" as at 31 December 2019).

Sensitivity Analysis

As required under IAS 19, sensitivity analysis was performed for the obligation relative to provisions for employee severance pay, with the hypothesis of a 50 basis point increase or decrease in the discount rate and the inflation rate. The purpose of the analysis is to identify how much the liability would vary in relation to reasonably possible fluctuations in this actuarial assumption.

	Change in employee severance pay in absolute terms (*)	Change in employee severance pay in percentage terms
Change in actuarial assumption:		
- Discount rate:		
+0.5%	(14,885)	(4.03%)
-0.5%	15,833	4.28%
- Inflation rate:		
+0.5%	9,501	2.57%
-0.5%	(9,208)	(2.49%)

(*) the amounts in parentheses indicate a decrease in the provision.

Section 10 - Provisions for risks and charges – Item 100

10.1: Provisions for risks and charges: breakdown

Items/Components	Total 31/12/2020	Total 31/12/2019
1. Provisions for credit risk relating to commitments and financial guarantees given	56,024	40,367
2. Provisions for other commitments and guarantees given	71,418	75,623
3. Company pension funds	133,654	150,910
4. Other provisions	784,879	834,897
4.1 legal and tax disputes	109,493	156,944
4.2 personnel expenses	450,722	368,835
4.3 other	224,664	309,118
Total	**1,045,975**	**1,101,797**

10.2 Provisions for risks and charges: annual changes

	Provisions for other commitments and guarantees given	Pension funds	Other provisions	Total
A. Opening balance	**75,623**	**150,910**	**834,897**	**1,061,430**
B. Increases	**3,619**	**7,396**	**385,443**	**396,458**
B.1 Allocation for the year	3,619	490	382,410	386,519
B.2 Changes due to the passage of time	-	533	92	625
B.3 Changes due to discount rate variations	-	4,655	-	4,655
B.4 Other changes	-	1,718	2,941	4,659
C. Decreases	**(7,824)**	**(24,652)**	**(435,461)**	**(467,937)**
C.1 Use during the year	-	(12,963)	(374,065)	(387,028)
C.2 Changes due to discount rate variations	-	-	-	-
C.3 Other changes	(7,824)	(11,689)	(61,396)	(80,909)
D. Closing balance	**71,418**	**133,654**	**784,879**	**989,951**

Item C.1 "Use during the year" includes uses executed as a balancing entry to payments for personnel expenses and amounts deriving from the settlement of clawbacks and other disputes for which specific provisions were allocated.

Item C.3 "Other changes" in other provisions is mainly attributable to recoveries relating to personnel expenses (recognised in item 190 a) personnel expenses) and other provisions (included in item 200 b) "Net provisions for risks and charges – other net provisions").

10.3 Provisions for credit risk relating to commitments and financial guarantees given

	Provisions for credit risk relating to commitments and financial guarantees given			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Commitments to disburse funds	18,694	4,346	17,633	40,673
Financial guarantees given	4,522	3,675	7,154	15,351
Total	**23,216**	**8,021**	**24,787**	**56,024**

10.4 Provisions for other commitments and guarantees given

Provisions for other commitments and guarantees given amounted to 71.4 million (75.6 million at the end of the previous year) and mainly refer to commercial sureties issued for customers.

10.5 Defined benefit company pension funds

Pension funds identified in the financial statements represent the liabilities relative to defined benefit plans for a value of 133.7 million and all relate to external funds.

1. Illustration of fund characteristics and associated risks

For defined benefit supplementary pension funds, determination of actuarial values, as required in application of IAS 19 "Employee Benefits", is done by independent actuaries, as illustrated in "Part A - Accounting Policies, 16 Other Information - Provisions for employee severance pay and other employee benefits".

As at the reporting date, the funds in question amounted to 133.7 million (150.9 million as at 31 December 2019). Charges for the year were allocated for 1.0 million to item 190 a) - "Personnel expenses" in the income statement and for 5.3 million as an increase to shareholders' equity valuation reserve "Actuarial gains (losses) on defined benefit plans".

Below are pension funds, identifying those of the former Banco Popolare Group and former Banca Popolare di Milano Group.

Internal funds refer to:

a) Funds included under "Banco Popolare Group defined benefit pension fund", which as of 1 April 2017 was identified as the "container" of the defined benefit pension funds relative to the former Banco Popolare Group, with guarantees from the Bank. The rules governing the amounts transferred are, nonetheless, specific details of each form:
   - commitments pursuant to the former Banca Popolare Italiana (BPI) Fund, now the Banco Popolare Group's defined benefit pension fund: this represents the value of commitments relative to 103 beneficiaries of the former Banca Popolare di Lodi, consisting of pension payments in addition to those required by law for their personnel. This fund is governed by the Regulation of 17 June 1992. As a result of the provisions of Italian Legislative Decree 124/1993, the Bank transformed the Fund with an agreement on 6 October 2000, in order to allow adhesion by personnel hired after 27 April 1993, and as of 1 April 2017 the Fund was identified as the "container" for the defined benefit pension funds relative to the former Banco Popolare Group with guarantees from the Bank;
   - commitments pursuant to the former Chiavari Fund: the fund was established through an agreement with the trade union on 11 December 1986, and ensures its participants and their heirs a payment in addition to pensions provided by INPS. As at the reporting date this fund had 3 beneficiaries;
   - commitments pursuant to the former Banca Industriale Gallaratese (BIG) Fund: this represents commitments to the personnel of the former Banca Industriale Gallaratese. It was established on 25 February 1986 and guarantees additional payments with respect to those required under the law in favour of those who were working for the former B.I.G. as of the stated date and is governed by the Regulations issued at the time the fund was established. On 21 August 1992, the former B.I.G. was merged by incorporation with Banca Popolare di Lodi and subsequently, those registered with the fund were given the option to transfer their position to the Banca Lodi pension fund or keep it with the original fund. At 31 December 2020, the fund had 55 beneficiaries;
   - commitments pursuant to the former Bipielle Adriatico Fund: this is a fund integrating INPS payments for obligatory payments for invalidity, old age and heirs relative to employees of Bipielle Adriatico (former Cassa di Risparmio di Imola), established with Regulation of 29 December 1954, later amended on 29 July 1997. At 31 December 2020, the fund had 4 beneficiaries;
   - commitments pursuant to the former BPL Fund Regulation 1961 and 1973: this represents the additional social security payment for personnel of the former Banca Popolare di Lodi, as established under the regulations of 18 April 1961 and 12 December 1973. As at the reporting date, the beneficiaries respectively totalled 5 and 13;
   - commitments pursuant to the former Banca Popolare Cremona pension fund: this represents social security payments in addition to those required under the law for employees of the former Banca Popolare di Cremona, as established under the regulations of 17 June 1972. As at the reporting date, there were 5 beneficiaries;
   - commitments pursuant to the former Cassa di Risparmio di Lucca Fund: this represents a fund for additional payments relative to INPS and is governed by the regulation of 2 October 1986, subsequently amended on 16 December 1988. As at the reporting date, there were 50 beneficiaries;
   - commitments pursuant to the Cassa di Risparmio di Pisa Fund: this involves the commitments associated with the fund providing additional social security payments, governed with regulations of 20 April 1959. As at the reporting date, there were 21 beneficiaries;
   - commitments pursuant to the former Cassa di Risparmio di Livorno Fund: this represents a fund for additional payments relative to INPS and is governed by the regulation of 3 April 1991. As at the reporting date, there were 59 beneficiaries;
   - commitments relative to 37 former employees of the former ICCRI-BFE: the Bank guarantees additional INPS payments for general obligatory invalidity, old age and heir insurance pursuant to the Agreement of 19 April 1994;
   - commitments to 30 beneficiaries of the additional fund for INPS payments for obligatory invalidity, old age and heir insurance for the former Banca Italease;
   - commitments to 18 former employees relative to the additional fund for INPS payments for obligatory invalidity, old age and heir insurance for retired personnel of the former Banca S. Geminiano e S. Prospero, established with an agreement of 30 July 1976, with the aim of granting an additional pension to Bank employees;

- commitments to 15 former employees relative to the defined benefit fund for retired personnel of the former Banca Popolare di Verona – Banco S. Geminiano e S. Prospero, governed by the Articles of Association - Regulation pursuant to the collective understandings in effect as of 1 January 1999, with the aim of providing an additional pension over that of the general obligatory insurance for Bank personnel;
- commitments to 111 beneficiaries of the former Credito Bergamasco for the provision of pension payments defined under company agreements previously stipulated with the company union representatives (additional company payment - TIA).

b) Other funds for the former Banco Popolare Group
- commitments to 4 former executives relative to the additional fund for INPS payments for obligatory invalidity, old age and heir insurance for retired executives of the former Banca S. Geminiano e S. Prospero, established with a company agreement of 10 October 1996, with the aim of granting an additional pension over that of the general obligatory insurance to its employees;
- commitments to 3 former executives relative to the additional fund for INPS payments for obligatory invalidity, old age and heir insurance for retired executives of the former Banca Popolare di Verona, established with an agreement of 30 July 1976, with the aim of granting an additional pension to Bank employees;
- commitments to 220 pensioners retiring prior to 1 January 1988, relative to adjustment cheques in favour of retired personnel of the former Banca Popolare di Verona e Novara and a former executive;
- commitments to employees and pensioners of the former Credito Bergamasco: this represents the value of commitments relative to 3 former employees, who receive a social security payment established under a company agreement of 10 October 1996 and company largesse approved by the Board of Directors on 29 April 1985.

c) Former Banca Popolare di Milano Group funds
- Former Banca Popolare di Bologna e Ferrara pension funds
  This is a defined benefit fund associated with the commitment made by the incorporated former Banca Popolare di Bologna e Ferrara to pay a defined benefit to employees retiring as of 31 December 1995, in line with their level of service. As at the reporting date, there were 88 beneficiaries;
- Former Banca Agricola Milanese pension funds
  This represents the commitment made by the incorporated former Banca Agricola Milanese to provide an additional pension to employees retiring as of 31 December 1972. As at the reporting date, there were 3 beneficiaries;
- Additional social security payment for the former Banca Popolare di Milano
  In application of the additional social security payment regulations, the commitment consists of: the recognition of an additional pension to former retired employees whose INPS pension is lower than a pre-established percentage of their salary at the same level of service (referred to as employees with integrated pensions); or, in the case the INPS pension exceeds this percentage, a monthly payment to all pensioners of 50% of a scale frozen at the values of 31 December 1991. These benefits are not paid to employees who began service after 28 April 1993 and those hired in the context of mergers. As at the reporting date, there were 5,011 beneficiaries;
- Former Cassa di Risparmio di Alessandria pension fund
  This is a defined benefit fund without legal personality and capital independence, additional (substitute only for certain special situations) to the INPS pension payment. Those enrolled with the Fund consist solely of former employees who are now retired or their heirs. As at the reporting date, there were 215 beneficiaries.

Internal funds also include the liability relating to S.I.PRE. for 0.2 million.

Statements for Banco BPM's internal funds are annexed to the Parent Company's separate financial statements.

2. Changes during the year in net defined benefit liabilities (assets) and in repayment rights

	31/12/2020
A. Opening balance	**150,910**
B. Increases	**7,394**
B.1 Social security costs relative to past work provided (CSC)	490
B.2 Financial charges due to the passage of time	532
B.3 Other actuarial losses	1,718
B.4 Losses due to discount rate variations	4,654
B.5 Other increases	-
C. Decreases	**(24,650)**
C.1 Use during the year	(12,962)
C.2 Gains due to discount rate variations	-
C.3 Other actuarial gains	(11,680)
C.4 Other decreases	(8)
D. Closing balance	**133,654**

Net actuarial gains totalled 5.3 million and were attributable to the following:

- the change in the inflation rate, which led to an actuarial gain of 3.1 million, included under item C.3 "Other actuarial gains";
- the change in the discount rate, as illustrated in Section 9 "Provisions for employee severance pay", above, which led to an actuarial loss of 4.7 million, corresponding to sub-item "B.4 Losses due to discount rate variations";
- other actuarial assumptions that led to a net gain of 6.9 million recognised for 1.7 million under sub-item B.3 "Other actuarial losses" and for 8.6 million under sub-item C.3 "Other actuarial gains".

3. Fair value disclosure on plan assets

Based on IAS 19, plan assets are those held by an entity (a fund) that is legally separate from the entity which prepares the financial statements (external fund) and which can be used solely to pay or fund employee benefits and which are therefore not available to the creditors of the entity which prepares the financial statements. On the basis of this definition, as at 31 December 2020, as well as at 31 December 2019, there were no plan assets.
For the sake of completeness, we note that certain insurance policies exist, classified under item 20 c) "Financial assets at fair value through profit and loss - Other financial assets mandatorily measured at fair value", with the objective of providing the funding needed to pay the indemnities of the plans entered into with certain executives (known as the "S.I.PRE. Plan"), for which the fair value as at 31 December 2020 totalled 0.1 million.

4. Description of main actuarial assumptions

Below are the demographic, financial and economic actuarial assumptions used for the main funds.

Main demographic and actuarial assumptions used to measure pension funds	
Demographic assumptions (2020-2019)	
Probability of death of retired or active employees	IPS55 with Age-Shifting demographic basis for annuity insurance
Financial assumptions (2020-2019)	
Yearly discount rate	**2020**: weighted average of the rates in the Eur Composite AA curve as at 31.12.2020(*): from -0.17 to 0.05 depending on the plan **2019**: Iboxx Corporate AA 7-10 or 10+ index, in line with the average duration of the fund: 0.37%
Yearly inflation rate	**2020**: weighted average of the rates in the European Zero-Coupon Inflation-Indexed Swap curve as at 31.12.2020 (**): 1.10% **2019**: 1.50%

(*) weighted average of the rates of the Eur Composite AA curve as at 31.12.2020, using as weights the ratio of the amount paid and advanced for each maturity to the total amount to be paid and advanced up to the discharge of the population considered;
(**) weighted average rate equal to 1.10%, taken as the weighted average of the rates of the European Zero-Coupon-Inflation-Indexed Swap curve as at 31 December 2020, using as weights the ratio of the amount paid and advanced for each maturity to the total amount to be paid and advanced up to the discharge of the population considered (with reference to all the Companies in BPM Group).

5. Information on amounts, timing and uncertainties regarding cash flows

As required under IAS 19, a sensitivity analysis was performed for the obligation relative to defined benefit pension funds with the hypothesis of a 50 basis point increase or decrease in the discount rate and the inflation rate. The purpose of the analysis is to identify how much the liability would vary in relation to reasonably possible fluctuations in this actuarial assumption.

	Changes in defined benefit funds in absolute terms (*)	Changes in defined benefit funds in percentage terms
discount rate +0.5%	(5,031)	(3.76%)
discount rate -0.5%	5,413	4.05%
inflation rate +0.50%	2,990	2.24%
inflation rate -0.50%	(2,839)	(2.12%)

(*) the amounts in parentheses indicate a decrease in the fund

6. Multi-employer plans

There are no plans of this type.

7. Defined benefit plans that share risks between entities under common control

There are no plans of this type.

10.6 Provisions for risks and charges - other provisions

10.6.1 Other provisions - legal and tax disputes

The Group operates in a legal and regulatory context that exposes it to a wide range of legal disputes, connected, for example, with the terms and conditions applied to its customers, to the nature and characteristics of the financial products and services provided, administrative errors, bankruptcy clawback actions and labour law disputes.

Banco BPM, the companies whose merger gave rise to the Group, the incorporated subsidiaries and the subsidiaries have been subject to various audits by the Tax Authorities, both in 2020 and in previous years. Those activities regarded the determination of the taxable income reported for the purposes of income taxes, VAT, registration tax and, more generally, the methods of applying tax regulations in force at the specific time. As a result of those audits, Banco BPM Group is involved in a number of disputes.

Legal and tax disputes are specifically analysed by the Group, in order to distinguish those whose settlement is expected to require the use of resources which will generate economic benefits and, as a result, will require the recognition of provisions, from the rest of the “contingent liabilities”. “Contingent liabilities” are those disputes which correspond to the following, for which no provisions are recognised:

i) possible obligations, meaning that it has not been confirmed whether the entity has a current obligation that may result in the use of resources to generate economic benefits;
ii) actual obligations which, however, do not meet all the conditions for recognition set out in IAS 37 (because it is not likely that resources will be required to be used to generate economic benefits to fulfil the obligation, or because no sufficiently reliable estimate may be made of the amount of the obligation).

It is noted that the information provided below regarding the claims connected with the main disputes represent the maximum risk exposure, irrespective of the opinion expressed by the Group regarding the relative degree of adverse outcome. For several of these disputes, the Group deems that there are limited risk profiles and, thus, as these are not probably but just possible liabilities, it has not allocated any provisions.

For the liabilities deemed probable, the disclosure on the amount of the allocation is not provided for single dispute in order not to cause harm to the Group in the evolution of the dispute with the counterparty, either in court or by way of settlement. In any event, the total amount of the allocations broken down by type of dispute is provided where the disputes can be grouped into categories of similar nature. As indicated in the paragraph “Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated financial statements", to which reference is made, the complexity of the situations and corporate transactions that form the basis of the disputes entail significant elements of judgment which may involve the existence and the amount, and the related timing for the liabilities to arise. In that regard, to the extent that the estimates made by the Group are deemed reliable and compliant with the reference accounting standards, it cannot be ruled out that the charges which may arise from the settlement of disputes may differ, also by significant amounts, from the amount of the provisions allocated.

The provisions allocated against all existing legal and tax disputes, including cases associated with clawback actions, total 109.5 million.

Legal disputes with customers

The high number of disputes prevents us from providing a detailed list, while their diverse nature makes it extremely difficult, if not impossible, to group them into categories of similar nature.
Note that the dispute initiated by Maflow S.p.A., under extraordinary administration, against the former Banco Popolare, to obtain compensation of 199 million, mentioned in the 2019 Annual Report, was closed without any economic impacts for the Bank, due to the definitive judgement of 22 July 2020, by which the Milan Court of Appeal rejected the counterparty's appeal, fully confirming the first instance judgement in favour of the Bank.
Below, a brief description is provided of the main legal disputes pending as at 31 December 2020, whose settlement is deemed could entail a probably or possible use of financial resources.

- On 10 July 2019 a customer, along with several of his family members, summoned Banco BPM before the court to obtain total compensation for damages of around 21 million for having allowed a proxy/delegate of the customer to carry out a series of unauthorised transactions on various current accounts and securities portfolios. With judgement of 31 December 2020 the Court of Milan rejected all of the opponents' claims.
- On 18 July 2019, the heirs of a customer summoned Banco BPM before the court to request the cancellation of several transactions, mainly financial in nature, which were allegedly carried out on accounts held by the customer without authorisation and in violation of the MiFID regulations. The counterparties requested that the Bank be ordered to return a total amount of around 37 million. The lawsuit is pending before the Court of Milan.
- On 28 October 2019 Società Cooperativa Agricola Centro Lazio summoned Banco BPM before the court to verify the liability of the Bank which, based on the reconstruction by the adversary, allegedly demanded excess guarantees in providing several agricultural loans, initiated repayment of one of the loans granted in advance and forced the company to cease operating its own plant. The counterparty also submitted claims for damages for 40 million relating to the alleged damages incurred due to the claimed negligent business conduct carried out and requested that the loan contracts and related mortgages be declared null and void. The lawsuit is pending in the initial stage before the Court of Milan following the declaration of the lack of geographical jurisdiction of the Court of Latina where the counterparty initially initiated the lawsuit.
- On 4 February 2020, Malenco S.r.l. summoned Banco BPM before the court, together with another bank that led the pooled operations, in relation to the granting of loans for the construction and completion of a property complex. The company requested that the invalidity of the loans be ascertained for allegedly exceeding the usury threshold rate and the invalidity of the derivative contracts taken out to hedge the loans granted, with a request to order Banco BPM to pay the sum of 31 million, 10 million of which together with the other bank. The lawsuit is pending before the Court of Rome.
- On 15 December 2020, BM 124 S.r.l. (assignee of a receivable by Fallimento Barbero Metalli S.p.A.) summoned Banco BPM before the court, along with a further 18 parties (including seven banks), for the purpose of ordering all the defendants to jointly pay 37.5 million (equal to the greater losses recorded) or, alternatively, 22.9 million (equal to the total prejudicial operations, of which 9.2 million referring to Banco BPM) as compensation for the damages allegedly caused by the unlawful granting of credit. The lawsuit is pending in the initial stage before the Court of Florence.
- On 20 December 2019 Banco BPM was summoned, along with a pool of banks, by the receivership of Privilege Yard for the alleged unlawful granting of credit which, according to the counterparty, was granted based on a business plan defined as unlikely, due to the clear inability to repay the loan, and the lack of suitable guarantees. The receivership requested that the liability of the banks be verified for collusion in the mala gestio (poor management) by the directors of Privilege Yard, ordering them to jointly pay compensation for the damages of around 97 million (Banco BPM share 27 million). The lawsuit is

pending in the initial stage before the Court of Rome. On 19 April 2021 the hearing to discuss the preliminary evidence will be held.

- The subsidiary Partecipazioni Italiane in liquidation, as the former owner of land located in Pavia that was the industrial site of the former Necchi S.p.A., (which ceased business operations many years ago), was the subject of an order of the Province of Pavia which requested that the subsidiary, as the party "historically" responsible, along with another party, carry out the reclamation and containment of that area, which for many years now has been owned by third parties outside Banco BPM Group.
  As part of the legal dispute initiated by the subsidiary against that order, on 2 December 2019 the Lombardy Regional Administrative Court rejected the appeal of Partecipazioni Italiane, ordering the company to carry out all the operations necessary to reclaim or secure the area. Considering that a more detailed analysis of the overall results of the evidence and the examination of the interpretation of the environmental laws and verification of the chain of causation could lead to a different classification of the facts, on 7 July 2020 the subsidiary submitted an appeal. The Provincial Authorities of Pavia filed an appearance on 17 September 2020; currently, the public hearing on the merits has not yet been scheduled.
  Irrespective of possible future developments of the disputes in question, in relation to the obligation deriving from the afore-mentioned judgement of the Lombardy Regional Administrative Court, it is likely that the subsidiary may be called to use financial resources to take on the burden of the interventions of reclamation and securing the site. Based on a technical report by the technical expert assigned by the subsidiary (Golder), considering the continuing uncertainty of the works to be carried out on the area (which could be defined only after a characterisation plan has been drawn up and the related administrative proceedings for approval of any reclamation plan have concluded), it is not possible to reliably quantify any reclamation costs, even within a range of a certain size. Therefore, no allocations of provisions for risks and charges have been made in the subsidiary's financial statements in relation to the potential liability described and, as a result, none have been made in these consolidated financial statements.

In light of the successful outcomes in the courts of first instance and/or the existence of valid grounds on which to challenge the claims made by the claimants with regard to proceedings under way, the claims classified as possible but unlikely amount to a total of 434.5 million.
Claims classified as probable amount to a total of 290.9 million, against which 70.6 million has been allocated under the item Provisions for risks and charges.

Clawbacks, lawsuits initiated for bad loans

The high number of disputes prevents us from providing a detailed list, while their diverse nature makes it extremely difficult, if not impossible, to group them into categories of similar nature.
Note that the dispute initiated by Ittierre S.p.A., requesting that the Bank return 30.9 million, was settled on 3 April 2020 with a payment of 3.5 million.
Below, a brief description is provided of the main legal disputes pending as at 31 December 2020, whose settlement is deemed could entail a probably or possible use of financial resources.

- Tecnogas S.p.A. - The proceedings are requesting the return of amounts of 11.2 million. The bankruptcy clawback proceedings in first instance were favourable to the Bank, a judgement opposed by the receivership. After initially admitting the court-appointed expert's report, the Court of Appeal of Ancona suspended the assignment following the Bank's formal petition regarding the burden of argument and proof in clawbacks of remittances in current accounts. The lawsuit was postponed for the filing of written notes.
- CE.DI.SISA Centro Nord S.p.A. (in liquidation) – On 5 August 2020 the Bank was summoned for a liability action against Directors, Statutory Auditors, the Independent Auditors and consultants of the bankrupt company and the bank that colluded with the management body in aggravating liabilities. The Bank, which never granted loans but operated through advances on invoices, lodged a preliminary objection to the statute of limitations of the claim formulated. The total remedy sought against all the banks is 120 million. The first hearing for filing an appearance, scheduled for 30 December 2020, was postponed to 21 April 2021.

In light of the successful outcomes in the courts of first instance and/or the existence of valid grounds on which to challenge the claims made by the claimants with regard to proceedings under way, the provisions allocated against the claims classified as probable amount to a total of 5.6 million.

Tax disputes

The total claims made by the Tax Authorities as part of the tax disputes initiated involving Banco BPM and its subsidiaries amount to 222.7 million as at 31 December 2020[1].

During the year, pending disputes decreased by a total of 5.5 million.

The notice of adjustment and settlement regarding the registration tax served by the Tax Authority – Provincial Headquarters 1 of Milan to Banca Aletti S.p.A., with regard to the acquisition of private banking activities by Banca Popolare di Milano S.p.A., finalised in 2017 was settled, pursuant to Art. 48 of Italian Legislative Decree 546/92. In relation to a total claim of 3.9 million, the dispute was settled with the payment of 1 million. The settlement had no impacts on the income statement, as the charge was already allocated to provisions for risks in 2019.

The further reduction of 1.6 million derives from the write-off of the claims set out in the audit report delivered on 7 August 2017 containing findings regarding the alleged failure to pay IRES and IRAP with reference to certain economic relationships between the former Banca Italease S.p.A. and the subsidiary Banca Italease Funding LLC as part of the capital enhancement operations implemented through the issue of preference shares. Said claims were considered inexistent due to the expiry of the statute of limitations to serve any notices of assessment.

Details of pending disputes as at 31 December 2020

The main tax disputes pending as at 31 December 2020 (with claims equal to or exceeding 1 million) are as follows:

- Banco BPM (former Banca Popolare di Verona e Novara Soc. Coop.) - tax demand regarding IRAP tax paid to the Regional Headquarters for Veneto for 2006. The claim refers to the application of the ordinary rate of 4.25% to the net value of production resulting from business activities performed in Veneto and in Tuscany, instead of the higher rate of 5.25% and amounts to a total of 7.1 million. The tax demand has been challenged. The Provincial Tax Commission partially accepted the appeal, declaring that the fines imposed are not due. The Regional Tax Commission confirmed the first instance judgment, also cancelling the tax demand relating to the additional IRAP referring to the Tuscany Region. The appeal submitted to the Supreme Court is pending. It is deemed that the settlement of the dispute may entail the actual use of economic resources of 5.6 million. That amount was charged to the income statement in the previous years, while the difference is classified as a potential liability in relation to which no provisions have been recognised in the financial statements.
- Banco BPM (former Banca Popolare Italiana Soc. Coop.) - notices of assessment relating to tax year 2005 regarding the claimed non-deductibility for IRES and IRAP purposes of costs and value adjustments to receivables relating to facts or actions classified as offences (regarding offences of false corporate reporting, obstacles to supervision and market turbulence alleged to have been committed by Banca Popolare Italiana with relation to the attempted takeover of Banca Antonveneta). The claims amount to 199.8 million (including interest and tax collection fees). With separate judgements filed on 15 October 2014, no. 8562 (IRES) and no. 8561 (IRAP), the Section 22 of the Provincial Tax Commission of Milan fully rejected the appeals submitted by the Bank, though not justifying in any way the rationale underlying the confirmation of the tax demand. Said judgement was appealed against before the Lombardy Regional Tax Commission. The discussion of the appeals filed on 3 February 2015 was held before Section 2 of the Milan Regional Tax Commission on 6 May 2015. With judgement no. 670 filed on 19 May 2015, also lacking adequate justification, the Commission rejected the joint appeals submitted and confirmed the challenged judgements. An appeal was submitted to the Supreme Court, which is still pending.

[1] Note that that amount does not include the disputes with an immaterial unit amount, mainly comprised of local taxes. It is also noted that, with the exception of the assessments relating to 2005 of the former Banca Popolare Italiana and the liabilities classified as probable, the estimate of contingent liabilities relating to the notices of assessment does not include any interest to be paid in the event of losing the lawsuit. The estimate of contingent liabilities relating to formal reports on findings served or being served other than those classified as probable does not include interest or fines.

The notices illustrated were followed by additional notices of assessment served on 22 December 2014 relating to the formal report on findings dated 30 June 2011 for tax years 2006-2009. The claims contained in these notices also regard the claimed non-deductibility for IRES and IRAP purposes of the costs deemed attributable to facts or actions classified as offences. More specifically, they regard value adjustments on loans already disputed with reference to tax year 2005. Said value adjustments, although recognised by Banca Popolare Italiana in its financial statements for 2005, were deductible on a straight-line basis over the following 18 financial years pursuant to the version in effect at the time of art. 106, paragraph 3 of Italian Presidential Decree no. 917 of 22 December 1986. The notices of assessment served therefore charge the claimed non-deductibility of the portions of those adjustments to loans deducted in 2006, 2007, 2008 and 2009. Total claims amount to 15.8 million. An appeal has been presented to the Provincial Tax Commission. The Commission suspended the proceedings until the final judgment of the Supreme Court is passed on the notices of assessment relating to 2005, pursuant to the previous point.
The claims illustrated, which amount to a total of 215.6 million, were carefully assessed by the Bank in light of the negative rulings made in the courts of the first two instances. In that regard, it must firstly be noted that, in the parallel criminal proceedings initiated against the parties that signed the tax returns for the offence of inaccurate tax return (offense founded on the same charges contained in the notices of assessment in question), the judge issued a judgement of acquittal of the defendants "because there is no case to answer". Even though the criminal proceedings are independent from the administrative disputes, which, thus, may conclude with a different result, it is noted that, in the operative part of the ruling, the criminal judge justified his decision using the same arguments formulated by the Bank in its defence in the appeals submitted in the administrative proceedings illustrated. Furthermore, an analysis of the order and the content of the ruling of the Regional Tax Commission shows that the Commission's decision on the merits of the case contains no specific justification and is based on a mere reference to the Authority's claims, with no express indication of the reasons for its decision not to accept the precise arguments laid out by Banco Popolare in support of its appeal.
In the light of these analyses and considerations, it being believed that there are grounds to challenge the ruling as, in fact, all the defensive arguments regarding aspects of legitimacy not considered by the judges in the first and second instances can be submitted again to the court, on 18 December 2015, the afore-mentioned appeal was lodged with the Supreme Court.
The in-depth analyses of the situation conducted with the support of the advisors assigned to draw up the appeal, as well as the additional opinions requested from other authoritative experts on the matter confirmed the belief that the claim of the Tax Authorities is illegitimate and the possibility to finally see the defensive arguments considered and agreed with in the proceedings before the Supreme Court is unchanged. The same analyses were conducted by the Board of Directors to confirm the classification of the claim as a potential liability, as the risk of losing the lawsuit is possible but not probable. In light of the evaluations carried out, no provision has been recognised for the above contingent liabilities in the financial statements as at 31 December 2020.

Audits under way as at 31 December 2020

On 5 December 2019, as part of a wider tax audit of a company external to Banco BPM Group, the Italian Tax Police launched an audit for the purposes of direct taxes and VAT of Banco BPM for the tax year 2017. Based on the results of the reports of the audit, which is still under way, no findings have been stated.

On 2 March 2020, the Italian Tax Authority - Regional Department of Lombardy had informed, in compliance with the principles set forth in the taxpayers' statute, that it intends to initiate a tax audit for the purposes of IRES, IRAP, VAT and withholding tax obligations for the year 2016 of the subsidiary Banca Aletti. By subsequent communication of 6 March, the Authority decided to postpone the opening of the verification until a date to be defined in relation to the emergency situation related to the Coronavirus.

10.6.2 Other provisions - personnel expenses

These amounted to 450.7 million as at 31 December 2020 and include the amount of 257.0 million allocated for the charges expected for the use of the extraordinary benefits of the Solidarity Fund and for voluntary redundancy incentives following the agreements reached with the trade unions announced to the market on 30 December 2020, which envisage the early retirement on a voluntary basis of 1,500 resources.
These also include the residual charges to be paid to finance the Solidarity Fund for early retirement incentive plans for personnel begun in previous years and the estimate of charges deriving from the foreseeable payment of variable compensation in compliance with that established under the Group's incentive systems.

10.6.3 Other provisions - other

This residual category of provisions amounts to a total of 224.7 million and mainly includes allocations against the following liabilities:

a) risks associated with disputes and claims, both pending and expected, associated with operations with customers and possible developments in the interpretation of certain regulations governing banking activities (129.0 million);
b) estimate of probable reimbursements of fees consequent to the possible early termination of insurance policies by customers (20.7 million);
c) risks associated with commitments undertaken as part of partnership agreements and guarantees granted against the disposal of interests or other assets or groups of assets (40.0 million);
d) charges relating to the restructuring of the distribution network (planned closing of 300 branches) and corporate restructuring (incorporation of ProFamily and Bipielle Real Estate) (15.3 million).

Category a) includes the provision made against residual risks associated with reporting activities carried out of customers interested in purchasing diamonds to the specialised company Intermarket Diamond Business S.p.A. ("IDB"). Almost all of those reporting activities were carried out from 2003 to 2016 and, thus, prior to the merger that gave rise to Banco BPM. That activity was suspended in the initial months of 2017 and then definitively stopped.

To that end, note that the in April 2017 the Antitrust Authority (AGCM) extended the proceedings initiated against IDB to the reporting banks, including Banco BPM, and on 30 October 2017, by finding an allegedly incorrect commercial practice under the Consumer Code, imposed an administrative fine on IDB and the reporting banks (amounting, in the case of Banco BPM, to 3.35 million). The Bank paid the amount of the fine and challenged the measure of the Antitrust Authority before the Regional Administrative Court. Following the rejection of the appeal by the Regional Administrative Court, the Bank appealed to the Council of State, which is currently pending.

In relation to those operations, criminal proceedings are also pending before the Public Prosecutor's Office of Milan. As part of these, on 19 February 2019 the Public Prosecutor's Office of Milan served to the Bank (i) a pre-judgement attachment order for a total of 84.6 million and (ii) a notice of investigation to Banco BPM and Banca Aletti under the terms of Italian Legislative Decree 231/2001 for an administrative offence for the predicate crimes of self-laundering and to Banco BPM for the allegation of obstructing the performance of the functions of the public supervisory authorities. In the notice of closing of the preliminary investigations, the Public Prosecutor's Office also charged several former managers and employees of the Group with the crimes of aggravated fraud, self-laundering, obstructing the performance of the functions of the public supervisory authorities and corruption between private parties. In that regard, in September 2020 the Public Prosecutor's Office of Milan served those former managers and several employees of the Group with a notice of conclusion of the preliminary investigations as part of proceedings also relating to the operations in diamonds referring to the offence of fraud, which does not change the overall charges previously communicated by the judicial authorities.

These situations resulted in the receipt of a high number of complaints from the Group customers involved and the launch of disputes in civil court. In that regard, also with a view to being close to customers, in the last few years the Group has implemented a large-scale customer care initiative. This entails a case-by-case analysis of the aspects reported by customers in their complaints, for the purpose, if necessary, of finalising settlements that envisage the customer retaining ownership of the gem along with the provision of an economic compensation by the Group banks involved. Moreover, following the bankruptcy of IDB, declared in January 2019, the Group further strengthened its oversight of customer care, setting up a free service for assistance to customers in submitting requests for return of the gems to the bankruptcy receiver and, lastly, for return of diamonds still in custody at the vaults managed by the IDB bankruptcy to customers that have already received their authorisations from the Presiding Judge. As at 31 January 2021 (the date nearest to the date of approval of the Financial Report), approximately 23,700 complaints had been received for a total remedy sought of approximately 700 million, of which approximately 1,300 million gave rise to civil proceedings in which the Bank was a defendant, for a total remedy sought of approximately 64 million.
At the same date, due to the previously illustrated management activities, complaints and disputes were settled for a total remedy sought exceeding 500 million. In relation to complaints and disputes, both pending and potential, in the 2017, 2018 and 2019 financial statements, the Group recognised allocations to specific provisions to cover disputes with customers, for a total amount of 383.3 million (43 million in 2017, 275.3 million in 2018 and 65.0 million in 2019).

A total of 256.6 million has been used out of those financial resources (33.1 million in 2018, 115.5 million in 2019 and 108.0 million in 2020) for reimbursements provided, in the meantime, to customers with which settlements were finalised.
Therefore, as at 31 December 2020, the total amount of the fund available for potential additional reimbursement claims was 126.7 million.
During 2020 no adjustment to this provision was necessary following the substantial confirmation of the estimates of the variables underlying the amount of resources that the Group is forecast to commit to settle the disputes with customers, illustrated below:

- total amount of complaints deemed legally founded (also considering the time frames of the statutes of limitations) which are expected to be received (amount of complaints previously received and those to be received in the future) and of disputes resulting therefrom;
- estimate of the compensation that will be paid to customers that have submitted said complaints and the financial resources to be used to settle the pending disputes.

The first variable was the most difficult unknown variable to estimate in the past few years, as it is largely independent from the managerial actions implemented and strongly correlated with unpredictable events such as, for example, the extensive waves of media coverage that kept coming over time in relation to the situation in question. In that regard, note that the Group banks do not have information on the customers who, following purchase, already sold gems through IDB. When determining the provision, the lawsuits already launched against the Group, complaints received, and an estimate of complaints which can be assumed to arrive in the future were all taken into consideration, without considering any decrease in the risk of complaints against possible sales of gems already completed by customers over time. At today's date, considering the large number of complaints already received, the risk of underestimating the complaints that may be received is very slight. This seems to be confirmed by the significant decrease in the inflows of new complaints recorded in 2020 compared to the previous years, which remained steady for the entire year, irrespective of the periods of more or less strict lockdown resulting from the health emergency.

Neither was the second variable easy to determine. In the face of the very peculiar issue of diamonds, the Group has had to progressively acquire, as the issue evolves, the information needed to structurally organise the process to deal with complaints. The methods for determining the reimbursements to customers in order to settle the complaints have also been gradually defined. That evolution necessarily influenced the size of the reimbursements proposed.
During 2020 the average percentage of compensation paid to customers for the settlements finalised increased compared to the previous years. However, in relation to a higher number of settlements, it seems to be stabilising over the year and seems in line with the assessments conducted on drawing up the 2019 financial statements.

Note that in estimating the above provisions for risks and charges, no discounting factors were considered, as it is deemed that most of the complaints will be settled within a short period of time. No assets for expected indemnities were recognised in relation to those provisions.
Considering all the elements of uncertainty illustrated, it cannot be ruled out that the amount of provisions for risks and charges recognised in the financial statements as at 31 December 2020 may be lower or higher than the actual outlays of financial resources that the Group banks will incur to settle the disputes and complaints of their customers. Thus, it cannot be ruled out that it may be necessary to recognise additional provisions or recoveries in future income statements, even though the high number of complaints previously received and the just as high number of transactions finalised make it possible to deem that risk decisively lower than in the previous years.

As permitted by paragraph 92 of the reference international accounting standard (IAS 37), the disclosure set out above does not include the information whose provision could harm the position of the Group banks involved (Banco BPM and Banca Aletti) in the actions to protect their third party position in the situation and in the pending disputes.

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

Item b) represents the provision allocated in application of that established under accounting standard IFRS 15 against the risk of having to return a portion of commissions received for the placement of insurance policies with customers, in the case that these customers decide to close the insurance coverage in advance.

Item c) represents the provision allocated against risks associated with certain guarantees granted to the buyer at the time of disposals of interests, assets and groups of assets which have already been completed and as part of partnership agreements signed, as better specified below.

To this end, we can note that, in the context of the contracts signed at the time of the disposal of interests, business segments or portfolios of non-performing loans in 2020 and in the previous years, as well as in any correlated partnership agreements, there are investment protection and guarantee mechanisms for the buyer. In detail, those mechanisms provide for the possible payment of indemnities to the buyer in the event that specific business targets are not reached, setting out limits, deductibles, grace periods and exceptions in favour of Banco BPM Group. Certain protection and guarantee mechanisms shall remain in force until the end of the partnership.
A list is provided below of the main operations finalised for which the sale agreements and/or related partnership agreement envisage obligations for Banco BPM Group to pay possible indemnities:

- sale finalised in 2017 of the controlling interest in Aletti Gestielle SGR to Anima Holding;
- sale finalised in 2018 of a share of 65% of the equity interests held in the insurance companies Popolare Vita and Avipop Assicurazioni (now named Vera Vita and Vera Assicurazioni, respectively) to Società Cattolica Assicurazioni;
- the sale of a business unit relative to custodian bank business segment to BNP Paribas Securities Services in 2018 and the consequent revision of the obligations established at the time of the sale of the custodian bank business segment of the former Banca Popolare di Milano to the same buyer in 2010;
- the sale finalised in 2018 of the contracts relating to delegated insurance asset management mandates placed through Banco BPM Group network to Anima SGR;
- the sale in 2015 by the former Banco Popolare of the subsidiary B.P. Luxembourg S.A. to Banque Havilland;
- the sale finalised in 2011 of a share of 81% of the interest held in Bipiemme Vita to Covéa;
- sale of portfolios of non-performing loans carried out (ACE, ACE Leasing, Exodus, Django and Titan portfolios).

Where, based on the objectives reached and reported and the future projections of their evolution, it is deemed probable that indemnity will be paid to the buyer counterparty. The amount of the estimated liability has been allocated to the provisions for risks and charges in question.

Part B – Assets, paragraph 7.8 "Commitments relative to interests in companies subject to significant influence" of these Notes to the consolidated financial statements illustrates, among others, the commitments deriving from bancassurance agreements in force with Cattolica Assicurazioni Group. In relation to the commitment to pay Cattolica the amount of 26 million by way of indemnity, should Banco BPM and Covèa decide to renew for at least one year the distribution agreement relating to the insurance products on the former BPM network or should Banco BPM decide to exercise the right of withdrawal set out in the transfer agreement, in light of the exercise of the call option on the controlling stakes in the JV Vera Vita and Vera Assicurazioni the entire amount of that indemnity was allocated by charging the income statement for the year.
As regards commitments to achieve specific targets of gross insurance funding subject to final calculation every four years, based on the data of placements actually realised in the three -year period 2018-2020 and the forecast funding for 2021, underperformance of distribution was estimated for the first four-year period. Taking account of an operating context that is radically different from that forecast at the time of entering into the agreements, it is deemed that this may be effectively attributed to Banco BPM. The amount of the indemnity that could burden on Banco BPM was allocated by charging the income statement for the year.
Following the exercise of the call option on the controlling stakes in Vera Vita and Vera Assicurazioni exercised by Banco BPM and the challenge by Cattolica of the existence of the conditions for exercising that option, a situation of great uncertainty was created regarding the possible outcome of the dispute and its consequences. Currently, it is possible to imagine both the scenario of a prolonged dispute whose outcome will depend on arbitration, and the achievement of an understanding between the parties in a shorter time frame. Considering all the elements of uncertainty illustrated, it cannot be ruled out that the amount of provisions for risks and charges recognised in the financial statements as at 31 December 2020 may be lower or higher than the actual outlays of financial resources that Banco BPM will incur to settle the dispute. Thus, it cannot be ruled out that it may be necessary to recognise additional provisions or recoveries in future income statements.

With regard to the commitments to achieve specific targets set out as part of the partnership agreements with Anima Group, the renegotiation of the master partnership agreement finalised on 14 May 2020 entailed the waiver by

Anima Group of any claim for indemnity with regard to the commitments set out in the original agreement. As a result of the renegotiation, the commitment that resulted in the subsidiary Banca Aletti recognising a specific provision for risks and charges in 2019 no longer applied, with the resulting crediting of the release of the amount allocated (12.5 million) to the income statement for the year. The reference period for the targets for distribution of Anima products set out in the new agreement is the time horizon of 2020-2025.

Section 11 - Technical reserves - Item 110

The Group does not have any equity interests in insurance companies included under consolidation.

Section 12 - Redeemable shares – Item 130

12.1 Redeemable shares: breakdown

The Group has no redeemable shares as of the reporting date, nor did it as at 31 December 2019.

Section 13 - Group equity Items 120, 130, 140, 150, 160, 170 and 180

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

The share capital as at 31 December 2020 was 7,100 million and consisted of 1,515,182,126 ordinary shares, fully subscribed and paid up.

The "own shares" item is represented by 6,125,659 shares of the Parent Company, fully held by the same, for a book value of 14.0 million.

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

	Ordinary	Other
A. Outstanding shares at the beginning of the year	**1,515,182,126**	**-**
- fully paid-up	1,515,182,126	-
- not fully paid-up	-	-
A.1 Own shares (-)	(3,657,792)	-
A.2 Shares in issue: opening balances	**1,511,524,334**	**-**
B. Increases	**697,133**	**-**
B.1 New issues	-	-
against payment:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
free of charge:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sale of own shares	697,133	-
B.3 Other changes	-	-
C. Decreases	**3,165,000**	**-**
C.1 Cancellation	-	-
C.2 Purchase of own shares	3,165,000	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares in issue: closing balances	**1,509,056,467**	**-**
D.1 Own shares (+)	6,125,659	-
D.2 Outstanding shares at the end of the year	1,515,182,126	-
- fully paid-up	1,515,182,126	-
- not fully paid-up	-	-

Item B.2 includes shares assigned during the year to employees, implementing remuneration and incentive policies as detailed in Part I of the Notes.
Item C.2 recognises the purchases of own shares carried out during the year by the Parent Company in implementation of the resolution of the Ordinary Shareholders' Meeting of Banco BPM of 6 April 2019 which approved, inter alia, the request for authorisation to purchase and use own shares for the share-based compensation plans.

13.3 Share capital: other information

There is no other information worthy of note with respect to that already provided in the previous points of this section.

13.4 Profit reserves: other information

Group Reserves recognised under item 150 of the Balance sheet liabilities amount to a total of 4,112.5 million, classified as follows:

- Profit reserves of 3,791.8 million;
- Other reserves of 320.7 million.

Please see the "Statement of changes in consolidated shareholders' equity" for evidence of changes in the reserves during 2020, as well as the schedule included in the Notes to Banco BPM separate financial statements for the information required under art. 2427 of the Italian Civil Code.

Lastly, note that the Parent Company has "legal reserves" totalling 1,420.0 million within its own capital reserves, equal to 1/5 of share capital. This reserve was established when the profits for 2017 were allocated by the Parent Company.

13.5 Equity instruments: breakdown and annual changes

Equity instruments outstanding as at 31 December 2020 amounted to 695.4 million (298.1 million at the end of the previous year) and consisted entirely of two issues of Additional Tier 1 securities, the first in 2019 for a nominal amount of 300 million and the second, completed in January 2020, for a nominal amount of 400 million.
These were, in particular, subordinated instruments classified in Additional Tier 1 capital, under the terms of Regulation no. 575 of 2013 (CRR).
Such issues are classifiable as equity instruments under the terms of the accounting standard IAS 32. The price received from the issue, after deducting the directly-attributable transaction costs net of the tax effect was recognised in the item "140. Equity instruments".
In line with the nature of the instrument, the coupons are recognised as a decrease of shareholders' equity (item "150. Reserves"). As at 31 December 2020 the shareholders' equity decreased by 27.9 million, as a result of the payment of the coupons net of the related tax effect.
For further details on the accounting treatment of the instruments in question, refer to the paragraph entitled "Other significant aspects relating to Group accounting policies" contained in Part A - "Accounting Part A - Accounting Policies" of these Notes.

13.6 Other information

There is no other information worthy of note with respect to that already provided in previous sections.

Section 14 - Non-controlling interests - Item 190

14.1 Breakdown of item 190 "Non-controlling interests"

Company names	31/12/2020	31/12/2019
Interests in consolidated companies with significant non-controlling interests	-	-
Other interests	1,894	26,076
Total	**1,894**	**26,076**

14.2 Equity instruments: breakdown and annual changes

There are no financial instruments issued by companies of the Group not subject to full control.

Other Information

1. Commitments and financial guarantees given

	Nominal value of commitments and financial guarantees given			Total 31/12/2020	Total 31/12/2019
	Stage 1	Stage 2	Stage 3		
1. Commitments to disburse funds	**43,812,481**	**736,332**	**601,127**	**45,149,940**	**50,322,197**
a) Central Banks	-	-	-	-	-
b) Public Administrations	1,259,795	81,889	12,795	1,354,479	2,558,742
c) Banks	1,850,977	1,312	-	1,852,289	1,679,149
d) Other financial companies	2,727,371	33,605	3,002	2,763,978	2,924,329
e) Non-financial companies	35,486,892	541,592	578,993	36,607,477	39,654,478
f) Households	2,487,446	77,934	6,337	2,571,717	3,505,499
2. Financial guarantees given	**455,921**	**25,236**	**23,557**	**504,714**	**573,837**
a) Central Banks	-	-	-	-	-
b) Public Administrations	20,405	-	-	20,405	30,410
c) Banks	34,361	-	-	34,361	80,353
d) Other financial companies	52,883	57	16	52,956	64,670
e) Non-financial companies	313,734	20,181	21,137	355,052	352,578
f) Households	34,538	4,998	2,404	41,940	45,826

2. Other commitments and guarantees given

	Nominal value	
	Total 31/12/2020	Total 31/12/2019
1. Other guarantees given	**6,769,898**	**6,549,214**
of which: non-performing credit exposures	367,872	387,006
a) Central Banks	-	-
b) Public Administrations	18,410	17,903
c) Banks	446,291	513,838
d) Other financial companies	152,319	124,694
e) Non-financial companies	6,016,780	5,745,126
f) Households	136,098	147,653
2. Other commitments	**5,287,756**	**4,547,125**
of which: non-performing credit exposures	4,486	4,588
a) Central Banks	-	-
b) Public Administrations	4,532	3,042
c) Banks	44	31,723
d) Other financial companies	2,858,226	2,087,061
e) Non-financial companies	530,165	540,910
f) Households	1,894,789	1,884,389

3. Assets pledged to secure own liabilities and commitments

Portfolios	Amount 31/12/2020	Amount 31/12/2019
1. Financial assets at fair value through profit and loss	631,715	932,860
2. Financial assets measured at fair value through other comprehensive income	4,532,735	5,349,679
3. Financial assets at amortised cost	46,303,101	43,721,873
4. Property, plant and equipment	-	-
of which: property, plant and equipment classified as inventories	-	-

Assets pledged to secure own liabilities and commitments recognised under balance sheet assets totalled 51,467.6 million, mostly attributable to the Parent Company. These refer to:

- 15,167.6 million in financial assets (17,926.7 million in 2019) relative to mortgage loans transferred by the Parent Company to the SPE, guaranteeing the holders of covered bonds issued as described in detail in the section D.4 Prudential consolidation - Covered bond transactions, contained in Part E - Section 1 of these Notes;
- 17,536.2 million (13,937.4 million in 2019) in loans serving to guarantee financing operations with central banks (Abaco);
- 8,900.3 million (12,552 million in 2019) in securities underlying repurchase agreements and securities lending;
- 8,213.7 million (4,050.2 million in 2019) in securities serving as deposits/guarantees for other operations, mainly associated with refinancing operations with central banks (pooling);
- 314.9 million (786.0 million in 2019) in assets serving to guarantee financing operations received from Cassa Depositi e Prestiti;
- 954.2 million (752.2 million in 2019) in guarantee deposits for the securitisation of Master Agreements signed by Group companies;
- 380.7 million in deposits for variation margins with central counterparties relating to transactions in OTC derivatives.

In addition, the following assets are noted which, in accounting terms, are not represented in any way in balance sheet assets, and are used as part of the collateral for the loans received from the ECB. As at 31 December 2020 the loans amounted to a nominal value of 27.5 billion (nominal value of 20.9 billion in 2019):

- securities deriving from own asset securitisation transactions for 2,919.3 million (3,958.6 million in 2019);
- covered bond issues repurchased for a nominal value of 5,283.7 million (6,735.6 million in 2019);
- securities deriving from repurchase agreements with securities use and/or lending delivery versus delivery for a residual nominal value of 265.0 million (226.6 million in 2019).

Lastly, we note that at the reporting date there were covered funding operations represented by repurchase agreements payable with underlying securities acquired in the context of reverse repurchase agreements. The book value of these reverse repurchase agreements, recognised among loans to banks and customers, based on the counterparty, amounted to 1,771.6 million (1,548.7 million in 2019), with nominal value of 1,582.3 million (1,458.6 million in 2019).

4. Breakdown of investments against unit-linked and index-linked policies

As at 31 December 2020 the Group had no investments against unit-linked or index-linked policies.

5. Management and brokering for third parties

Type of services	Amount 31/12/2020
1. Execution of customer orders	
a) purchases	60,900,361
1. settled	60,727,381
2. not settled	172,980
b) sales	33,593,825
1. settled	33,433,474
2. not settled	160,351
2. Portfolio management	
a) individual	2,885,030
b) collective	-
3. Securities custody and administration	
a) third party securities under custody: associated with custodian bank services (excluding portfolio management)	-
1. securities issued by companies included in the scope of consolidation	-
2. other securities	-
b) third party securities under custody (excluding portfolio management): other	59,214,290
1. securities issued by companies included in the scope of consolidation	5,519,984
2. other securities	53,694,306
c) third party securities under custody with third parties	56,385,347
d) own securities under custody with third parties	35,049,388
4. Other transactions	45,850

Financial assets and liabilities subject to offsetting in financial statements, or subject to master netting arrangements or similar arrangements

This section provides the information required under standard IFRS 7 relative to "offsetting of financial assets and liabilities" for financial instruments which:

- were offset in the balance sheet pursuant to IAS 32;
- could potentially be offset, given certain conditions, but presented in the balance sheet as open balances, as they are governed by "master netting arrangements or similar arrangements", which do not meet the criteria established in IAS 32 for offsetting.

In providing disclosure on these agreements, the standard also requires that the effects of real financial collateral (including guarantees in cash equivalents) received or granted be taken into effect.

More specifically, instruments offset in the balance sheet pursuant to IAS 32 refer to certain repurchase agreements entered into by the Parent Company with banks or institutional counterparties and some over-the-counter (OTC) financial derivatives entered into by individual Group companies with the counterparty London Clearing House (LCH).

In particular, the amount of the amounts offset shown in tables 6 and 7 below, corresponding to the columns "Amount of financial liabilities offset in the financial statements (b)" and "Amount of financial assets offset in the financial statements (b)", amounted to 2,248.9 million, of which 1,668.4 million relative to repurchase agreements the effect of which decreases the following balance sheet items:

- 40. Financial assets at amortised cost
  a) loans to banks - offset for 1,565.9 million;
  b) loans to customers - offset for 102.5 million.
- 10. Financial liabilities at amortised cost
  a) due to banks - offset for 836.0 million;
  b) due to customers - offset for 102.5 million;
  c) debt securities in issue - offset for 729.9 million.

The effect of the offset decreasing "debt securities in issue" is due to the representation used for funding repurchase agreements with the use of repurchased own issues.

The remaining 580.5 million relating to derivative instruments offset at the level of individual Group company are represented as a decrease of the following balance sheet items:

- 20. Financial assets at fair value through profit and loss
  a) Financial assets held for trading – offset for 457.8 million;
- 50. Hedging derivatives – offset for 122.7 million.
- 20. Financial liabilities held for trading – offset for 457.8 million;
- 40. Hedging derivatives – offset for 122.7 million.

For instruments that could potentially be offset, should certain events occur and that would be presented in tables 6 and 7 below in the column "Related amounts not subject to offsetting in the financial statements", note that the Group has the following agreements in place:

- for derivative instruments: "ISDA Master Agreement" and netting arrangements with clearing houses;
- for repurchase agreements and reverse repurchase agreements: "Global Master Repurchase Agreements (GMRA)" and netting arrangements with "Cassa di Compensazione e Garanzia (CC&G)";
- for securities lending transactions: "Global Master Securities Lending Agreements (GMSLA)".

With regards to derivatives, whether for trading or hedging, note that:

- those with a positive fair value amount to 2,661.6 million (recognised under items 20 and 50 of the balance sheet assets) of which, net of offsetting, 2,293.7 million (2,874.2 million gross) is supported by netting agreements (86.2% in percentage terms), as indicated in table 6 (columns c) and a));
- those with a negative fair value amount to 3,565.6 million (recognised under items 20 and 40 of the balance sheet liabilities) of which, net of offsetting, 3,154.1 million (3,734.6 million gross) is supported by netting agreements (88.5% in percentage terms), as indicated in table 7 (columns c) and a)). Positions not covered by netting arrangements for the most part refer to certificates contracts signed by customers and issued by the subsidiary Banca Akros, which as at 31 December 2020 had a fair value of 364.7 million.

With reference to securities lending transactions, it should be noted that tables 6 and 7 below include operations which involve the payment of cash guarantees which are fully available to the lender, as these are single operations recognised in the balance sheet. For the purposes of reconciliation with the balance sheet figures for securities lending transactions and repurchase agreements falling under netting or similar arrangements, note that these operations are represented under the items "Reverse repurchase agreements/repurchase agreements" indicated in the tables showing the breakdown of loans to/due to banks and customers and financial assets and liabilities held for trading, based on the type of counterparty and the purpose of the transactions, found in Part B - Information on the consolidated balance sheet. Note that Table 7 includes 950.6 million in repurchase agreements for funding using own issues repurchased, reported in the financial statements and in the specific tables of Part B in "Item 10. Financial liabilities at amortised cost – c) Debt securities in issue", while some securities lending transactions to customers guaranteed in cash without netting arrangements are not reported for 1.6 million, which constitute the differences with that shown in the tables in Part B.

For the purposes of creating tables 6 and 7 below, in line with standard IFRS 7 and the instructions contained in Circular 262, note that:

- the effects of potential offsetting of financial statement values for financial assets and liabilities are indicated in column (d) "Financial instruments", together with the fair value of the real financial guarantees represented by securities;
- the effects of potential offsetting for the exposure with the relative cash guarantees are shown under column (e) "Cash deposits received/given as guarantee".

These effects are calculated for each individual counterparty supported by a master netting arrangement within the limits of the net exposure indicated under column (c).

Based on the methods identified above, netting arrangements between financial instruments and the relative financial guarantees make it possible to significantly decrease the creditor/debtor exposure relative to the counterparty, as indicated in column (f) "Net amount" in tables 6 and 7 below.

6. Financial assets subject to offsetting in financial statements, or subject to master netting arrangements or similar arrangements

Technical forms	Gross amount of financial assets (a)	Amount of financial liabilities offset in the financial statements (b)	Net amount of financial assets presented in the financial statements (c=a-b)	Related amounts not subject to offsetting in the financial statements		Net amount (f=c-d-e)	Net amount (f=c-d-e)
				Financial instruments (d)	Cash deposits received as guarantee (e)	31/12/2020	31/12/2019
1. Derivatives	2,874,221	580,497	2,293,724	1,970,617	251,674	71,433	89,973
2. Repurchase agreements	7,859,995	1,668,430	6,191,565	6,191,558	-	7	557
3. Securities lending	68,588	-	68,588	66,177	-	2,411	3,850
4. Other	-	-	-	-	-	-	-
Total 31/12/2020	**10,802,804**	**2,248,927**	**8,553,877**	**8,228,352**	**251,674**	**73,851**	**X**
Total 31/12/2019	**12,462,152**	**3,161,944**	**9,300,208**	**8,956,343**	**249,485**	**X**	**94,380**

7. Financial liabilities subject to offsetting in the financial statements, or subject to master netting arrangements or similar arrangements

Technical forms	Gross amount of financial liabilities (a)	Amount of financial assets offset in the financial statements (b)	Net amount of financial liabilities presented in the financial statements (c=a-b)	Related amounts not subject to offsetting in the financial statements		Net amount (f=c-d-e)	Net amount (f=c-d-e)
				Financial instruments (d)	Cash deposits pledged as collateral (e)	31/12/2020	31/12/2019
1. Derivatives	3,734,641	580,497	3,154,144	1,970,617	1,118,206	65,321	41,090
2. Repurchase agreements	12,125,275	1,668,430	10,456,845	10,454,842	1,730	273	717
3. Securities lending	416,295	-	416,295	375,656	-	40,639	33,968
4. Other transactions	-	-	-	-	-	-	-
Total 31/12/2020	**16,276,211**	**2,248,927**	**14,027,284**	**12,801,115**	**1,119,936**	**106,233**	**X**
Total 31/12/2019	**18,829,333**	**3,161,944**	**15,667,389**	**14,706,462**	**885,152**	**X**	**75,775**

8. Securities lending transactions

The table below provides information about Group securities lending transactions (receivable and payable), broken down by the type of securities (government, bank, other), market counterparty (bank, financial brokers, customers) and the relative technical forms (loan guaranteed by cash or by other securities).
These are mainly carried out by the Parent Company Banco BPM and the subsidiary Banca Akros. Securities obtained as a loan are, as a rule, used for mirrored securities lending transactions (where the Group is the lender) or as underlying assets for repurchase agreements for funding.
Note that securities lending transactions that involve the payment of cash guarantees that are fully available to the lender are represented in the balance sheet in the loans to/due to banks or customers, in the technical form of "repurchase agreements". Securities lending transactions with guarantees consisting of other securities or cash, which are not fully available to the lender, are not indicated in the balance sheet, but are included among off-balance sheet exposures with regards to the relative counterparty risk.

The table below provides information about receivables and payables recognised in the financial statements as at 31 December 2020 against securities received and given in cash-backed loans. Transactions not included in the balance sheet, as noted in the previous paragraph, are exposed on the basis of the fair value of the securities loaned, whether received or given.

Type of securities lending transaction	Type of securities		
	Government securities	Bank securities	Other securities
Cash-backed loaned securities received - Loans to:			
a) Banks	-	6,215	25,976
b) Financial intermediaries	-	13,325	23,070
c) Customers	-	-	-
Total receivables for securities lending	**-**	**19,540**	**49,046**
Security or cash-backed loaned securities received not available to the lender from:			
b) Financial intermediaries	-	-	-
c) Customers	-	282,436	99,748
Total (fair value)	**-**	**282,436**	**99,748**
Cash-backed loaned securities given - Due to:			
a) Banks	-	31,888	311,115
b) Financial intermediaries	-	3,728	69,563
c) Customers	-	23	1,585
Total payables for securities lending	**-**	**35,639**	**382,263**
Security-backed or non-guaranteed loaned securities given:			
a) Banks	1,912,851	250,017	3,324
b) Financial intermediaries	-	159	1,261
c) Customers	-	-	-
Total (fair value)	**1,912,851**	**250,176**	**4,585**

The 1,912.9 million under "Security-backed or non-guaranteed loaned securities given" (1,726.8 million in 2019), refers to transactions on government securities loaned by the Parent Company, without guaranteed received.

9. Information on joint operations

As at the reporting date, as in the previous year, there were no joint control agreements classifiable as "joint operations" pursuant to accounting standard IFRS 11, on the basis of which the parties holding joint control have rights over the assets and obligations regarding the liabilities relative to the agreement.

PART C – INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

Section 1 - Interest – Items 10 and 20

1.1 Interest and similar income: breakdown

Items/Technical forms	Debt securities	Loans	Other transactions	Total 2020	Total 2019
1. Financial assets at fair value through profit and loss:	33,203	4,842	3,374	41,419	70,441
1.1 Financial assets held for trading	23,437	-	3,374	26,811	43,897
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	9,766	4,842	-	14,608	26,544
2. Financial assets measured at fair value through other comprehensive income	148,875	-	X	148,875	273,560
3. Financial assets at amortised cost:	258,113	1,864,918	X	2,123,031	2,188,406
3.1 Loans to banks	11,018	33,354	X	44,372	25,573
3.2 Loans to customers	247,095	1,831,564	X	2,078,659	2,162,833
4. Hedging derivatives	X	X	(116,454)	(116,454)	(156,630)
5. Other assets	X	X	6,961	6,961	6,731
6. Financial liabilities	X	X	X	212,773	131,416
Total	**440,191**	**1,869,760**	**(106,119)**	**2,416,605**	**2,513,924**
of which: interest income on impaired financial assets	329	119,440	-	119,769	204,970
of which: interest income on finance leases	-	22,938	-	22,938	30,257

Item 1.1 "Financial assets held for trading – Other transactions" include the spreads of the derivative contracts operationally connected with the financial liabilities issued by the Bank measured at fair value (FVO).

Item 4 "Hedging derivatives - Other transactions" include the spreads accrued of the financial hedging derivative contracts for transactions on balance sheet assets.

Item 5 "Other assets – Other transactions", equal to 6.9 million, include 6.7 million in interest income on tax credits.

Item 6 "Financial liabilities" comprises 169.2 million (86.1 million in 2019) in interest income pertaining to the year on ECB funding transactions represented by the TLTRO II loans payable (equal to 25.2 million), fully repaid, and that estimated on the TLTRO III loans outstanding (equal to 144.0 million, of which 68.8 million attributable to a further reduction of 0.5% for the special interest period starting on 24 June 2020).

For the accounting treatment relating to the recognition of interest pertaining to the year for this loan, refer to that illustrated in the paragraph "Other significant aspects relating to Group accounting policies" contained in Part A of the Notes.

Interest income on impaired assets is recorded according to the methods set out in IFRS 9. In particular, they include the effect attributable to the "time reversal" due to the recoveries from discounting non-performing loans.

1.2 Interest and similar income: other information

1.2.1 Interest income on financial assets in foreign currency

Items	2020	2019
Interest income on financial assets in foreign currency	73,502	170,258

1.3 Interest and similar expense: breakdown

Items/Technical forms	Payables	Securities	Other transactions	Total 2020	Total 2019
1. Financial liabilities at amortised cost	(130,820)	(314,331)	X	(445,151)	(505,449)
1.1 Due to central banks	-	X	X	-	-
1.2 Due to banks	(65,846)	X	X	(65,846)	(136,046)
1.3 Due to customers	(64,974)	X	X	(64,974)	(68,886)
1.4 Debt securities in issue	X	(314,331)	X	(314,331)	(300,517)
2. Financial liabilities held for trading	(13,109)	-	-	(13,109)	(7,965)
3. Financial liabilities designated at fair value	-	(3,832)	-	(3,832)	(7,568)
4. Other liabilities and provisions	X	X	(449)	(449)	(898)
5. Hedging derivatives	X	X	43,071	43,071	44,309
6. Financial assets	X	X	X	(40,535)	(38,401)
Total	**(143,929)**	**(318,163)**	**42,622**	**(460,005)**	**(515,972)**
of which: interest expense relating to lease payables	(9,402)	-	-	(9,402)	(9,706)

Item 5 "Hedging derivatives - Other transactions" include the spreads accrued of the financial hedging derivative contracts for transactions on balance sheet liabilities.
Item 6 "Financial assets - Other transactions", of 40.5 million, contains the negative interest income relating to repurchase agreements with commitment, securities lending, loans, current accounts and deposits with customers and banks with positive balances.

1.4 Interest and similar expense: other information

1.4.1 Interest expense on financial liabilities in foreign currency

Items	2020	2019
Interest expense on financial liabilities in foreign currency	(6,543)	(17,686)

1.5 Hedging spreads

Items	2020	2019
A. Positive hedging spreads:	290,289	312,247
B. Negative hedging spreads:	(363,672)	(424,568)
C. Balance (A-B)	**(73,383)**	**(112,321)**

Section 2 - Fees and commissions – Items 40 and 50

2.1 Fee and commission income: breakdown

Service type/Amounts	Total 2020	Total 2019
a) guarantees given	73,769	77,402
b) credit derivatives	-	-
c) management, brokerage and advisory services	809,350	859,500
1. financial instrument trading	29,450	30,485
2. foreign currency trading	3,517	3,517
3. portfolio management	25,588	29,140
3.1. individual	25,588	29,140
3.2 collective	-	-
4. securities custody and administration	9,715	9,682
5. custodian bank	1,467	1,428
6. placement of securities	45,088	7,520
7. receipt and transmission of orders	41,009	42,689
8. advisory activities	8,443	10,538
8.1 concerning investments	4,280	7,739
8.2 concerning financial structure	4,163	2,799
9. distribution of third party services	645,073	724,501
9.1. portfolio management	464,758	511,644
9.1.1. individual	2,041	2,450
9.1.2. collective	462,717	509,194
9.2. insurance products	114,389	137,382
9.3. other products	65,926	75,475
d) collection and payment services	157,309	174,922
e) servicing for securitisation transactions	176	-
f) services for factoring transactions	-	-
g) tax and lottery collection	-	-
h) management of multilateral trading facilities	-	-
i) keeping and management of current accounts	201,135	213,572
j) other services	524,130	545,583
Total	**1,765,869**	**1,870,979**

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

Sub-item j) "other services" includes fees relative to ATM and credit card services for 98.4 million (110.7 million as at 31 December 2019), the fee for making funds available (Credit Availability Fee) for 264.9 million (271.6 million the previous year) and fee and commission income from loans to customers for 117.6 million (124.7 million in 2019).

It should be specified that, in relation to Group operations, cash flows associated with fees recognised in the income statement for 2020 involve limited uncertainties, in that these are fees accrued, and largely collected, against the provision of financial services which are now complete. Operating receivables relative to services provided but not yet received are, in fact, of an insignificant amount, as illustrated in Section 4 - Financial assets at amortised cost, in Part B of the Balance sheet assets in these Notes.
For certain revenues associated with the placement of single premium insurance policies, the risk of returning a portion of the commissions received to the insurance company against early termination of said policies by the customers is protected against through the allocation of adequate provisions, as illustrated in Section 10 – Provisions for risks and charges, in Part B - Liabilities of these Notes.
To that end, also note that adjustments in fees recognised in 2020, against services rendered in previous years amounted to a negative 6.8 million, equal to the difference between the verification of greater revenues totalling 4.1 million (of which 2.8 million relating to the distribution of insurance products) and lower revenues for 10.9 million

(comprising 5.4 million relating to the distribution of insurance products and 4.1 million to the distribution of third party loan products).

2.2 Fee and commission expense: breakdown

Services/Amounts	Total 2020	Total 2019
a) guarantees received	(8,779)	(7,244)
b) credit derivatives	-	-
c) management and brokerage services:	(43,432)	(50,452)
1. financial instrument trading	(10,248)	(10,171)
2. foreign currency trading	(8)	(10)
3. portfolio management:	-	-
3.1 own	-	-
3.2 delegated to third parties	-	-
4. securities custody and administration	(9,415)	(9,144)
5. placement of financial instruments	(14,727)	(17,377)
6. off-site offer of financial instruments, products and services	(9,034)	(13,750)
d) collection and payment services	(9,399)	(10,269)
e) other services	(62,386)	(65,910)
Total	**(123,996)**	**(133,875)**

The sub-item e) "other services" includes fees relative to ATM and credit card services for 44.3 million (50.0 million as at 31 December 2019).

Section 3 - Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

Items/Income	Total 2020		Total 2019	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	17,654	-	40,972	-
B. Other financial assets mandatorily measured at fair value	1,046	6,162	9,697	3,631
C. Financial assets measured at fair value through other comprehensive income	17,153	-	15,311	-
D. Interests in associates and joint ventures	-	-	-	-
Total	**35,853**	**6,162**	**65,980**	**3,631**

Section 4 - Net trading income – Item 80

4.1 Net trading income: breakdown

Transactions/Income components	Capital gains (A)	Trading income (B)	Capital losses (C)	Trading losses (D)	Net result [(A+B) - (C+D)]
1. Financial liabilities held for trading	**85,730**	**113,100**	**(13,494)**	**(146,498)**	**38,838**
1.1 Debt securities	34,008	71,707	(654)	(39,215)	65,846
1.2 Equity instruments	51,301	40,258	(12,783)	(107,086)	(28,310)
1.3 UCIT units	108	564	(8)	(143)	521
1.4 Loans	313	-	(49)	-	264
1.5 Other	-	571	-	(54)	517
2. Financial liabilities held for trading	**40,865**	**12,334**	**(32,988)**	**(34,521)**	**(14,310)**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	4,500	1,954	(16,965)	(11,996)	(22,507)
2.3 Other	36,365	10,380	(16,023)	(22,525)	8,197
Financial assets and liabilities: exchange rate differences	**X**	**X**	**X**	**X**	**16,373**
3. Derivative instruments	**1,199,422**	**3,251,768**	**(1,203,799)**	**(3,280,537)**	**(23,989)**
3.1 Financial derivatives:	1,197,893	3,245,039	(1,202,642)	(3,271,621)	(22,174)
- On debt securities and interest rates	784,417	2,004,100	(649,292)	(2,071,644)	67,581
- On equity instruments and share indices	400,615	1,072,401	(540,915)	(1,032,229)	(100,128)
- On currencies and gold	X	X	X	X	9,157
- Other	12,861	168,538	(12,435)	(167,748)	1,216
3.2 Credit derivatives	1,529	6,729	(1,157)	(8,916)	(1,815)
of which: natural hedges connected with the fair value option	X	X	X	X	-
Total	**1,326,017**	**3,377,202**	**(1,250,281)**	**(3,461,556)**	**16,912**

It must be specified that, based on the provisions set out in the Bank of Italy Circular n. 262, the specification regarding “of which: natural hedges associated with the fair value option” refers to a specific type of hedge set out in IFRS 9. In that regard it is noted that there are no amounts to be reported, as Banco BPM Group opted to continue using the hedge accounting regime set out in IAS 39.

Section 5 - Fair value gains/losses on hedging derivatives - Item 90

5.1 Fair value gains/losses on hedging derivatives: breakdown

Income components/Amounts	Total 2020	Total 2019
A. Income relating to:		
A.1 Fair value hedging derivatives	174,278	226,712
A.2 Hedged financial assets (fair value)	453,842	551,132
A.3 Hedged financial liabilities (fair value)	497,978	65,132
A.4 Cash flow hedging derivatives	8	-
A.5 Assets and liabilities in foreign currency	605	1,263
Total gains on hedging derivatives (A)	**1,126,711**	**844,239**
B. Charges relating to:		
B.1 Fair value hedging derivatives	(217,017)	(326,858)
B.2 Hedged financial assets (fair value)	(342,330)	(449,536)
B.3 Hedged financial liabilities (fair value)	(574,428)	(60,348)
B.4 Cash flow hedging derivatives	-	-
B.5 Assets and liabilities in foreign currency	(593)	-
Total losses on hedging derivatives (B)	**(1,134,368)**	**(836,742)**
C. Fair value gains/losses on hedging derivatives (A - B)	**(7,657)**	**7,497**
of which: gains/losses of hedging on net positions	-	-

Section 6 - Gains (losses) on disposal/repurchase - Item 100

6.1 Gains (losses) on disposal/repurchase: breakdown

Items/Income components	Total 2020			Total 2019		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets						
1. Financial assets at amortised cost	105,973	(377,507)	(271,534)	681,276	(604,766)	76,510
1.1 Loans to banks	-	-	-	-	-	-
1.2 Loans to customers	105,973	(377,507)	(271,534)	681,276	(604,766)	76,510
2. Financial assets measured at fair value through other comprehensive income	124,715	(404)	124,311	270,231	(4,799)	265,432
2.1 Debt securities	124,715	(404)	124,311	270,231	(4,799)	265,432
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**230,688**	**(377,911)**	**(147,223)**	**951,507**	**(609,565)**	**341,942**
Financial liabilities at amortised cost	**-**	**-**	**-**	**-**	**-**	**-**
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities in issue	2,158	(4,061)	(1,903)	31,728	(36,119)	(4,391)
Total liabilities (B)	**2,158**	**(4,061)**	**(1,903)**	**31,728**	**(36,119)**	**(4,391)**

The result shown under item "1.2. Loans to customers" includes profits of 15.6 million deriving from the sale of securities classified in the portfolio of loans to customers, mainly represented by foreign government securities, as well as the effect of early redemptions of HTC securities. For more details on sale transactions, please see the section "Other significant aspects relating to Group accounting policies", found in Part A - Accounting policies, Section A.1 - General Part of these Notes.

Net of that component, the loss on disposal of loans to customers came to 287.1 million, comprising around 245 million in sale transactions finalised during 2020 relating to the "Django" and "Titan" portfolios.

For more details on the above loans and securities, please see the section "Other significant aspects relating to Group accounting policies", found in Part A - Accounting policies, Section A.1 - General Part of these Notes.

Gains on disposal of financial assets measured at fair value through other comprehensive income mainly refer to profits from sales of Italian and foreign government securities.

Section 7 - Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss – Item 110

7.1 Net change in value of other financial assets and liabilities measured at fair value through profit and loss: breakdown of financial assets and liabilities designated at fair value

Transactions/Income components	Capital gains (A)	Gains on disposal (B)	Capital losses (C)	Losses on disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-
1.2 Loans	-	-	-	-	-
2. Financial liabilities	**13,869**	**511**	**(117)**	**(28)**	**14,235**
2.1 Debt securities in issue	13,869	511	(117)	(28)	14,235
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities in foreign currency: exchange rate differences	**X**	**X**	**X**	**X**	**-**
Total	**13,869**	**511**	**(117)**	**(28)**	**14,235**

7.2 Net change in value of other financial assets and liabilities measured at fair value through profit and loss: breakdown of other financial assets mandatorily measured at fair value

Transactions/Income components	Capital gains (A)	Gains on disposal (B)	Capital losses (C)	Losses on disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	**198,732**	**8,884**	**(57,154)**	**(18,755)**	**131,707**
1.1 Debt securities	1,504	1,289	(2,116)	(4,130)	(3,453)
1.2 Equity instruments	160,087	7,531	(19,962)	(14)	147,642
1.3 UCIT units	10,507	64	(28,310)	(1,759)	(19,498)
1.4 Loans	26,634	-	(6,766)	(12,852)	7,016
2. Financial assets in foreign currency: exchange rate differences	**X**	**X**	**X**	**X**	**(12,195)**
Total	**198,732**	**8,884**	**(57,154)**	**(18,755)**	**119,512**

Section 8 - Net credit impairment losses/recoveries – Item 130

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

Transactions/Income components	Impairment losses			Recoveries		Total 2020	Total 2019
	Stage 1 and Stage 2	Stage 3		Stage 1 and Stage 2	Stage 3		
		Write-offs	Other				
A. Loans to banks	**(159)**	**-**	**-**	**363**	**160**	**364**	**(91)**
- loans	(19)	-	-	69	160	210	262
- debt securities	(140)	-	-	294	-	154	(353)
of which: originated or acquired impaired loans	-	-	-	-	-	-	-
B. Loans to customers	**(150,913)**	**(90,908)**	**(1,239,095)**	**2,044**	**429,297**	**(1,049,575)**	**(724,650)**
- loans	(148,450)	(90,908)	(1,239,095)	756	429,297	(1,048,400)	(727,712)
- debt securities	(2,463)	-	-	1,288	-	(1,175)	3,062
of which: originated or acquired impaired loans	-	-	-	-	-	-	-
Total	**(151,072)**	**(90,908)**	**(1,239,095)**	**2,407**	**429,457**	**(1,049,211)**	**(724,741)**

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

Transactions/Income components	Net impairment losses			Total 2020
	Stage 1 and Stage 2	Stage 3		
		Write-offs	Other	
1. Loans subject to forbearance measures in line with the GL	(42,300)	-	(14,646)	**(56,946)**
2. Loans subject to other forbearance measures	(1,699)	-	(2,800)	**(4,499)**
3. New loans	(9,704)	-	(921)	**(10,625)**
Total	**(53,703)**	**-**	**(18,367)**	**(72,070)**

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

Transactions/Income components	Impairment losses			Recoveries		Total 2020	Total 2019
	Stage 1 and Stage 2	Stage 3		Stage 1 and Stage 2	Stage 3		
		Write-offs	Other				
A. Debt securities	(1,283)	-	-	1,064	-	(219)	2,788
B. Loans	-	-	-	-	-	-	-
- To customers	-	-	-	-	-	-	-
- To banks	-	-	-	-	-	-	-
of which: originated or acquired impaired financial assets	-	-	-	-	-	-	-
Total	**(1,283)**	**-**	**-**	**1,064**	**-**	**(219)**	**2,788**

8.2.a Net credit impairment losses related to financial assets measured at fair value through other comprehensive income subject to Covid-19 support measures: breakdown

The Group has none of this type. Therefore, the related table is omitted.

Section 9 - Gains (losses) from contractual modification without derecognition - Item 140

9.1 Gains (losses) from contractual modification: breakdown

Items/Income components	Total 2020			Total 2019		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets at FV trough other comprehensive income						
Contractual modification on Financial assets at FV through other comprehensive income	-	-	-	-	-	-
Financial assets at amortised cost						
Contractual modification on Financial assets at amortised cost	-	(1,256)	(1,256)	-	(1,997)	(1,997)
Total	**-**	**(1,256)**	**(1,256)**	**-**	**(1,997)**	**(1,997)**

The item, negative by 1.3 million, includes the losses deriving from contractual modification during the year in relation to types of loans that did not entail total or partial derecognition of the previous credit exposure from the financial statements.

Section 10 - Net premiums - Item 160

This item is of no significance for the Group.

Section 11 - Balance of other income and expenses from insurance activities - Item 170

This item is of no significance for the Group.

Section 12 - Administrative expenses – Item 190

12.1 Personnel expenses: breakdown

Type of expense/Sector	Total 2020	Total 2019
1) Employees	**(1,829,467)**	**(1,683,221)**
a) wages and salaries	(1,099,055)	(1,173,863)
b) social security contributions	(287,732)	(313,469)
c) severance indemnities	(65,926)	(64,532)
d) pension expenses	(295)	(274)
e) provisions for employee severance pay	(2,431)	(5,292)
f) provisions for post-employment benefits and similar obligations:	(1,015)	(2,508)
- defined contribution	-	-
- defined benefit	(1,015)	(2,508)
g) payments to external supplementary pension funds:	(42,817)	(42,460)
- defined contribution	(42,817)	(42,460)
- defined benefit	-	-
h) costs deriving from share-based payment agreements	(3,286)	(4,619)
i) other employee benefits	(326,910)	(76,204)
2) Other personnel in service	**(432)**	**(358)**
3) Directors and statutory auditors	**(6,302)**	**(8,331)**
4) Retired personnel	**(15)**	**(212)**
Total	**(1,836,216)**	**(1,692,122)**

12.2 Average number of employees per category

	2020	2019
1) Employees	**20,761**	**20,995**
a) executives	323	317
b) total middle managers	8,299	8,328
of which: 3rd and 4th level	4,361	4,376
c) remaining employees	12,139	12,350
2) Other personnel	**15**	**18**
Average number of personnel	**20,776**	**21,013**

The average number of employees does not include directors and statutory auditors. In the case of employees, part-time is conventionally considered as 70%.

12.3 Defined benefit company pension funds: costs and revenues

	Total 2020	Total 2019
- Social security costs relative to current work provided	(490)	(639)
- Financial expense	(533)	(1,910)
- Expected return on plan assets	-	-
- Actuarial gains and losses	-	-
- Social security costs relative to past work provided	-	-
- Gains and losses from reductions or extinctions	8	41
Total	**(1,015)**	**(2,508)**

12.4 Other employee benefits

Other employee benefits, the costs of which are shown in table 12.1 above, under the item "i) other employee benefits", amounted to 326.9 million (76.2 million in 2019). The increase recorded during the year is attributable to the recognition of charges expected to be incurred for early retirement incentives, also through the voluntary use of the extraordinary benefits of the Solidarity Fund for the sector, for 257.0 million. That item also recognises the costs for lunch vouchers, insurance policies stipulated for employees, professional development courses for employees and seniority bonuses.

12.5 Other administrative expenses: breakdown

Type of expense/Sector	Total 2020	Total 2019
a) Expenses relating to real estate	(60,796)	(65,534)
- rents	(7,046)	(11,363)
- maintenance of premises	(14,980)	(14,164)
- cleaning expenses	(13,326)	(9,330)
- electricity, water and heating	(25,444)	(30,677)
b) Indirect taxes and duties	(312,976)	(311,841)
c) Postal charges, telephone charges, printed materials and other office expenses	(26,095)	(26,787)
d) Maintenance and fees for furniture, machines and systems	(81,292)	(67,272)
- fees	(22,549)	(18,303)
- maintenance	(58,743)	(48,969)
e) Professional and advisory services	(59,599)	(87,943)
f) Fees for surveys and information	(13,376)	(14,457)
g) Security and armoured cars	(18,488)	(20,488)
h) Services from third parties	(209,149)	(211,641)
i) Advertising, entertainment and gratuities	(10,740)	(16,700)
l) Insurance premiums	(9,287)	(8,821)
m) Transport, hiring and travel	(8,053)	(13,671)
- hiring	(2,274)	(4,216)
- other expenses	(5,779)	(9,455)
n) Other costs and sundry expenses	(251,111)	(202,408)
Total	**(1,060,962)**	**(1,047,563)**

The item "a) Expenses relating to real estate – rents" includes rents of properties that are not included in the scope of IFRS 16 as they related to short-term contracts (less than 12 months).

The items "d) Maintenance and fees for furniture, machines and systems" and "m) Transport, hiring and travel – hiring" include the hiring of software, short-term or low value hiring of machinery and automobiles and support fees relating to hiring.

The item n) "Other costs and sundry expenses" included charges relative to the banking system totalling 192.0 million (137.6 million as at 31 December 2019), as well as the fee to maintain DTA convertibility for 25.4 million (25.4 million as at 31 December 2019), as better detailed in the following sections.

Contributions to deposit guarantee schemes and resolution mechanisms

Following transposition into the national legislation of Directives 2014/49/EU (Deposit Guarantee Schemes Directive –"DGSD") of 16 April 2014 and 2014/59/EU (Bank Recovery and Resolution Directive – "BRRD") of 15 May 2014, starting from financial year 2015, credit institutions are obliged to provide the financial resources necessary for the financing of the Interbank Deposit Guarantee Fund and the National Resolution Fund (merged into the Single Resolution Fund starting from 2016), through payment of ex ante ordinary contributions to be paid annually, until a certain target level is reached. Where the available financial resources of the IDGF and/or the SRF are insufficient to guarantee the protected reimbursement of depositors or to fund the resolution, respectively, it is set out that banks shall provide such funds via the payment of extraordinary contributions.
The contributions are recognised in the income statement item "190. b) Other administrative expenses" in application of IFRIC 21 interpretation "Levies", on the basis of which the liability relating to the payment of a levy arises at the time the "obligating event" occurs, namely at the time of the obligation to pay the annual fee. In the case in question, in accounting terms, the contributions are considered equivalent to a levy, and the time the "obligating event" occurs was identified in the first quarter for the SRF and in the third quarter for the IDGF.
The ordinary contribution to the Single Resolution Fund for 2020 amounted to 85.2 million (the contribution was 61.7 million in 2019). In that regard, it is noted that for 2020, as for the previous year, the Group did not avail of the option to fulfil the request by taking on an irrevocable payment commitment ("IPC - Irrevocable Payment Commitments").

The ordinary contribution to the Interbank Deposit Guarantee Fund, indicated in the income statement for 2020, amounted to 79.9 million (the contribution requested for 2019 was 53.4 million, recognised in the third quarter of 2019).
Lastly, we can note that in June 2020, the Bank of Italy called in additional contributions to the National Resolution Fund for 26.9 million, in relation to the financial requirements connected with the resolution measures carried out prior to the launch of the Single Resolution Fund. In detail, as these were measures initiated by the Bank of Italy in November 2015, as the national resolution authority pursuant to Italian Legislative Decree no. 180 of 16 November 2016, against the following four banks: Cassa di Risparmio di Ferrara S.p.A., Banca delle Marche S.p.A., Banca popolare dell'Etruria e del Lazio - Società cooperativa and Cassa di Risparmio della Provincia di Chieti S.p.A., said amount was also charged to item "190. b) Other administrative expenses" (in 2019 additional contributions of 22.6 million were requested).

Fee to guarantee the convertibility of DTAs - legislative changes to Decree Law no. 59/2016

Please note that art. 11 of Italian Decree Law no. 59 of 3 May 2016, converted with amendments into Italian Law no. 119 of 30 June 2016, introduced an optional regime by virtue of which the guarantee on the convertibility into tax credits of deferred tax assets (DTAs) which meet the requirements laid out in Law no. 214 of 22 December 2011 is subject to the payment of a fee, due for the years starting from 31 December 2015 until 31 December 2029, to be determined on an annual basis.
On 21 February 2017, the law (Law no. 15 of 17 February 2017) converting the "Salva Risparmio" Decree Law was published in the Official Gazette. In detail, art. 26-bis, paragraph 4 amended art. 11 of Decree Law 59/2016, postponing the period for which the annual fee is due, which is now from 31 December 2016 until 31 December 2030.
Pursuant to these regulatory references, the exercise of this option, which was carried out in 2016 by both groups involved in the merger, is considered irrevocable.
In more detail, the annual fee to be paid to ensure the convertibility of the above-mentioned deferred tax assets into tax credits must be determined on an annual basis by applying the rate of 1.5% to a base obtained by adding the difference between the convertible deferred tax assets recognised in the financial statements for the previous year and the corresponding deferred tax assets recognised in the 2007 financial statements, to the amount of conversions of the same deferred tax assets carried out from 2008 until the previous year, and subtracting the taxes set forth in the Decree and paid with reference to the above-mentioned tax periods (base also referred to as "type 2 DTAs"). The fees are deductible for both IRES and IRAP purposes in the year in which they are paid.
In virtue of the cited regulatory provisions, in the income statement item in question ("190. b) Other administrative expenses"), the charges accruing during 2020 were added, which came to 25.4 million (25.4 million was indicated in the income statement in 2019).

Section 13 - Net provisions for risks and charges - Item 200

13.1 Net provisions for risks and charges relating to commitments to disburse funds and financial guarantees given: breakdown

	Allocations	Reallocations	Total 2020	Total 2019
Commitments to disburse funds and financial guarantees given	(23,513)	7,856	(15,657)	21,993

13.2 Net provisions for other commitments and guarantees given: breakdown

	Allocations	Reallocations	Total 2020	Total 2019
Other commitments and guarantees given	(3,625)	7,818	4,193	(14,161)

13.3 Net provisions for other risks and charges: breakdown

	Allocations	Reallocations of surpluses	Total 2020	Total 2019
Risks and charges for legal disputes	(22,889)	18,387	(4,502)	8,648
Other risks and charges	(57,696)	16,037	(41,659)	(123,518)
Total	**(80,585)**	**34,424**	**(46,161)**	**(114,870)**

Net provisions for other risks and charges amounted to 46.2 million and comprised 26 million in the net allocations made during the year in relation to commitments correlated with the partnership agreements in force.
For more details on the allocations made, refer to the disclosure set out in "Section 10 - Provisions for risks and charges" – Item 100 of Part B – Liabilities of these Notes to the consolidated financial statements.

Section 14 - Depreciation and impairment losses on property, plant and equipment - Item 210

14.1 Depreciation and impairment losses on property, plant and equipment: breakdown

Assets/Income components	Depreciation (a)	Impairment losses (b)	Recoveries (c)	Net result (a + b - c)
A. Property, plant and equipment				
1 Used in operations	(179,010)	(6,830)	20,403	(165,437)
- Owned	(59,591)	(6)	-	(59,597)
- Rights of use acquired through leases	(119,419)	(6,824)	20,403	(105,840)
2 Held for investment purposes	-	-	-	-
- Owned	-	-	-	-
- Rights of use acquired through leases	-	-	-	-
3 Inventories	X	-	-	-
Total	**(179,010)**	**(6,830)**	**20,403**	**(165,437)**

Section 15 - Amortisation and impairment losses on intangible assets - Item 220

15.1 Amortisation and impairment losses on intangible assets: breakdown

Asset/Income components	Amortisation (a)	Impairment losses (b)	Recoveries (c)	Net result (a + b - c)
A. Intangible assets				
A.1 Owned	(109,891)	(2,231)	-	(112,122)
- Internally generated	-	-	-	-
- Other	(109,891)	(2,231)	-	(112,122)
A.2 Rights of use acquired through leases	-	-	-	-
B. Assets held for sale	X	-	-	-
Total	**(109,891)**	**(2,231)**	**-**	**(112,122)**

Section 16 - Other operating expenses/income - Item 230

16.1 Other operating expenses: breakdown

	Total 2020	Total 2019
Expenses on leased assets	(14,775)	(15,968)
Other	(57,075)	(50,146)
Total	**(71,850)**	**(66,114)**

"Expenses on leased assets" relate to the costs incurred on assets used as collateral for non-performing exposures for the purchase and resale of assets under finance lease.

The item "Other" includes legal settlement charges exceeding the provisions allocated for 31.9 million (20.5 million in the previous year), operating losses relative to branch management (robbery, fraud, theft and other damages) for 7.1 million (9.7 million in 2019), as well as contingent liabilities and other contingencies.
The income statement for 2020 was also charged the amount paid for the guarantees provided in favour of Prelios and Credito Fondiario in relation to the disposals carried out in previous years of the "Exodus" and "ACE" portfolios, which total 16.5 million.

16.2 Other operating income: breakdown

	Total 2020	Total 2019
Income on current accounts and loans	9,898	16,156
Tax recoveries	261,192	253,118
Expense recoveries	11,991	13,865
Rental income on real estate	39,508	39,068
Other	78,449	81,581
Total	**401,038**	**403,788**

The sub-item "Income on current accounts and loans" refers to the "*commissione di istruttoria veloce*" (fast track fee) introduced by Decree Law 201 of 6 December 2011, converted by Law 214/2011.

The sub-item "Other" includes sundry income for services rendered.

Section 17 - Gains (losses) of associates and joint ventures - Item 250

17.1 Gains (losses) of associates and joint ventures: breakdown

Income components/Sectors	**Total 2020**	**Total 2019**
1) Companies under joint control		
A. Income	**-**	**-**
1. Revaluations	-	-
2. Gains on disposal	-	-
3. Recoveries	-	-
4. Other income	-	-
B. Charges	**-**	**-**
1. Write-downs	-	-
2. Losses on impairment	-	-
3. Losses on disposal	-	-
4. Other charges	-	-
Net result	-	-
2) Companies subject to significant influence		
A. Income	**130,975**	**132,542**
1. Revaluations	130,975	132,542
2. Gains on disposal	-	-
3. Recoveries	-	-
4. Other income	-	-
B. Charges	**(176)**	**(2,101)**
1. Write-downs	(176)	(1,287)
2. Losses on impairment	-	-
3. Losses on disposal	-	(814)
4. Other charges	-	-
Net result	**130,799**	**130,441**
Total	**130,799**	**130,441**

The items Revaluations and Write-downs include gains and losses deriving from measurement of interests in companies subject to significant influence using the equity method. In particular, profits comprise: 89.2 million referring to Agos Ducato, 12.0 million referring to Anima Holding, 8.0 million referring to Vera Vita, 8.8 million referring to Vera Assicurazioni, 5.6 million to Bipiemme Vita, 3.1 million referring to Factorit, 1.4 million referring to CF Liberty, 1.3 million referring to Etica SGR, 0.6 million referring to SelmaBipiemme and 0.6 million referring to Alba Leasing. The losses are represented by HI-MTF.

Section 18 - Fair value gains (losses) on property, plant and equipment and intangible assets - Item 260

18.1 Fair value (or revalued value) gains (losses) or estimated realisable value gains (losses) on property, plant and equipment and intangible assets: breakdown

Asset/Income components	Revaluations (a)	Write-downs (b)	Exchange rate differences		Net result (a-b+c-d)
			Positive (c)	Negative (d)	
A. Property, plant and equipment	**22,595**	**(59,316)**	**-**	**-**	**(36,721)**
A.1 Used in operations:	3,304	(5,467)	-	-	(2,163)
- Owned	3,304	(5,467)	-	-	(2,163)
- Rights of use acquired through leases	-	-	-	-	-
A.2 Held for investment purposes:	19,291	(53,849)	-	-	(34,558)
- Owned	19,291	(53,849)	-	-	(34,558)
- Rights of use acquired through leases	-	-	-	-	-
A.3 Inventories	-	-	-	-	-
B. Intangible assets	**-**	**-**	**-**	**-**	**-**
B.1 Owned:	-	-	-	-	-
B1.1 Internally generated	-	-	-	-	-
B1.2 Other	-	-	-	-	-
B.2 Rights of use acquired through leases	-	-	-	-	-
Total	**22,595**	**(59,316)**	**-**	**-**	**(36,721)**

This item, totalling a negative 36.7 million (the balance in the previous year was a negative 158.5 million), includes the results of the fair value measurement of “revalued property, plant and equipment used in operations” and “property, plant and equipment held for investment purposes”, represented by owned real estate assets and valuable works of art.

Section 19 - Value adjustments to goodwill - Item 270

19.1 - Value adjustments to goodwill: breakdown

The results of recoverability checks on goodwill recognised in the financial statements led to impairment losses during the year for 25.1 million.

For a description of the methods used to perform impairment tests on goodwill, please see that indicated in “Section 10 - Intangible assets” in Part B of these Notes to the consolidated financial statements.
Please see that set out in Part A - Accounting policies for a description of the methods used to determine the impairment of goodwill.

Section 20 - Gains (losses) on disposal of investments - Item 280

20.1 Gains (losses) on disposal of investments: breakdown

Income components/Sectors	Total 2020	Total 2019
A. Real estate	**1,452**	**(214)**
- Gains on disposal	3,045	6,135
- Losses on disposal	(1,593)	(6,349)
B. Other assets	**(262)**	**334,179**
- Gains on disposal	20	334,277
- Losses on disposal	(282)	(98)
Net result	**1,190**	**333,965**

The gains and losses on disposal of real estate refer to disposals carried out during the year, mainly by the Parent Company and the subsidiaries Bipielle Real Estate and Release.

During the year, gains on disposal of other assets included gross capital gains achieved through reorganisation of the consumer loan segment (189.5 million) and establishment of the partnership with Credito Fondiario to manage recovery activities for non-performing loans (142.7 million).

Section 21 - Taxation charge related to profit or loss from continuing operations – Item 300

21.1 Taxation charge related to profit or loss from continuing operations: breakdown

Income components/Sectors	Total 2020	Total 2019
1. Current taxes (-)	(49,537)	(54,552)
2. Changes in current taxes for previous years (+/-)	(3,421)	8,809
3. Decreases in current taxes for the year (+)	106,286	15,904
3.bis Decreases in current taxes for the year due to tax credits pursuant to Italian Law no. 214/2011 (+)	5,233	45,933
4. Change in deferred tax assets (+/-)	19,060	(138,692)
5. Change in deferred tax liabilities (+/-)	188,339	57,922
6. Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)	**265,960**	**(64,676)**

As previously indicated, during the year Banco BPM exercised the option set out in Art. 110 of Decree Law no. 104 of 14 August 2020 to realign tax values to the higher book values of the intangible assets represented by Trademarks and Client Relationships. The exercise of this option resulted in i) the immediate recognition of substitute tax of 12.8 million charged to the income statement; ii) the derecognition of net deferred tax liabilities (DTL) for 141.1 million, with a positive impact on the income statement of 128.3 million.

21.2 Reconciliation between theoretical tax charge and actual tax charge

IRES	2020		2019	
Profit (loss) before tax from continuing operations		**(249,328)**		**846,113**
Negative components of gross profit (loss) not definitively significant (+)		**140,995**		**129,574**
Non-deductible interest expense	1,593		1,405	
Capital losses from disposal/valuation of interests in associates and joint ventures/OCI	21,065		2,000	
Non-deductible taxes other than income taxes	16,261		18,773	
Non-deductible loan losses	428		96	
Administrative expenses with limited deductibility	4,646		6,850	
Other non-deductible expenses	37,862		45,702	
Goodwill impairment	25,100		-	
Losses of foreign companies	1,610		2,844	
Consolidation effects of intragroup equity interests	22,309		-	
Allocations	5,997		37,313	
Other	4,124		14,591	
Positive components of gross profit (loss) not definitively significant (-)		**(320,553)**		**(530,230)**
Insignificant portion of capital gains from disposal/valuation of interests in associates and joint ventures/OC	(174,272)		(384,874)	
Insignificant portion of dividends before consolidation entries	(79,690)		(224,228)	
Cancellation of intragroup dividends	70,847		218,554	
Consolidation effects of intragroup equity interests	(130,799)		(131,255)	
Other	(6,639)		(8,427)	
Definitive increases not associated with gross profit (loss) elements (+)		**3,845**		**1,548**
Other	3,845		1,548	
Definitive decreases not associated with gross profit (loss) elements (-)		**(97,898)**		**(102,960)**
Lump sum 10% IRAP deduction and cost of labour for employees IRAP deduction	(294)		(222)	
Portion of ACE subsidisable income	(75,891)		(73,829)	
Other	(21,713)		(28,909)	
IRES calculation base, income statement		**(522,939)**		**344,045**
IRES nominal rate	24%		24%	
Actual IRES		**125,505**		**(82,571)**
IRES tax rate		**50.34%**		**(9.76%)**

IRAP	**2020**		**2019**	
Profit (loss) before tax from continuing operations		**(249,328)**		**846,113**
Negative components of gross profit (loss) not definitively significant (+)		**459,972**		**444,390**
Non-deductible interest expense	2,413		2,329	
Non-deductible portion of amortisation/depreciation of assets used in operations	30,744		32,857	
Other non-deductible administrative expenses	163,081		153,690	
Personnel expenses net of deductions allowed (tax wedge reduction, disabled, etc.)	68,621		3,651	
Other value adjustments pursuant to item 130 of the income statement	76		-	
Net provisions for risks and charges	94,525		135,631	
Other operating expenses	24,686		25,792	
Losses on interests in associates and joint ventures	2,108		7,672	
Goodwill impairment	25,100		-	
Consolidation effects of intragroup equity interests	22,309		-	
Other	26,309		82,768	
Positive components of gross profit (loss) not definitively significant (-)		**(193,831)**		**(491,475)**
Gains on interests in associates and joint ventures	(24,434)		(348,751)	
Insignificant portion of dividends before consolidation entries	(53,349)		(142,276)	
Cancellation of intragroup dividends	70,847		218,554	
Other operating income	(26,887)		(48,333)	
Profits on disposal of insignificant investments	-		(3,463)	
Consolidation effects of intragroup equity interests	(130,799)		(131,255)	
Other	(29,209)		(35,951)	
Definitive increases not associated with gross profit (loss) elements (+)		**412,566**		**58,515**
Adjustments to neutralise negative value of production	406,286		-	
Other	6,280		58,515	
Definitive decreases not associated with gross profit (loss) elements (-)		**(241,170)**		**(788,358)**
Other	(241,170)		(788,358)	
IRAP calculation base, income statement		**188,209**		**69,185**
Nominal average weighted IRAP rate	4.91%		4.273%	
Actual IRAP		**(9,242)**		**(2,956)**
IRAP tax rate		**(3.71%)**		**(0.35%)**

IRES and IRAP not accruing during the year and other taxes	**2020**		**2019**	
Total impact		**149,697**		**20,851**
IRES - Current taxes and deferred tax assets and liabilities from previous years	1,845		28,186	
IRES - Additional 3.5% rate	17,409		(15,951)	
IRAP - Current taxes and deferred tax assets and liabilities from previous years	2,275		8,844	
Realignment	128,323			
Foreign taxes - other	(155)		(228)	
IRES and IRAP tax rate not accruing during the year and other taxes		**60.04%**		**2.47%**

Total taxes on gross profit (loss)	**2020**	**2019**
Total IRES + IRAP + Other taxes	**265,960**	**(64,676)**
Total tax rate	**106.67%**	**(7.64%)**

Section 22 - Profit (loss) after tax from discontinued operations - Item 320

22.1 Profit (loss) after tax from discontinued operations: breakdown

This item was blank for the current year and the previous year. Therefore, the related table is omitted.

22.2 Breakdown of taxation charge related to profit or loss from discontinued operations

This item was blank for the current year and the previous year. Therefore, the related table is omitted.

Section 23 - Profit (loss) for the year attributable to non-controlling interests - Item 340

23.1 Breakdown of item 340 "profit (loss) for the year attributable to non-controlling interests"

Company names	2020	2019
Interests in consolidated companies with significant non-controlling interests	-	-
Other interests	(4,248)	(15,564)
Total	**(4,248)**	**(15,564)**

The amount mainly refers to the non-controlling share of profit (loss) of the subsidiary Release.

Section 24 - Other information

There is no other significant information other than that already provided in the above sections.

Section 25 - Earnings per share

	31/12/2020		31/12/2019	
	Basic EPS	Diluted EPS	Basic EPS	Diluted EPS
Weighted average of ordinary shares (number)	1,509,504,749	1,509,504,749	1,511,339,224	1,511,339,224
Attributable profit (loss) (thousands of euro)	20,880	20,880	793,001	793,001
EPS (euro)	**0.014**	**0.014**	**0.525**	**0.525**

25.1 Average number of ordinary shares with diluted capital

Note that as at 31 December 2020 the Basic EPS matched the Diluted EPS, as there were no financial instruments with potential dilution effects.

25.2 Other information

There is no other significant information other than that already provided in the above sections.

PART D – STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Analytic statement of consolidated comprehensive income

Items	31/12/2020	31/12/2019
10. Profit (loss) for the year	**16,632**	**781,437**
Other comprehensive income without reclassification to the income statement	**(133,680)**	**334,319**
20. Equity instruments designated at fair value through other comprehensive income:	(125,809)	151,291
a) fair value change	(16,571)	152,743
b) transfers to other shareholders' equity components (*)	(109,238)	(1,452)
30. Financial liabilities designated at fair value through profit and loss (changes to its own credit risk):	(16,413)	(9,819)
a) fair value change	(16,413)	(9,819)
b) transfers to other shareholders' equity components	-	-
40. Hedges of equity instruments designated at fair value through other comprehensive income:	-	-
a) fair value change (hedged instrument)	-	-
b) fair value change (hedging instrument)	-	-
50. Property, plant and equipment	(3,911)	366,971
60. Intangible assets	-	-
70. Defined benefit plans	9,899	(39,092)
80. Non-current assets and disposal groups held for sale	-	-
90. Share of valuation reserves related to interests in associates and joint ventures carried at equity	(128)	(365)
100. Income taxes relative to other comprehensive income without reclassification to the income statement	2,682	(134,667)
Other comprehensive income with reclassification to the income statement	**96,116**	**192,440**
110. Foreign investment hedges:	(10)	(1,263)
a) fair value changes	(10)	(1,263)
b) reclassification to income statement	-	-
c) other changes	-	-
120. Exchange rate differences:	256	2,497
a) change in value	-	-
b) reclassification to income statement	-	-
c) other changes	256	2,497
130. Cash flow hedges:	3,911	193
a) fair value changes	3,911	193
b) reclassification to income statement	-	-
c) other changes	-	-
of which: result of net positions	-	-
140. Hedging instruments (non-designated items):	-	-
a) change in value	-	-
b) reclassification to income statement	-	-
c) other changes	-	-
150. Financial assets (other than equity instruments) at fair value through other comprehensive income:	126,913	267,072
a) fair value changes	145,935	199,053
b) reclassification to income statement	(19,022)	68,019
- losses on credit risk	(763)	(5,932)
- profit/loss from disposal	(18,259)	73,951
c) other changes	-	-
160. Non-current assets and disposal groups held for sale:	-	-
a) fair value changes	-	-
b) reclassification to income statement	-	-
c) other changes	-	-
170. Share of valuation reserves related to interests in associates and joint ventures carried at equity:	11,988	17,212
a) fair value changes	11,988	17,212
b) reclassification to income statement	-	-
- impairment adjustments	-	-
- profit/loss from disposal	-	-
c) other changes	-	-
180. Income taxes relative to other comprehensive income with reclassification to the income statement	(46,942)	(93,271)
190. Total other comprehensive income	**(37,564)**	**526,759**
200. Comprehensive income (Item 10+190)	**(20,932)**	**1,308,196**
210. Consolidated comprehensive income attributable to non-controlling interests	(4,242)	(15,563)
220. Consolidated comprehensive income attributable to the Parent Company	**(16,690)**	**1,323,759**

(*) That item includes the profit and loss for the year. The comparative figures referring to 2019 were restated for like-for-like comparison.

PART E – INFORMATION ON RISKS AND RELATED HEDGING POLICIES

This Part E provides information on the Group's risk profiles, relating to the management and hedging policies for risk (credit, market, liquidity and operational) implemented by the Group, and operations in derivative financial instruments.
For more information on the monitoring and management of risk of Banco BPM Group (capital adequacy, exposure to risk and the general characteristics of the systems set in place to manage and control them) refer to the document "Disclosure to the Public by Entities - Pillar III", drawn up in accordance with that set out in Bank of Italy Circular no. 285 of 17 December 2013 and, specifically, in Part Eight of the EU CRR Regulation no. 575/2013, and made available within the terms provided by the regulations in the Investor Relations section of the website www.gruppo.bancobpm.it.

Section 1 - Risks of the consolidated book

QUANTITATIVE INFORMATION

A. Credit quality

For the purposes of quantitative information on credit quality, the term "credit exposures" does not include equity instruments or UCIT units.

A.1 Non-performing and performing credit exposures: outstanding amounts, value adjustments, changes and economic distribution

A.1.1 Distribution of financial assets by portfolio and by credit quality (book values)

Portfolio/quality	Bad loans	Unlikely to pay	Non-performing past-due exposures	Performing past-due exposures	Performing exposures	Total
1. Financial assets at amortised cost	1,462,239	2,784,816	45,643	1,773,181	135,736,052	141,801,931
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	10,385,184	10,385,184
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	835	111,713	249	9,776	295,829	418,402
5. Financial assets held for sale	7,567	3,807	-	-	-	11,374
Total 31/12/2020	**1,470,641**	**2,900,336**	**45,892**	**1,782,957**	**146,417,065**	**152,616,891**
Total 31/12/2019	**1,653,834**	**4,035,467**	**73,070**	**1,303,081**	**138,703,281**	**145,768,733**

Information on the portfolio to which forborne credit exposures belong

As at 31 December 2020, net forborne exposures amounted to 4,034.3 million (of which 2,323.8 million non-performing and 1,710.5 million performing) and were mainly attributable to the portfolio of "Financial assets at amortised cost - loans to customers". For further information on these exposures, reference should be made to table A.1.5 below.

A.1.2 Distribution of financial assets by portfolio and by credit quality (gross and net values)

Portfolio/quality	Non-performing				Performing			Total (net exposure)
	Gross exposure	Total value adjustments	Net exposure	Total partial write-offs*	Gross exposure	Total value adjustments	Net exposure	
1. Financial assets at amortised cost	8,586,242	(4,293,544)	4,292,698	551,237	137,981,303	(472,070)	137,509,233	141,801,931
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	10,387,942	(2,758)	10,385,184	10,385,184
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value	236,091	(123,294)	112,797	-	X	X	305,605	418,402
5. Financial assets held for sale	25,403	(14,029)	11,374	-	-	-	-	11,374
Total 31/12/2020	**8,847,736**	**(4,430,867)**	**4,416,869**	**551,237**	**148,369,245**	**(474,828)**	**148,200,022**	**152,616,891**
Total 31/12/2019	**10,737,002**	**(4,974,631)**	**5,762,371**	**515,185**	**139,836,278**	**(338,435)**	**140,006,362**	**145,768,733**

(*) Value to be shown for disclosure purposes

Portfolio held for trading and derivatives

The following table shows the credit quality of credit exposures classified as financial assets held for trading (securities and derivatives) and hedging derivatives (not shown in the table above):

Portfolio/quality	Assets of evident poor credit quality		Other assets
	Cumulative capital losses	Net exposure	Net exposure
1. Financial assets held for trading	(19,660)	7,045	6,541,297
2. Hedging derivatives	-	-	75,019
Total 31/12/2020	**(19,660)**	**7,045**	**6,616,316**
Total 31/12/2019	**(21,838)**	**6,976**	**4,729,803**

Poor credit quality exposures, with a book value of 7.0 million, refer exclusively to derivative instruments with customers.

B. Disclosure of structured entities (other than the companies for securitisation)

B.1 Consolidated structured entities

As at 31 December 2020, there were no structured entities consolidated in the accounts other than the securitisation entities, included in the scope of Banco BPM Group.

B.2 Unconsolidated structured entities

B.2.1 Prudentially consolidated structured entities

As at 31 December 2020, there were no structured entities prudentially consolidated in the accounts, included in the scope of Banco BPM Group.

B.2.2 Other structured entities

The Group holds interests in UCITs (funds and SICAVs), primarily in order to meet its investment needs. These also include fund units held following sales of multi-originator non-performing credit exposures of the Group.
Total exposure to these investments amounted to 1,015.3 million (605.0 million as at 31 December 2019).
For further details please refer to:

- the information provided in the tables breaking down items 20 a) and 20 c) of the balance sheet assets, contained in Part B of these Notes;
- the Section "Risks of prudential consolidation - D.3 Sale transactions - Financial assets sold and fully derecognised" below.

Additional involvement in structured entities, which goes beyond the mere holding of units, is represented by the activity of placing UCIT units.
The Group's net revenues deriving from the placement of Investment funds in 2020 amounted to 462.7 million (509.2 million in 2019).

Section 2 - Risks of prudential consolidation

Group Risk Appetite Framework (RAF)

During the first quarter of 2020, the Board of Directors of the Parent Company Banco BPM approved the new Risk Appetite Framework (hereinafter, also "RAF"), both at consolidated level and at the level of the most important individual Legal Entity, through which the Body in charge of strategic supervision approves the level of risk that the Group is willing to accept in pursuing its strategic objectives.
The new framework comprises the following basic elements:

1. Governance, which defines the roles and responsibilities of the parties involved and the information flows between them;
2. the system of metrics, which summarises risk exposure;
3. the system of thresholds, which defines the risk appetite;
4. the escalation process, activated with different levels of intensity and parties involved when the various thresholds defined are exceeded;
5. the Risk Appetite Statement (RAS), in which the metrics and methods for calculating the thresholds are analysed;
6. the instruments and procedures, which support the representation and operational management of the RAF, including Significant Transactions (ST).

In addition, greater alignment between the RAF and the Recovery Framework was pursued during the second half of the year, both in terms of monitoring indicators and escalation processes.

The RAF is the tool that makes it possible to establish, formalise, communicate, approve and monitor the risk objectives that the Group and the individual relevant Legal Entities intend to assume. To this end, it is divided into thresholds and risk areas that make it possible to identify in advance the levels and types of risk that the Group intends to assume, stating the roles and responsibilities of the corporate bodies and functions involved in the process of managing these risks. The Group must ensure that the RAF, in its operational version, is used and internalised and constitutes an element of guidance for the preparation of processes such as, for example, the Strategic Plan and the Budget, as well as the internal processes of self-assessment of capital adequacy (ICAAP) and liquidity adequacy (ILAAP). The framework is also used as an operational tool within the Recovery Plan and when defining Remuneration Policies.
The general principles that guide the Group's risk assumption process can be summarised as follows:

- the activities carried out take into account the risks assumed and the measures set in place to mitigate them over the short and medium-long term;
- particular attention is paid to capital and liquidity adequacy and to the credit quality of the portfolio, also in the light of the introduction of new legislation and regulatory restrictions imposed by the Supervisory Body.

The RAF's set of indicators leverages the Risk Identification process and takes into account recent legislative provisions relating to Risk Governance. All significant risks identified at the end of this process are considered when the Risk Appetite Framework is drawn up and specific indicators to monitor them are identified. In particular, the Group's RAF has identified a set of indicators for the main risk areas: First and Second Pillar Capital Adequacy, Adequacy of Liquidity/Funding & IRRBB, Credit Quality, Profitability, Operational/Conduct and Other Significant Issues.
The indicators that summarise the Group's risk profile in these areas have been divided into 3 levels, differentiating them between strategic indicators, which allow the Board of Directors to guide the Group's strategic choices, operational indicators, in order to integrate and anticipate the dynamics - where possible - of the strategic indicators, and Early Warning indicators (hereinafter also EWI), which cover the risk areas of the Operational RAF perimeter allowing for anticipation of the dynamics of the indicators belonging to the Strategic and Operational RAF. More specifically:

- the Strategic RAF is a set of metrics and thresholds that enable the Group's risk strategy to be defined and monitored. It includes a limited and exhaustive number of indicators, which express the risk appetite approved by the Board of Directors and represent the summary performance of the overall risk profile;
- the Operational RAF is a set of metrics that enables the strategic indicators to be integrated and broken down and the evolution of the risk profile to be anticipated. These metrics enable specific aspects of the main business processes to be encompassed and are usually monitored with greater frequency in line with their task of anticipating critical situations;
- the Operational - Early Warning Indicators are a set of metrics useful for predicting signs of deterioration of the indicators included in the Strategic and Operational RAF. These metrics enable specific aspects of the main business processes to be encompassed and are usually monitored with greater frequency in line with their task of anticipating critical situations.

The system of thresholds for the Strategic indicators envisages the definition of the following limits:

- Risk Target (Medium to Long Term Objective): normally the risk objective defined in the Industrial Plan at Group level. It indicates the level of risk (overall and by type) to which the Group is willing to be exposed to pursue its strategic objectives;
- Risk Trigger: this is the threshold, differentiated by indicator, the exceeding of which activates the various escalation processes envisaged by the Framework. The Risk Trigger is also determined with stress tests. The system of limits used for operational purposes (Risk Limits) is defined in accordance with the Trigger values;
- Risk Alert: this is the threshold for Early Warning Indicators, the exceeding of which does not activate the various escalation processes envisaged by the Framework, but an information flow to the Committees and Corporate Bodies. The Risk Alert is also determined by the use of stress tests, and in line with the Trigger values of the Operational or Strategic Indicators, which anticipate their trends;
- Risk Tolerance: this is the maximum permitted deviation from the Risk Appetite; the tolerance threshold is set in such a way so as to ensure that the Group has sufficient margins to operate, even in conditions of stress, within the maximum risk that may be assumed;
- Risk Capacity: this is the maximum level of risk that the Group is able to assume without infringing regulatory requirements or other restrictions imposed by the shareholders or by the Supervisory Authority.

As regards the Operational indicators, only the Risk Trigger is established: exceeding the risk limits triggers the prompt activation of specific escalation processes.

On the other hand, as regards the Operational Early Warning indicators, only the Alert threshold is established, and exceeding the risk limits does not trigger the activation of specific escalation processes, but a prompt information flow is prepared for the Committees and Corporate Bodies.

The Risk Function, in collaboration with the Planning and Control Function and the other relevant Functions, develops the RAF, providing support to the Management Body (MB), from a legislative and operating perspective, consistent with strategy, business plans and capital allocation in ordinary conditions and in stress situations. The RAF is updated at least once a year, also in the event of changes in the internal and external conditions in which the Group operates. In this regard, in August, the thresholds of several indicators were revised with a view to being more prudent due to the current Covid-19 pandemic.

From an operating perspective, ex ante risk management activities are also found in the process to manage the Significant Transactions (relating to credit, finance, disposal of loans, etc.) and the leveraged transactions, which primarily involve the Risk Function, which must express a prior and non-binding opinion on all transactions categorised as such based on criteria established and regulated internally. In more detail, the scope of application of Significant Transactions in the credit area has been extended to include the issue of ex ante opinions of a non-binding nature in relation to proposals for changes in classification, provisions and the granting of forbearance measures.

The Group also provides specific and dedicated training activities and courses with a view to disseminating and promoting a solid and robust risk culture within the Bank. Particular mention should be made of certain initiatives, in recent years, addressed to all Group personnel, carried out through specific courses (in the classroom and online) concerning, for example, operational risks, compliance, safety, the banks' administrative responsibilities, the MiFID regulation, anti-money laundering, health and safety at work and work-related stress.

During the first few months of the year, the Group launched the EU-wide Stress Test 2020 exercise led by EBA/ECB aimed at testing the business model and the resilience of banks on the basis of 2 scenarios, baseline and adverse, developed by the Regulator. Following the Covid-19 pandemic, the EBA decided to suspend the exercise, postponing it until 2021, in order to allow banks to focus their efforts on business continuity. Therefore, the exercise ended with the "Advanced Data Collection" phase, in which banks provided the Regulator with the Starting Points for the year, which formed the basis for the "Vulnerability analysis" carried out by the ECB between April and July in order to estimate the impact of the Covid-19 crisis on the banks' financial and equity position. The aggregated results for that year were published by the ECB on 28 July.
The new EBA EU-wide Stress Test 2021 exercise will be launched at the end of January 2021 and will conclude on 31 July, with the presentation of the results to the market.

In light of the current macroeconomic context caused by the Covid-19 pandemic, at the end of the second quarter of the year, the Group updated its Risk Identification process, also with a view to identifying potential areas of greater vulnerability resulting from the current crisis. This updating process led to the identification of the current and emerging risk factors/main risks to which the Group is, or could be exposed, both under normal and adverse scenario conditions, taking into account that the current baseline scenario already has a strong stress component due to the effects of the pandemic on the economy.

Monitoring and reporting activities

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

To this end, the Parent Company prepares periodic reports for the Corporate Bodies in line with the Group's internal policies. As part of integrated risk reporting prepared at Group and individual Legal Entities level, the Risk Function analyses the main risks to which the Group and the individual Legal Entities are exposed, and conducts a periodic assessment of the risk profile of the RAF indicators by comparing it with the thresholds defined in the framework, providing historic and detailed analyses that explain the trends, the areas that need attention and the areas for improvement.

Positioning analyses provide the Corporate Bodies of the Parent Company and top management with a quarterly update on the Group's positioning with respect to the Italian and European bank systems with regard to the main risk areas; the analyses are conducted adopting the Regulator's perspective, making use of the main findings and the risk metrics reported in the EBA Risk Dashboard and in the information contained in the Market Disclosure documents (Pillar 3), therefore enabling any opportunities for improving risk management to be identified.
A verification of current and forward-looking capital adequacy, both from a Pillar I (regulatory) perspective and from a Pillar II (economic) perspective, in accordance with the provisions of the ECB ICAAP Guidelines, is also reported quarterly to the Committees and Corporate Bodies.

It is important to note that the Covid-19 pandemic led to both an unexpected health crisis and, at the same time, an unprecedented socio-economic crisis, with a strongly deteriorated domestic and global macroeconomic framework, impacting in particular the performance of banking institutions and their credit quality.
Although in a situation of serious difficulty, the Group and specifically the Risk Function, continued to carry out the activities for which it was responsible. In fact, the controls, which have not undergone negative changes in terms of frequency and scope of control, have not been relaxed, but rather improvements have been made to make them more synergistic within the pandemic context, aimed at carefully monitoring the development of the economic situation and the impact on the Bank's indicators, promptly and constantly informing the Corporate Bodies.

First and second pillar capital adequacy

To provide its management team and the Supervisory Authority with a complete and informed disclosure, which confirms the adequacy of its own funds, the first defence against the risks assumed, Banco BPM Group assesses its capital situation from a current and forward-looking perspective, both as regards Pillar I and Pillar II, based on Basel III rules (which are applied through CRR/CRD IV) and the specific guidelines that the banks receive from the Supervisory Authority.

As regards Pillar I, the Group's capital adequacy entails continuously monitoring and managing the capital ratios, calculated on the basis of the information provided by the Administration and Budget Function through the application of the rules established by Supervisory Regulations, in order to verify compliance with regulatory limits and to ensure that the minimum capitalisation levels required are maintained. These ratios are also estimated during the Budget or Strategic Plan preparation process, and their consistency with the thresholds established in the Risk Appetite Framework (RAF) and the estimates made in the Capital Plan is verified.
As regards Pillar II, the Risk Function is tasked with coordinating the internal process to determine the Group's capital adequacy, in accordance with regulatory provisions, and with making the current and forward-looking estimates, in both a baseline and stressed scenario, reported quarterly to the Corporate Bodies and included annually in the ICAAP (Internal Capital Adequacy Assessment Process) report submitted to the Supervisory Authorities alongside the ICAAP package.

Within ICAAP, capital adequacy is assessed by verifying compliance with both Pillar I and Pillar II capital constraints (capital reserve calculated as the ratio between Available Financial Resources (AFR) and capital requirements (ECAP), calculated using advanced methods developed internally and validated by the competent corporate function), using the Risk Appetite Framework, as well as qualitative elements.
The outcome of the self-assessment of capital adequacy, conducted on a multi-year basis, takes into consideration both the simulations made from a regulatory perspective and via the application of internal management methods (economic perspective). The simulations are conducted under normal operating conditions and also consider the results of the application of stress scenarios.
In accordance with the ICAAP Guidelines issued by the European Central Bank, on a quarterly basis, Banco BPM Group also updates analyses to verify its regulatory and economic capital adequacy.
The above guarantees that the self-assessment required by the Supervisory Body is performed on a continuous basis. The main results emerging from this specific monitoring exercise are periodically reported to the Bank's Corporate Bodies.
The updating of capital adequacy analyses also enables changes in the external macroeconomic scenario to be taken into account, and any vulnerable areas and/or elements relating to the Group to be identified, at the same time defining the potential actions deemed most appropriate, with a view to maintaining adequate capital buffers to guarantee that the medium/long term company strategies and objectives can be pursued.

Outcomes of internal validation activities

The Internal Validation Function conducts qualitative and quantitative analyses to assess the soundness and accuracy of the Pillar I and Pillar II risk estimates used for the purposes of calculating capital requirements.
Furthermore, as regards ICAAP, the Function expresses an opinion on the regular functioning, on the predictive capacity, on the performance and on the prudence of the internal risk measurement methods.

First and second pillar liquidity adequacy

Banco BPM Group manages the adequacy of the liquidity profile both from a current and forward-looking perspective, with regard to the First and Second Pillar, on the basis of the regulatory framework of Basel 3 and the guidelines of the Supervisory Authority.
As regards the First Pillar, the Group's liquidity adequacy is continuously monitored by two indicators: the Liquidity Coverage Ratio (LCR), which seeks to enhance the short-term resilience of the Bank's liquidity risk profile by ensuring that it has sufficient high quality liquid resources to overcome an acute situation of stress that lasts for one month; and the Net Stable Funding Ratio (NSFR), which seeks to improve longer term resilience by providing the Bank with greater incentives to fund its own activities by drawing from more stable sources of funding on a structural basis. This structural indicator has a timeline of one year and has been drawn up to guarantee that assets and liabilities have a sustainable structure by maturity. As part of the Second Pillar, these indicators are supplemented by metrics developed internally, complementary to the regulatory liquidity indicators, and by stress tests.
The Group has also set in place an Internal Liquidity Adequacy Assessment Process (ILAAP) and strategy. In fact, the ILAAP is the internal process through which Banco BPM Group manages and monitors liquidity risk at Group level and assesses liquidity adequacy in both the short and medium-long term. The ILAAP also envisages an annual internal self-assessment of the overall liquidity risk management framework, with a view to the continuous improvement of this process.

Other risks considered by the Group

The process of identifying risks (Risk Identification) represents the starting point for all the Group's strategic processes. This process represents a structured and dynamic process that is carried out annually at Group level by the Risk function, with the involvement of the top management of the Bank and of the main Group companies and makes it possible to identify the main risk factors and emerging risks to which it is or could be exposed, ensuring that the process itself is actually acted upon and known within the Group. The output of the process takes the form of a Risk Inventory, which is a list of all the risks identified by the Group, for which suitable organisational controls are defined for their prevention and mitigation, and a Risk Map, which comprises a list of risks considered significant for Banco BPM Group and, therefore, quantified using internal models. The latter represents the basis for defining the RAF indicators and the risks contained in it must be considered in the ICAAP.
The Parent Company, Banco BPM, guarantees the measurement, monitoring and management of the capital requirements for each type of significant risk and guarantees the supervision and quantification of the capital resources available to the Group to cover risk exposure, in order to fulfil the regulatory obligations of the First and Second Pillar. More specifically, the centralised management of Group capital adequacy, which entails a comparison between the amount of available capital resources and the capital requirements resulting from the risks to which the Group is exposed, from a current and forward-looking perspective, in normal and stressed conditions, is performed by implementing the internal capital adequacy assessment process (ICAAP).
In addition to the First Pillar risks (credit risk, counterparty risk, market risk, operational risk) the risks identified by Banco BPM Group following implementation of the Risk Identification process (Risk Inventory) are listed below:

SECURITISATION	This is the risk that the economic substance of a securitisation transaction performed by a Group company is not fully reflected in risk assessment and management decisions.
COMMERCIAL	This is the current and future risk associated with a potential decline of net interest income with respect to the objectives established due to low customer satisfaction with the products and services offered by the Group due to adverse market conditions.
CONCENTRATION OF RISKS	This represents the risk that the exposure towards a single counterparty may lead to different types of risk at the same time.
CONDUCT	This risk is included in operational risk. This is defined as the current and future risk of losses caused by the inadequacy of the financial services provided, including the risk of misconduct and incorrect treatment of customers.
OUTSOURCING	This is the risk that derives from outsourcing/service contracts with partners outside the Group.
EXECUTION	Losses due to shortcomings in the settlement of transactions or in process management, as well as losses due to relations with commercial counterparties, sales agents and suppliers.
ICT	This is the risk of financial, reputational and market share losses due to the use of information and communication technology (ICT).
PROPERTY	Current and future risk resulting from changes in the value of the property held by the Group caused by fluctuations in the Italian property market.
FINANCIAL LEVERAGE	This is the risk that a particularly high level of debt with respect to own funds could make the Bank vulnerable, requiring it to take corrective measures in its business plan, including selling assets at a loss, which could require recognising value adjustments on other assets as well.
MARKET RISK IN THE BANKING BOOK	This is the risk of loss due to transactions on the market of financial assets classified in the banking book.
MODEL	This is the risk that the model used in a measurement process or which strategic decisions are based on gives an erroneous output due to an erroneous specification, flawed processing or the improper use of the model.
COMPLIANCE	The risk of incurring legal or administrative sanctions, significant financial losses or reputational damage as a result of the violation of binding rules (laws, regulations) or self-regulatory systems (e.g., Articles of Association, codes of conduct, corporate governance codes). This includes the risk of money laundering and financing terrorism.
COUNTRY	This is the risk of losses caused by events taking place outside Italy. The concept of country risk is wider than that of sovereign risk as it refers to all exposures regardless of the nature of the counterparties, which may be natural persons, enterprises, banks or the public administration.
INVESTMENTS	This is the risk resulting from changes in the value of interests in associates and joint ventures held in the banking book due to market volatility or the status of the issuer.
REGULATORY	The risk resulting from current regulatory developments which could influence the pursuit of the strategies identified by the Group.
REPUTATIONAL	This is the risk associated with a negative perception of the Bank's image by its customers, shareholders, investors, financial analysts and the Supervisory Authorities, which could have a negative influence on the Bank's ability to maintain or develop new business opportunities or to continue to have access to funding.
RESIDUAL	This is the risk that generally accepted techniques to mitigate credit risk used by the Group may be less effective than expected. To quantify it, the significance of the various types of Credit Risk

	Mitigation (CRM) tools is assessed in terms of reducing the capital requirement resulting from their use.
STRATEGIC	This is the current and future risk associated with a potential fluctuation of profits or of capital due to an inadequate market positioning or flawed managerial decision making. More specifically, it represents the risk that the competitive/strategic positioning choices do not produce the expected results, penalising the achievement of short and medium to long-term economic and capital objectives, or even provoking unwanted decreases in profitability levels and capital soundness. In this view, strategic risk related to the possibility of failure of company projects, which results in disruption to Bank management and inertia when faced with unforeseen market dynamics.
INTEREST RATE IN THE BANKING BOOK	Risk of changes in the net interest income (Funding Cost Risk) and the economic value of Banco BPM Group as a result of unexpected changes in interest rates which affect positions classified in the banking book for regulatory purposes. The risk arises mainly from acting as intermediary in the process of transforming maturities. In particular, the fair value of issued fixed-rate securities, the provision of fixed-rate commercial loans and receivables, and collection via current accounts presents a source of interest rate risk. Cash flows from assets and liabilities subject to floating rates also represent a source of interest rate risk. Said risk includes the Basic risk component.
TRANSFER	This is the risk that a Bank exposed to a party that obtains funding in a currency other than the currency of its main revenue sources may incur losses due to the debtor's difficulty in converting its currency into the currency in which the exposure is denominated.
PANDEMIC	Risk resulting from the expected effects of the continuation of the current crisis and/or uncertainties as to new potential crises and the ability to react to them.

As part of the Risk Identification process carried out in 2020, the Group identified the issues relating to "Climate change & ESG (Environment, Social and Governance)" as a specific risk factor to which it could be exposed in the timeframe considered. Said issues are seen as the risk drivers underlying prudential risks, for example related to sustainable development in terms of credit and finance and the valuation of internal intangibles, and have shown an increase in terms of both the likelihood of their occurrence and their impact with respect to last year. To this end, the Risk Function began an internal assessment process with respect to the current ESG regulatory requirements and consultation procedure, first of all with regard to the "Guide on climate-related and environmental risks" the final version of which was published by the ECB in November 2020.

With regard to cyber risk, in 2020, the Group continued to boost the supervision of Cyber Security, in line with that requested by the Regulator, and established a project, with a view to developing the methodological structure to manage IT Risk and to improve the effectiveness of mitigating this type of risk.

Lease risk

With regard to the risks associated with finance lease transactions, save for that more generally referred to on the management of credit risk by the Group, it is important to note that, considering the run-off situation of the lease segment, the risks associated with the underlying assets are moderately significant and gradually decreasing.

Among other aspects, as numerous years have now passed since the last contracts were entered into, the portfolio is almost exclusively comprised of "finished property" lease transactions, which typically have longer terms, but which are nearing their terms.

In relation to the mitigation of risks attributable to the assets, and specifically properties, the Group pays specific attention to verifying appropriate insurance coverage of the properties, in relation to both amortising contracts, providing for secondary cover that protects the Bank also in the event that the tenant has not contracted his/her own cover, and in relation to contracts terminated due to breach, also where the Bank has repossessed the property.

Regardless of the ordinary protections provided by contract, which assign liability regarding the compliance with and safety of the leased assets to the tenants, the Group significantly focuses on issues regarding the safety of properties, especially those that it once again takes possession of, with the resulting greater direct liability.

In particular, specific works are carried out on properties in order to minimise the risks and damages deriving from external factors, such as pollution, natural events or acts of vandalism, and internal factors, such as precarious stability, lack of security systems or the presence of parts made of asbestos.

Based on the organisational model adopted by the Group, the specialised oversight of those issues is guaranteed by the Leases structure of Banco BPM, which reports to the Chief Lending Officer, coordinating with Bipielle Real Estate as regards the management of properties that are once again available to the Group.

Risks consequent to the reform of benchmark indices

As illustrated in more detail in the Group Report on operations, from 2019, Banco BPM launched a specific project called "Ibor Transition" to manage the areas impacted by the reform of interest rates.
More specifically, in the light of the changes in legislation, the Group analysed the risks related to the reform of benchmark rates, with particular regard to the risk related to the cessation of the Euribor rate, which represents the main benchmark rate used by the Group to index loan contracts (around 280,000 contracts) and for the assets underlying interest rate derivative contracts. For the majority of these contracts, the substitute rate has been identified as the Libor, which however is to be ceased by the end of 2021, with the consequent risk that, in the event of the cessation of the Euribor, numerous contracts would not have a valid interest rate. In this regard, on the date of these financial statements, there is no assumption to discontinue the "hybrid" Euribor, which could nevertheless be ceased if retained too dependent on the subjective valuations of intermediaries.
For loans, this could entail their termination and consequent repayment of the debt, or the continuation of the contract at the legal interest rate, currently 0%, unless it is renegotiated with the customer or in the event of legislation that establishes a new substitute benchmark rate applicable to similar situations. With regard to the proposal to use the "forward €STR", calculated and published by the ECB, as the substitute rate, the legislative procedure is currently under way and at present the outcome is uncertain.
With regard, instead, to active derivative contracts, the risks resulting from the Ibor transition are substantially managed through the signature of the ISDA Protocol, for all contracts with counterparties that subscribe to the same; for other counterparties, the renegotiation of over 100 contracts that expire later than 31 December 2021 will be necessary.

Risks resulting from the "Brexit" agreement

The outcome of Brexit negotiations at the end of 2020 managed to avoid the serious economic consequences feared in the event of a lack of agreement at the end of the transition period.
At present, the most tangible impact of the new trade arrangements between the UK and Europe in the macroeconomic reference framework for the Group regard:

a) the establishment of checks at the border with Northern Ireland (contrary to the agreements signed);
b) difficulties in transporting goods at the Calais border crossing point.

British diplomats are working to eliminate these checks that are leading to delays and rising costs, with serious risks to the supply chains of numerous sectors.

The Group's banks have established relations with various entities resident in the European Union with a view to using them, to replace the previous main counterparties resident in the United Kingdom, as market counterparties for trading in financial instruments.
Similar steps have been taken to replace the main brokers, clearing brokers and trading venues resident in the United Kingdom, previously used by Group banks for trading in financial instruments, with parties resident in the European Union.
In addition, Group banks have started to clear transactions in interest rate and credit OTC derivatives also with central counterparties resident in the European Union.

In this regard, however, it is considered that the effects of these negotiations are not such as to significantly influence the Group's operations.

Stress testing

Banco BPM Group has implemented a detailed stress testing framework, meaning the set of quantitative and qualitative techniques used by the Bank to assess its vulnerability to exceptional, but plausible events. As part of the framework, guidelines have also been established regarding the application of stress scenarios as well as the roles and responsibilities of the company functions and the Corporate Bodies. The framework for long-term forecasting and for stress testing adopted by Banco BPM therefore represents a coordinated set of methods, processes, controls

and procedures that establish the main variables to use for forecasting purposes for estimates in ordinary and adverse conditions, with a view to both planning and risk management purposes and regulatory and operational purposes.
Stress tests seek to verify the effects on the Bank's risks due to specific events (sensitivity analysis) or joint changes in a series of economic-financial variables in cases of adverse scenarios (scenario analysis), with reference to individual risks (specific stress tests) or in an integrated manner on several risks (joint stress tests).
The process of analysis is based on quantifying the impacts relating to form-wide stress tests, which enables a global assessment of the Bank's risk profile to be made.
These tests allow identification of the risk factors that contribute more than others to this negative result and consequently allow implementation of loss-limiting strategies when these scenarios occur.
The Scenario Council, set up in 2019, is tasked with confirming or proposing a review of the scenarios used in Group processes, in light of external events or the Bank's specific vulnerabilities, also taking account of any considerations from top management deriving, for example, from substantial changes in the risk and profitability estimates, changes in the market or reference context, the introduction of new regulatory standards or specific indications of the Supervisory Authority, also identifying the related processes impacted and assessing their potential update.
In 2020, the Scenario Council met 14 times to continuously assess the changes in the external macroeconomic scenario and the impacts on the Bank's strategic and management processes.

In accordance with the purposes of analysis and the principle of proportionality, the Group regularly conducts stress tests with specific purposes concerning the main company processes, specifically:

- Risk Identification, as regards defining the materiality of risks, which is verified under ordinary and stressed conditions;
- Drafting the Risk Appetite Framework (RAF);
- Strategic and operational planning;
- Quantifying operational limits in stress scenarios (where envisaged);
- Calculation of IFRS 9 ECL;
- Internal Capital Adequacy Assessment Process (ICAAP);
- Internal Liquidity Adequacy Assessment Process (ILAAP);
- Liquidity Contingency Plan;
- Recovery Plan.

Vertical stress tests are also included in these tests and conducted at the portfolio and individual risk level, based on sensitivity or scenario analyses, also aimed at identifying potential concentrations of risks.

Specific stress tests are also conducted for management and regulatory purposes. Known as Supervisory Stress Tests, they are conducted in accordance with the timescales dictated regularly by the Supervisory Authority.

The Group uses these tools to support other risk management and measurement techniques, with a view to:

- providing a forward-looking vision of risk, of the relative economic and financial impacts, evaluating the overall solidity of the Bank in the event that adverse scenarios or alternative ones with respect to those of reference occur, therefore providing support to the preparation of the budget and of the business plan;
- contributing to the most important planning and risk management processes, as regards setting RAF thresholds and establishing the Group's risk/return objectives;
- assessing the development of risk mitigation and recovery plans in certain stressed situations. In fact, the stress tests are used to establish specific internal trigger thresholds, which once reached trigger the resolution plans as envisaged by the BRRD (Bank Recovery and Resolution Directive) regarding the prevention and management of banking and investment company crises.

During the first few months of the year, the Group launched the EU-wide Stress Test 2020 exercise led by EBA/ECB aimed at testing the business model and the resilience of banks on the basis of 2 scenarios, baseline and adverse, developed by the Regulator. Following the Covid-19 pandemic, the EBA decided to suspend the exercise, postponing it until 2021, in order to allow banks to focus their efforts on business continuity.
In the last quarter of 2020, activities were begun to prepare for the EU-Wide Stress Test 2021 exercise, which will start at the end of January 2021 and will conclude on 31 July 2021.

The internal risk control system

The following paragraphs illustrate the structures and the tasks allocated to the corporate control functions of the new Banco BPM Group. The main corporate functions of the Parent Company, Banco BPM, responsible for controlling risk, are as follows:

- Audit Function;
- Risk Function;
- Compliance Function.

The Audit Function reports directly to the Board of Directors, it performs the Internal Auditing activities envisaged by Supervisory Provisions by conducting auditing and monitoring exercises - in loco and remotely - at the Group Banks and Product Companies, under a specific outsourcing agreement, namely as Parent Company. The head of the Audit Function has direct access to the Body in charge of the control function and enjoys unrestricted communication with the same, without the need for mediation.
The job of the Audit Function, on one hand, in terms of third level control, including on-site audits, is to oversee the regular performance of operations and the evolution of risk and, on the other hand, to assess the completeness, the adequacy, the functioning and the reliability of the organisational structure and of the other components of the internal control system. The Function brings possible improvements, with specific reference to the RAF, the risk management process and the tools to measure and control the same, to the attention of the Corporate Bodies. Based on the results of its analyses, it makes recommendations to the Corporate Bodies.
In accordance with the Group's Governance Model, the Parent Company carries out internal auditing activities in a centralised manner also on behalf of Subsidiaries.
When performing its duties, the Audit Function takes the provisions of widely accepted professional standards into account. The Audit Function directly communicates the results of assessments and evaluations to the Corporate Bodies. In order to carry out its duties properly, the Audit Function has access to all the activities of the Parent Company and the Group Companies, including outsourced activities carried out both at the central offices and at the peripheral structures. The Audit Function liaises with the Supervisory Authorities in accordance with internal regulations.

The Risk Function reports directly to the Chief Executive Officer of Banco BPM S.p.A.; the head of the function has direct access to the Body with strategic supervision functions and the Body in charge of the control function and communicates with them without restrictions or intermediaries.
The Parent Company's Risk Function is assigned the role of control function pursuant to Circular 285/2013 of the Bank of Italy, it guarantees the functional coordination of risk control measures of Group Companies and oversees - at Group level and in an integrated manner - the governance and control (Enterprise Risk Management), development and risk management (Risk Models) processes and the validation process of internal risk measurement models (Internal Validation).
The Risk Function and its internal structures are independent from operational functions and activities. In particular, they are responsible for:

- proposing and developing guidelines and policies regarding the management of the relevant risks, in accordance with the company's strategies and objectives;
- coordinating the implementation of the guidelines and the policies regarding the management of the relevant risks by the units assigned by the Group, also in different corporate areas;
- guaranteeing the measurement and control of the Group's exposure to the different types of risk and of the relative capital absorption, verifying the implementation of the guidelines and the policies established for the management of the relevant risks and the compliance with the thresholds established within the Group's Risk Appetite Framework;
- guaranteeing the development and continuous improvement of the models and metrics for the measurement of risk - of the First and Second Pillar in base and stressed conditions - also through projects to implement and enact advanced models, to align with the standards that are gaining recognition at international level over time, to implement supervisory regulations and directives, and to develop increasingly effective controls;
- overseeing the validation process of the internal models used to calculate capital requirements;
- overseeing the process to verify, through second level controls, that the trends of individual exposures are being correctly monitored, as well as to assess the consistency of the classifications, the appropriateness of provisions and the adequacy of the recovery process;

- ensuring that the information used for measurement, monitoring and reporting of the risks under their responsibility were subject to a robust Data Quality and Aggregation framework;
- formulating mitigation proposals, specifically through the use of insurance or financial cover, in order to externalise the risk, assigning the assessment and execution thereof to the functions in charge, monitoring the performance;
- with reference to the Covid-19 pandemic, ensuring adequate monitoring and support to the Corporate Bodies in the understanding and implementation of corrective measures by providing a risk opinion on the robustness and appropriateness of the processes and the choices of method made, particularly by the credit functions, and in general when making long-term forecasts.

The head of the Risk Function is also responsible for assisting the Corporate Bodies in performing their respective duties in terms of the Internal Control System, by:

- intercepting all the relevant information required to quantify and manage risk promptly and in a coordinated manner;
- ensuring a more integrated ability to process, organise and contextualise the information acquired and to make assessments (both in terms of risk and asset value) separately from other cases;
- drawing up a summarised (integrated) report on company risks and, therefore, enabling the Corporate Bodies to gain a better understanding of the main problems identified by the second-level internal control system;
- promptly implementing corrective measures, in accordance with the problems and the relative priorities indicated by the second-level Internal Control Functions.

The Internal Validation Function, which reports directly to the Risk Function, is tasked with independently overseeing the internal validation processes of the risk measurement and management systems, assessing the model risk implicit in the methods used to measure risk, conducting controls to validate the calculation of capital requirements and validating pricing models.

The Compliance Function of the Parent Company reports to the Chief Executive Officer and oversees compliance risk management with regard to all company activities, adopting a risk-based approach, verifying that internal procedures are adequate to prevent said risk. To this end, the Compliance Function usually has access to all of the activities of the Parent Company and of central and peripheral Group Companies, and to any information needed, also by directly talking to personnel. It has direct access to the Body with strategic supervision functions and the Body in charge of the control function and enjoys unrestricted communication with the same, without the need for mediation.
The Compliance Function is directly responsible for managing compliance risk in terms of the most important regulations and laws that regard the banking and brokerage business, the management of conflicts of interest, transparency towards customers, and more generally, regulations set in place to safeguard consumers, and with regard to all laws and regulations for which no specific specialised structure is in place within the Parent Company or Group Companies. With regard to other laws and regulations for which a specific specialised structure has been envisaged to oversee the same, the tasks of the Compliance Function - based on an assessment of the adequacy of the specific control to manage compliance risk profiles - are graded and the Compliance Function is in any event responsible (in collaboration with the specialised functions assigned) for:

- establishing the compliance risk assessment methods;
- identifying the relative procedures;
- verifying the adequacy of said procedures to prevent compliance risk.

The Compliance Function also undertakes the responsibilities established in the Joint Regulation of the Bank of Italy and CONSOB dated 29 October 2007 and subsequent amendments and additions in terms of compliance control and relating reporting in terms of investment and collective asset management services (art. 16).
The Parent Company's Anti-Money Laundering Function is located within the Compliance Function and reports directly to the Corporate Bodies within its scope of responsibility. It is fully independent and oversees the risk of money laundering and terrorism financing, as well as reports of suspicious transactions. It performs the activities envisaged by the regulation through the head of the Anti-Money Laundering Function and the Suspicious Transaction Reporting Officer (SOS).

Improvement activities for the risk control and management system

Over time, Banco BPM Group has launched numerous projects to improve its risk management and control system. Specifically, to date the Group has been authorised to use its internal models to calculate regulatory capital absorption with regard to the following Pillar I risks:

- credit risk (starting with the measurement at 30 June 2012): the scope concerns advanced internal ratings-based models (PD, for both monitoring and acceptance and LGD) relating to loans to Banco BPM enterprises and retail. The standard regulatory approach will continue to be adopted, for prudential reasons, for loans portfolios that are not included in the scope of first validation AIRB. In 2017, Banco BPM Group submitted a request to the European Central Bank for the extension of the advanced internal models (AIRB) to the Corporate and Retail portfolio of BPM S.p.A. and the use of the EAD model limited to the Retail scope, for the relative calculation of the capital requirement for credit risk, together with a model change for the definition of default and updating of historical series. In this context, the Group was authorised by the ECB to use these templates for reporting purposes in the first quarter of 2018, starting from January 2018. In June 2019, as requested following a TRIM inspection, two add-ons were sent: on the PD of the Mid Corporate portfolio and on the LGD Corporate Performing model. The historical series underlying the estimate of the LGD Performing, ELBE and Defaulted Asset parameters was updated on the month of December 2019. An inspection stage, which began in the last quarter of 2019, is currently under way, for the purpose of validating the new PD, LGD (Performing, ELBE and Defaulted Asset) and EAD models containing significant methodological changes in relation to the risk parameters currently used by the Group for Corporate and Retail customers, in compliance with the new legislative provisions and fulfilling specific ECB obligations. With regard to only the EAD approach, the request for validation also includes a new model for Corporate customers, which have used a Standard CCF to date. The inspection continued for the whole of Q1-2020. In this regard, the Bank is awaiting the Final Decision. At the same time, in 2020, the preparation of the model change application started, for the update of the IT systems, internal processes and risk parameters via technical calibration to the new definition of default in view of the entry into force of the relevant EBA guideline (EBA/GL/2016/07). The relative application package was sent in August 2020 with a consequent off-site inspection IMI 4738 launched in Q4-2020. In November 2020, as requested following the TRIM inspection, an add-on on the PD models of the Mid Corporate Plus and Large Corporate portfolio was sent;
- market risk (starting from the report of 30 June 2007 for Banca Akros and that of 30 June 2012 for Banco BPM): during 2018, the Parent Company's internal model was extended to Banca Akros. The scope is currently the general and specific risk of equity instruments and the general risk of debt securities for the trading book. In 2019, the request was submitted to extend the internal model to the specific risk of debt securities and to the exchange rate risk of the Banking Book;
- operational risk: from the date of the merger, Banco BPM Group was authorised by the European Supervisors to temporarily use, for regulatory purposes, a combination of the three regulatory methods, specifically the AMA (Advanced Measurement Approach), relating to the validated scope of the former Banco Popolare Group (former Banco Popolare segments of the Parent Company and Banca Aletti), the TSA (Traditional Standardised Approach) on the scope of the former Banca Popolare di Milano Group (segments of the former Parent Company BPM S.c.a r.l., former BPM S.p.A., ProFamily and Banca Akros) and the BIA (Basic Indicator Approach) for the other remaining companies making up Banco BPM Group. After the transition period for the above ECB authorisation ended, from the Reporting date of 31 December 2020, the Supervisory Authority asked the Group to fully adopt the Traditional Standardised Approach to calculate capital requirements for all companies that make up the Supervised Group, while with regard to the other qualitative-quantitative elements envisaged by Supervisory Regulations, to fulfil all of the requirements of the CRR 575/2013 for the TSA as well as those envisaged by the above-mentioned AMA in articles 321 (points b-e) and 322 (points b-f).

From the date of the merger, Banco BPM Group was authorised by the European Supervisors to use for regulatory purposes a combination of the AMA (Advanced Measurement Approach), relating to the validated scope of the former Banco Popolare Group (former Banco Popolare segments of the Parent Company and Banca Aletti), the TSA (Traditional Standardised Approach) on the scope of the former Banca Popolare di Milano Group (segments of the former Parent Company BPM S.c.a r.l., former BPM S.p.A., ProFamily and Banca Akros) and the BIA (Basic Indicator Approach) for the other remaining companies making up Banco BPM Group. In 2017, Banco BPM Group launched a project to extend the advanced methods to the former BPM component. Since the date of the report of 30 June 2018, in line with the decision adopted by the ECB on the matter, the private banking segments of the former BPM

SpA and Banca Akros, which merged with Banca Aletti, have adopted the advanced method. Since the reporting date of 31 December 2018, in line with the decision adopted by the ECB on the matter, Banca Aletti's Corporate & Investment banking segments, which have been merged into Banca Akros, have been subject to the traditional standardised approach (TSA).

1.1 CREDIT RISK

QUALITATIVE INFORMATION

1. General aspects

Banco BPM Group pursues lending policy objectives that seek to:

- support the growth of business activities in the areas it operates in, with the goal of overseeing and managing the development of the Group's positioning, in line with RAF policies and budget and business plan objectives, focusing on the support and development of customer relationships;
- diversify its portfolio, limiting loan concentration on single counterparties/groups and on single sectors of economic activity or geographical areas;
- adopt a uniform and unique credit management model based on rules, methods, processes, IT procedures and internal regulations harmonised and standardised for all Group banks and companies.

To optimise credit quality and minimise the global cost of credit risk for the Group and the individual companies, under the organisational model the Parent Company's Loans Function is in charge of lending policy guidelines for both the banks and companies of the Group.
Guidelines have also been set at Group level, defining conduct with respect to assuming credit risk, to avoid excessive concentrations, limit potential losses and guarantee credit quality. In particular, in the loan approval phase, the Parent Company exercises the role of management, direction and support for the Group.
The above Function monitors the loan portfolio, and focuses on analysing the risk profile performance of economic sectors, geographical areas, customer segments and types of credit lines granted, as well as on other dimensions of analysis, which enable any corrective actions to be defined at central level.
The role of the Parent Company's Risk Function is to support Top Management in planning and controlling the risk of exposure and capital absorption, in order to maintain the stability of the Group, verifying forward-looking capital adequacy and under stressed conditions, as well as compliance with the RAF thresholds, the Group's risk limits and its risk appetite. In particular, the Function's task is to develop, manage and optimise internal rating models (Pillar I), the loan portfolio model (Pillar II) over time, and to supervise - as part of second level controls - the calculation of risk-weighted assets using advanced methods.
Portfolio risk monitoring is based on a default model that is applied on a monthly basis to credit exposures of Banco BPM Group.
Banco BPM Group has also implemented the EBA 2020/07 Guidelines regarding exposures subject to the measures applied in response to the Covid-19 crisis (legislative and non-legislative moratoria as well as new loans guaranteed by the State or other Public entity).
For further details and information, please refer to the content of the specific paragraph entitled "Information on exposures subject to legislative and non-legislative moratoria on newly originated exposures subject to public guarantee schemes" contained in the document "Disclosure to the Public by Entities (Pillar III)" of Banco BPM, available on the website www.gruppo.bancobpm.it.

Impacts resulting from the Covid-19 pandemic

The global health emergency that exploded at the beginning of 2020 had an impact on the calculation of impairment. More specifically, the highly asymmetrical nature of the macroeconomic shock that occurred and the consequent mitigating measures implemented by the different Competent Authorities have required a model change and ad-hoc fine tuning to enable the real risk level of the Group's portfolio to be correctly measured.
Said model change and fine tuning, which entailed estimating expected losses and the stage assignment criterion, led Banco BPM to adopt, from June 2020, a method based on the future rates of default, which consider the mitigation measures and, in particular, the different liquidity decrees issued by the Italian Government.

Please refer to the paragraph below "Changes due to Covid-19" in section "2.3 Measurement methods for expected losses" for more details.

It should also be noted that, within the context of the Covid-19 health emergency, Banco BPM Group, also in line with the provisions of the Government initiatives, has provided numerous customer support measures, including moratoria pursuant to law, disbursements of new loans set forth in the "Liquidity" Decree Law and measures established internally by the Group (e.g. bilateral suspension agreements), implementing new actions to prioritise the measures for 2021, whilst waiting for the Government to implement the budget law, which will envisages greater room for manoeuvre on this (particularly with the support of SACE). In relation to the treatment of the support measures, the Group has continued to manage the loan granting and relative classification process in an ordinary fashion. At the same time, in accordance with the EBA Guidelines, starting in March 2020, the Bank has availed itself of the possibility of applying the EBA temporary framework (which permits an exemption relating to Forborne flag use) to new liquidity measures and to moratoria measures that respect the requirements defined by the Regulator. Even though the latter has been extended to 31 March 2021, from November 2020, all restructuring and new moratoria applications have entailed the prior analysis of the financial difficulty of the borrowers.
In relation to the identification of the counterparties characterised by signs of deterioration as such to portend the possible move to Stage 2 or potential unlikely-to-pay situations, the assessment of the credit risk of counterparties was bolstered through the release of a new platform for identifying and managing anomalous counterparties and the development of a new performance scoring model. More specifically, the new performance scoring model has evolved features in terms of data model and estimation techniques which, by introducing the transfer to Stage 2 as an aspect of primary attention, provide an early warning of default. At the same time, the monitoring application has incorporated the new rules relating to overdue exposures, set forth in the EBA guidelines on the definition of default, making provision, from the first few days in which the overdue event materialises, for the processing of homogeneous and differentiated positions by counterparty type and level of risk exposure, according to a management approach which is as business-oriented as possible for preventing deterioration in the credit risk, necessary for restoring the ordinary management of the relationship. More specifically, the process currently in place envisages the daily interception of positions and the consequent management of the new positions intercepted according to a structured procedure with pre-set timings, based on the clustering of the portfolio with anomalies and the subsequent prioritisation of interventions.
In order to carry out accurate monitoring of the overall support measures relating both to the EBA temporary framework and the granting of new loans, in addition to the reinforcement measures illustrated above, Banco BPM Group has implemented specific interaction initiatives with the customers who benefit from said measures. The checks have been conducted applying risk-based criteria, which consider specific qualitative and quantitative information to best assess creditworthiness and the correct classification of exposures, highlighting borrowers identified as having potential financial difficulties. With regard to the counterparties selected using said risk criteria, the Group has launched a programme for customer relations through specific contact campaigns (also called "early engagement" campaigns) with the counterparties to whom the Government or system moratoria have been granted; following these engagement activities by the sale structure, feedbacks and accurate qualitative information on customers was collected, made available to the structure reporting to the Chief Lending Officer (CLO), envisaging the consequent activation of the Monitoring and Prevention structure for the necessary assessments.
With regard to these assessments, the structures reporting to the CLO, with a view to develop a better process to manage non-performing exposures, and after consultation with the Risk Function, started to work on several activities, which integrate that already envisaged by the Group's internal processes, including: (i) the definition, from the end of December 2020, of a specific checklist to be submitted to all managers of Unlikely to Pay exposures, with a view to collecting additional information on the counterparties affected by the worsening of the economic scenario due to the Covid pandemic and (ii) interaction with the above-mentioned counterparties to gather more updated information on their current economic and financial situation (due to the impact of the pandemic) and their expected future situation (economic forecasts for 2021) and to check, where envisaged, compliance with contractual covenants.

Lastly, with regard to the changes made to the systems supporting the assessment of customer staging, note that in 2020, the staging models were reviewed, in order to incorporate in the systems the heavily asymmetric nature of the macroeconomic shock on the different production sectors, generated as a result of the pandemic crisis and the containment measures promoted by the Competent Authorities. The new macroeconomic forecasts have incorporated the intrinsic risk of the economic sector on a more prudential basis, reducing the risk of any cliff-effects that Banco BPM will have to face when the Government support measures come to an end (in particular, the moratoria). This intervention has certainly increased the interception percentage of counterparties characterised by SICR (stage 2), increasing the impact in terms of Expected Credit Loss on the Group's credit portfolio. In addition, based on a conservative approach to the potential accounting impacts resulting from the positive effects of the Government measures implemented to tackle Covid-19, the Group carried out a specific analysis of counterparties belonging to the Small Businesses and Private Customers segment, who over the course of the second half of 2020, showed an improvement in staging (from stage 2 to stage 1), due exclusively to the above-cited support measures, removing the positive effects of the same ("backward-looking approach").

2. Credit risk management policies

2.1 Organisational aspects

The Group governs credit risk by assigning specific responsibilities to the Bodies, functions and Committees of the Parent Company and its Subsidiaries, in line with its Internal Control System and on the basis of an organisational model that provides for the centralised control within the Parent Company to convey a consistent policy and governance when managing the risks.
The credit risk management policies represent the reference framework for the operations of the structures allocated with risk management, they are updated annually as part of the RAF and they guide credit policies in terms of the evolution of the company's activities, the expected risk profile and the external scenario.
As required by supervisory regulations, the Group has drawn up an internal ex-ante management process for Significant Transactions (ST) and for the supervision of large exposures, controlled by specific company regulations in this regard.
The Parent Company draws up Group credit policies, in parallel with the budget process and in line with the strategies, the risk appetite and the economic objectives approved by the Board of Directors.

To measure the different aspects and components of credit risk, the Group adopts models and metrics developed in accordance with supervisory regulations, with a view to guaranteeing the sound and prudent management of the risk positions assumed and to comply with regulatory requirements, also assessing the effect of changes in the scenario to which the credit portfolio is exposed.
These models must periodically undergo backtesting and stress testing in order to guarantee their statistical and prudential robustness, validated by an operational unit that is independent to the function responsible for developing them, reviewed at least annually by the Audit Function.

From a regulatory perspective, risk-weighted assets (RWA) are calculated by a method based on internal ratings (AIRB Approach), risk segments/parameters validated by the Supervisory Bodies and using the Standard Approach for the other exposures, in accordance with the Group's roll-out plan. As regards the scope of Banca Akros and Banca Aletti, the standardised regulatory approach is applied.

The risk parameters of the models are periodically calibrated.
The development and updating "model change" process for the rating models entails a series of activities and procedures, the aim of which is to define, initially or when updated, the rating models applicable to credit exposures, namely statistical or empirical models to confirm the credit assessments made by the Companies of the Banking Group and to enable the capital requirements of the same against the risk of unexpected losses to be calculated.
With regard to the segments validated, these include:

- five rating models (4 for Business customers, 1 for Private customers), which use financial statement, performance and qualitative information (Business) and sociological/performance (Private), calibrated adopting a long-term approach (Through-the-Cycle), in order to neutralise the possible impacts of an expansive or recessive phase of the economic cycle;
- two LGD performing models (1 for Business, 1 for Private customers);
- two LGD non performing ELBE (Expected Loss Best Estimate) and Defaulted Asset models, separate for Corporate and Private customers;
- an EAD model for Retail customers.

From an operational perspective, the unexpected loss on credit risk is measured by quantifying the economic capital through the application of a Credit VaR portfolio model.

The key component of the credit risk measurement models is the Rating System, namely a structured and documented set of methods, organisational and control processes and procedures to organise databases, which enables the relevant information to be collected and processed, to reach summary assessments of the risk level of a counterparty and of individual credit transactions.
The rating system is incorporated in the decision-making processes and in the management of the company's operations, playing an important role in the following Group processes:

- Lending policies;
- Business planning;
- Capital planning;
- Risk Appetite Framework;
- Product pricing;
- Granting loans;
- Monitoring and managing loans;
- Provisioning;
- Risk measurement and control;
- ICAAP and ILAAP;
- Management of the bonus system;
- A.Ba.Co. (other funding instruments).

The procedures for the operational use of the rating system in the various company processes are regulated by regulations issued over time in the above-mentioned areas. The regulatory framework set in place to oversee credit risk, developed in accordance with company standards, is based on specific Regulations and Process Rules, specifically the Regulations on counterparty credit risk and the Regulations for Limits of Autonomy and powers in the granting and management of loans.
The principles established in the Regulations issued have been applied and included in the wording of the regulations, for the processes included in company taxonomy.
The processes for the granting of loans guarantee an adequate, objective and harmonised assessment of creditworthiness and of risk, through the use of the rating system to guide the decision-making steps.
More specifically, the ratings are used to define the scope of decision-making, by means of a weighting method based on an assessment of the creditworthiness of each counterparty, summarised by the rating, as well as on the measures to mitigate the risk assumed.
An assessment of the risks already assumed or to be assumed is conducted for each individual customer and Risk Group, namely the set of parties related through the ties considered for the registration of Economic Groups, as well as joint account holders and those with a joint-obligation, as regards the entire Banking Group.
The criteria for the allocation of responsibilities to the various parties/organisational units that take part in the loan granting process are based on principles of separation in order to guarantee independence of judgement and prudence in the assumption of risk.
To this end, with regard to the activities envisaged in the loan granting process, the roles of "Proponent", of "Decision-maker" and of any "Intermediate body that gives an opinion" are clearly separated.
In the case of "non-resident" customers, compliance with the authorised maximum limit for "Country Risk" must first be checked, before the assumption of "Credit Risk", "Delivery Risk", "Placement Risk" and "Evidence Risk".
The "Authorisation, monitoring and management of overdrafts and/or past due loans" Rules establish the continuous monitoring activities that the Manager must perform when managing the account, with regard to overdrafts, past due instalments not paid and drawdowns on expired or reduced loans.
The management of overdrafts is accompanied by a specific procedure that has made access to data regarding positions classified as "becoming past due" more efficient, enabling both current and historical information available to be consulted, right down to the details of an individual account, as well as obtaining lists based on selection criteria entered by the user.
Forborne exposures are identified as part of the loan granting process and, therefore, through the ELA (Electronic Loan Application) function.
The identification of forborne exposures is carried out for both performing loan positions included in the watchlist, and for those classified as non-performing loans, for which a status of financial difficulty has been found (said status is objective for the positions classified as non-performing) and the granting of a tolerance.
The Account Manager, in the role of "Proponent", is responsible for:

- assessing the customer's situation of financial difficulty. To reach an opinion, all of the information from the preliminary check used to analyse creditworthiness in the ELA, including a specific additional checklist that differentiates between Corporate and Private customers;

- assessing the proposed award of forbearance measures;
- entering the Account Manager's assessment of the customer's situation of financial difficulty or otherwise in the information system and identifying award or otherwise of the proposed forbearance measures.

The Intermediate Body that gives an opinion is required to share the Proponent's assessments.
The Decision-making Bodies are responsible for ascertaining the consistency or otherwise of the assessment made by the Proponent.
The evidence expressed at the time of the decision on the individual line of credit automatically identifies all accounts related to it as "forborne".
Once classified as forborne, the exposures are managed in accordance with the relevant processes ("Monitoring and managing non-performing loans" for "Forborne exposures" and "Monitoring and managing loans: watchlist" for "Other forborne exposures").
Decisions regarding situations in which the exposure is no longer forborne, or the reclassification of "Forborne exposures" as "performing" are assisted by the information system.
In this regard, all positions that surpass the objective parameters established by EBA regulations are automatically highlighted and the proposals are subject to a structured process which enables all of the available assessment elements to be examined and historicised.
The reclassification of a "performing" exposure, already the subject of forbearance measures, to a higher risk category, is automatic if the events established by EBA regulations occur.

Country Risk, which identified the risk factors relating to the political, macroeconomic, institutional and legal situation of a foreign country, is considered, with regard to all business and financial transactions, if the counterparty is resident or has registered offices in a foreign country. Country risk is based on two main elements:

- political risk, namely the set of factors regarding the political and institutional system that may influence the country's willingness to honour its commitments;
- transfer risk, namely the set of economic factors that can influence the possibility that a certain country may establish, as an element of its economic policy, limits to the transfer of capital, dividends, interest, commission or royalties to foreign creditors and/or investors.

In the case of "non-resident" customers, compliance with the authorised maximum limit for "Country Risk" must first be checked, before the assumption of "Credit Risk", "Delivery Risk", "Placement Risk" and "Evidence Risk".
With regard to Transfer Risk, note that this risk is included in the credit portfolios that used ECAI ratings (exposures towards Governments and Central Administrations, Supervised Intermediaries and non-resident Corporate customers). The residual limited scope (non-resident customers without ECAI), is monitored periodically by the Parent Company's Risk Function.
The organisational structures of the Loans Function and of Loans of the Territorial Departments are defined in accordance with the credit granting, monitoring and management processes.
Furthermore, the Head of the Loans structure of the Territorial Departments reports functionally to the Head of the Loans Function and the Head of Loans for the Business Area, who, in turn, reports functionally to the Head of the Loans structure of the Territorial Department.
In terms of procedures and tools to support the processes, attention is drawn to the following:

- in "Loan Granting" processes, the Electronic Loan Application (ELA) procedure provides support to the Network in the preliminary examination, proposal, approval and finalisation stages and automatically calculates decision-making scope;
- the web-based Electronic Loan Application provides support to the loan granting process through a specific workflow based on parameters and enables each step of the process of preliminary examination - proposal - forwarding to higher Bodies and approval to be traced, as well as automatically checking the documents required and the validity of the assessment elements;
- as regards measures to assist "Private", "Small Business" and "Small Business Operator" customers, decision-making engines are used (ScoPri, Transact), to establish the financial feasibility of the proposed transaction, which make a summary assessment of the increasing risk;
- the process of monitoring and managing performing loans is assisted by a special procedure on a web platform that also permits the automatic interception of positions and classification on the watchlist, as well as the following of their management and verification of compliance with the decisions made. Positions are intercepted both when the thresholds for specific parameters are exceeded and via the use of an automatic indicator, which is calculated monthly, capable of producing a summary assessment of the performance of the account. This indicator can be searched both with reference to the month of processing and as an

average indicator for the period (last six months) and can be integrated within credit processes as a parameter of evidence;
- to support the monitoring and management processes of non-performing loans, broken down by status (Past Due and Substandard; Restructured; Bad Loans) a new procedure "Electronic Management Procedure - EMP" has been created;
- the credit assessment processes are conducted using the "IFRS9 SUITE" IT procedure.

The Loans Function prepares a quarterly report—in conjunction with the publication of the quarterly financial statements data—which includes a series of summary views on the main dimensions of loans. Specifically, the report focuses on the national scenario, the distribution of Group loans, the distribution of loans by sector, the distribution by rating classes, the development of loans and mortgages to Private customers – Consumer households.
The Risk Function produces monthly reports on "Credit Risk – Portfolio Model", which include evidence with group, company, economic sector and geographical area views.
In addition, a summary document has been introduced, with a monthly frequency, relating to the overall First and Second Pillar risk trend, to support the periodic integrated Group risk report, with a view to monitoring the evolution of economic capital and to report the appropriate figures to the Corporate Bodies.

2.2 Management, measurement and control systems

Banco BPM Group uses an elaborate set of instruments to grant and manage credit and to monitor portfolio quality.
Rating plays a key role in loan granting, credit product disbursement, monitoring and performance management processes. In particular, it plays a role in defining guidelines for Credit policies, in deciding which bodies are competent to approve loans, as well as on the mechanism for the automatic renewal of uncommitted credit facilities, and it contributes to determining automatic interception of the monitoring and management process (Watchlist).
The methodologies underlying the risk parameters PD (Probability of Default), LGD (Loss Given Default) and EAD (Exposure at Default), is used not only to assess the counterparty when granting, monitoring and renewing credit lines, but also to collectively write down receivables in the financial statements, in compliance with IFRS 9.
The credit assessment to calculate the amount of expected losses of non-performing loans differs according to the status and size of the exposure. The expected losses valued analytically by the manager are periodically reviewed.
The situation of the Group's non-performing loans as at 31 December 2020 has already been illustrated in the previous section, which commented on the Results for the period.
Portfolio risk monitoring is also based on a default model that is applied on a monthly basis to credit exposures of Banco BPM Group. For more information on the general features of this model, please refer to the following paragraph "E. Prudential consolidation - Credit risk measurement models".
For other exposures - other than performing loans with ordinary and financial resident customers - risk is controlled through the use of supervisory regulatory metrics (Standard).

2.3 Measurement methods for expected losses

Changes due to Covid-19

The crisis triggered by the Covid-19 pandemic did not affect all production sectors in the same way: some sectors were impacted to a greater extent by the measures adopted to contain the virus and by the resulting financial uncertainty. The old satellite models only represented the overall impact of an adverse scenario on the Bank's portfolio, exclusively using macroeconomic variables that were not differentiated by production activity. Consequently, the Bank decided to adopt a methodology based on forward-looking rates of default differentiated for the various productive sectors of the Italian economic system.
The use of the new satellite models has only involved the estimate of the PD risk parameter, while the LGD has not been impacted by said model change and fine tuning.
In December 2020, the risk parameters were also updated to incorporate the matrix relating to the last available year (September 2019 - September 2020) in their estimates.
In this section, the main changes to the assessment and measurement models for financial instruments related to the pandemic crisis, with specific reference to the aspects relating to the application of IFRS 9.

Assessment of the significant increase in credit risk (SICR)

With reference to the performing portfolio, Banco BPM Group, in order to determine the Significant Increase in Credit Risk (SICR) and the subsequent classification of receivables to the different risk classes of the performing portfolio (stage 1 and stage 2), consistently with the provisions of IFRS 9, adopted a stage assignment framework.
More specifically, to identify the SICR, the Group adopted an approach based on statistical models (known as staging models) which identify the presence of significant increases in the current and forward-looking risk of individual transactions. In particular, consistent with the change already made to the PD, specific satellite models were incorporated which make it possible to estimate the expected evolution of the risk of the individual counterparties belonging to the different sectors of economic activity, based on the macroeconomic scenarios identified and the relative likelihood of occurrence. The framework envisages the definition of specific thresholds of increase in the Lifetime PD, corresponding to migrations of Rating classes observed between the origination and reporting dates. When these thresholds are exceeded, the individual position is classified as stage 2.
To include the effects of the Covid-19 pandemic in the financial statements at the end of 2020, the SICR thresholds were made more prudential through new macroeconomic forecasts underlying the use of sector-based forward-looking default rates used for the PD parameter. This intervention, as already mentioned in the paragraph entitled "Impacts resulting from the Covid-19 pandemic" has increased the interception percentage of counterparties characterised by SICR (Stage 2), increasing the impact in terms of ECL on the Group's credit portfolio[1].
In addition, in December 2020, the Credit Risk structure carried out a post model adjustment on the SICR to intercept all accounts in the Small Businesses segment which, due to the granting of new financing, had experienced an improvement in their rating on the reference date (through the improvement of the internal performance score), which in turn, had led to a lower number of counterparties intercepted and classified as Stage 2. The purpose of this manoeuvre, illustrated in the paragraph entitled "Impacts resulting from the Covid-19 pandemic" with regard to the General Aspects of Credit Risk such as "backward-looking approach", was to neutralise the positive effect (transfer from Stage 2 to Stage 1) due exclusively to the impact of the government support measures, and not to the actual improvement of the counterparty, with a consequent reduction of provisions not related to the real economic conditions of the counterparty.

Measurement of expected loss

The basic method to calculate expected losses on performing loans, both with reference to the functioning of the "Stage Assignment Framework" and with reference to the calculation model based on "PD, LGD, EAD" risk parameters, has, with respect to that used for the 2019 financial statements, been revised with refinements and corrections introduced to reflect the necessary updating of the estimation parameters as well as in a more precise manner, the effects of the Covid-19 crisis, also through "post model adjustment", in line with the interpretations provided by the various Authorities illustrated in "Part A - Accounting policies" of these Notes. These interventions were necessary in order to include the so-called forward-looking factors and to reflect the effects of the State guarantee measures, as explained below.

According to IFRS 9, all financial assets not measured at fair value through profit and loss, represented by debt securities and loans, and off-balance sheet exposures (commitments and guarantees given) must be subject to the impairment model based on expected losses (ECL – Expected Credit Losses).

Specifically, the IFRS 9 impairment model is based on the concept of forward-looking valuation, i.e. on the concept of Expected Credit Loss, whether calculated at 12 months (Stage 1) or for the entire residual lifetime of the instrument (lifetime loss for Stage 2 and Stage 3). In particular, the model establishes that financial assets should be classified into three separate stages, corresponding to different measurement criteria:

- Stage 1: to be measured on the basis of expected credit loss over a time horizon of one year. Stage 1 includes performing financial assets for which no significant impairment of credit risk has been observed with respect to the date of initial recognition;
- Stage 2: to be measured on the basis of expected credit loss over the entire residual life of the financial asset. Stage 2 includes financial assets that have undergone significant impairment of credit risk with respect to initial recognition;

[1] With regard to the staging allocation model, other conservative interventions were made to the annual 2020 financial statements, with a view to highlighting, when assessing the credit risk of the borrowing counterparties, deterioration phenomena identified before the activation of government support which, otherwise, would have resulted in a stock of loans characterised by unrecognised SICR (backward-looking approach).

- Stage 3: to be measured on the basis of an estimate of expected forward-looking loss, based on a 100% probability of default. Stage 3 includes financial assets considered non-performing.

According to the Expected Credit Loss calculation model, losses must be recorded not only with reference to objective evidence of impairment losses that had already occurred at the reporting date, but also on the basis of expectations of future impairment that is not clear yet, which must reflect:
- the likelihood of different scenarios occurring;
- the effect of discounting using the effective interest rate;
- historical experience and current and future valuations.

Detailed information is provided below on the model used by the Group to verify whether there is a significant deterioration of credit risk (known as "Framework Stage Assignment") and to calculate the forward-looking expected loss.

Framework stage assignment

In order to allocate exposures to the various stages, Banco BPM Group has classified them as follows:
- performing loans in Stages 1 and 2;
- non-performing loans in Stage 3. The analyses conducted led to the conclusion that the relative scope is aligned to that of non-performing exposures, determined in accordance with the definitions contained in current supervisory provisions[1] (bad loans, unlikely to pay, past due exposures), as they are deemed to be consistent with accounting regulations in terms of objective evidence of impairment. For further details on this scope, please refer to Part "A.2 – Key financial statement items" of these Notes to the consolidated financial statements.

An illustration of the quantitative and qualitative criteria defined by the Group in order to classify a performing exposure in Stage 1 or Stage 2 are illustrated below.
With reference to quantitative criteria, the model developed by the Group uses as reference the parameter of lifetime probability of default (LPD), measured at the reference date, and the same parameter measured at the origination date. The ratio between said parameters is defined as the "Lifetime PD Ratio" (LPDR).
The development of the model has also led to the identification of specific internal thresholds of variation between the two aforementioned probabilities, which are differentiated by the following drivers:
- risk segment;
- rating class;
- residual life;
- economic sector.

Thus, the change in credit risk is measured by comparing the "Lifetime PD Ratio – LPDR" of individual exposures, as defined above, and the specific estimated internal thresholds. Exceeding these thresholds represents a significant increase in credit risk and the consequent transfer of the individual line of credit from Stage 1 to Stage 2. That methodology is thus based on a relative approach, as the allocation between Stage 1 and Stage 2 is guided by the change in credit risk since the origination date.
In developing its operational model, after calculating the LPDR thresholds representing an SICR based on the lifetime PD, the Group verified whether said thresholds were consistent, in terms of the discrimination between Stage 1 and Stage 2, with those calculated using as reference the LPDR parameter calculated among 12-month PD[2].
That move is justified by the opportunity, in operational terms, to coordinate the stage allocation model with the internal rating model adopted for the purpose of credit management and monitoring. In that regard, it is noted that the internal rating system classifies exposures in 11 rating classes, which, for the purpose of the credit disbursement processes, are grouped into 5 homogeneous risk bands ("Low", "Medium-low", "Medium", "Medium-high" and "High").

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[1] Definitions contained in the Bank of Italy Circular no. 272 of 30 July 2008 and subsequent updates, on the basis of which the scope of non-performing loans corresponds to that of the Non-Performing Exposures of Implementing Regulation (EU) 680/2014, with which the EBA's ITS was incorporated (EBA/ITS/2013/rev1 of 24/07/2014).
[2] Based on the intersections considered significant for the model adopted, the threshold values permitted are all those contained in a range starting from the LPDR of the highest rating class belonging to the risk band with the highest risk among those that do not generate an SICR to the LPDR of the lowest rating class belonging to the risk band with the lowest risk among those that generate an SICR.

The use of the risk bands indicated above thus guarantees the integration and consistency of the process of measuring performing credit exposures with the other internal credit management processes (disbursement, pricing, monitoring and classification).
That being established, the quantitative stage allocation model entails the grouping of the exposures with homogeneous risk into 5 risk bands. More specifically:

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

The stage allocation methodology described above is applied to all exposures to customers, excluding debt securities.
Regarding debt securities, the Group applies the Low Credit Risk Exemption, i.e. the practical expedient of assuming that credit risk has not increased significantly compared to the initial recognition of the instrument, classifying it at Stage 1. This exemption applies to securities rated as investment grade at the valuation date, in compliance with IFRS 9.
For debt securities for which the Low Credit Risk Exemption is not used, the methodology developed by the Group is also based on the calculation of the LPDR[1], but different to loans, it does not use risk bands.
Considering the presence of several purchase transactions occurring on different dates for the same fungible security (ISIN), for the purposes of the SICR, the risk at the origin is measured separately for each tranche purchased. It was thus necessary to specify a method for identifying the tranches sold and, as a result, the remaining quantities to which to assign the credit quality at the date of initial recognition, to be compared with that at the measurement date: that movement methodology is based on the FIFO method (First In – First Out).
With regard to exposures due to banks, the methodology developed is also based on the calculation of the LPDR, but different to loans, it does not use the risk bands.

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

- the presence of a consecutive number of days past due (at counterparty level) exceeding the threshold of 30 days, without prejudice to the application of the materiality thresholds set out in the supervisory provisions, save for exceptional cases attributable to specific types of counterparties, such as the Public Administration;
- the granting of forbearance measures. In greater detail, this includes all exposures affected by forbearance measures which have this attribute still active, regardless of whether the current probation period is regular;
- the inclusion of the counterparty in watchlist exposures subject to strict monitoring, in the presence of situations that suggest high risk (e.g. synthetic judgement of the degree of risk of the individual customer above a certain threshold, prejudicial events);
- the classification of the counterparty in the rating classes 10 or 11, i.e. in the "High" risk band, illustrated above, save for the option of override by the competent company functions, which must be suitably justified;
- lack of rating at the origination date, save for the case where the counterparty was assigned a rating on the measurement date that classifies in the exposure in the "Low", "Medium-low" or "Medium" risk band, as illustrated above.

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

With regard to the functioning of the model, Banco BPM Group has decided to adopt a symmetrical model of reclassification from Stage 2 to Stage 1: in cases in which the conditions triggering the significant deterioration of credit risk cease to exist on a later valuation date, the financial instrument returns to being measured on the basis of the expected loss measured on a time horizon of twelve months. It should also be noted that in the event of a return from Stage 3 to performing exposure status, there is no mandatory transfer of the counterparty's relationships to Stage 2. The classification of performing exposures into stages (Stage 1 or Stage 2) will depend on the automatic application of the stage assignment framework.
In the case of forborne exposures, any return to the calculation of the expected loss at one year is made in accordance with the probation period, in line with the time frames set out in the supervisory provisions.

Expected Credit Loss – Stage 1 and Stage 2

The model for calculating Expected Credit Loss (ECL) to measure the impairment of performing instruments, differentiated based on the classification of the exposure in Stage 1 or Stage 2, is based on the following formula:

$$ECL = \sum_{t=1}^{T} PD_t * EAD_t * LGD_t * (1+r)^{-t}$$

Where:

PDt	represents the probability of default at each cash flow date. This is the probability of moving from performing status to non-performing status over the course of a year (1-year PD) or over the entire lifetime of the exposure (lifetime PD)
EADt	represents the counterparty's exposure at each cash flow date
LGDt	represents the associated loss by counterparty at each cash flow date. This is the percentage of loss in the event of default on the basis of historical experience over a given observation period, as well as the forward-looking evolution over the entire lifetime of the exposure;
r	represents the discount rate
t	represents the number of cash flows
T	represents the total number of cash flows, limited to the following 12 months for accounts in Stage 1, and referring to the entire residual life for those in Stage 2

The models used to estimate said parameters leverage the equivalent parameters used for capital requirements for credit risk, making specific adaptations to take account of the different requirements and purposes of the IFRS 9 impairment model and the prudential impairment model.
The definition of said parameters, compared to the regulatory parameters, considered the following objectives:

- removal of the conservative margins required only for prudential purposes, such as the downturn component considered in calculating the regulatory LGD to take account of the adverse economic cycle;
- inclusion of the conditions of the current economic cycle (Point-in-Time risk measures) instead of the measurement of the parameters through the economic cycle (TTC - Through the cycle), which is required for regulatory purposes;
- introduction of forecast information regarding future trends in macroeconomic factors (forward-looking risk) considered potentially capable of influencing the debtor's situation;
- extend risk parameters to a long-term perspective, accounting for the lifetime of the credit exposure to be assessed.

As noted, the definition of default adopted is in line with that used for regulatory purposes.
In response to the health crisis, to mitigate its impact, the Government implemented substantial policies to sustain the economy (e.g. Heal Italy decree, Relaunch decree, Liquidity decree, etc.). In this context, the competent authorities (ECB, EBA, ESMA, BIS) invited the banks to take into consideration the mitigation measures set in place by the public authorities and to limit the impact of the macroeconomic shock when calculating provisioning containing the elements of procyclicality implied in IFRS 9.
To this end, Banco BPM included the government measure in its ECL calculation. The method adopted therefore enabled the share of exposure covered by these guarantees with relation to the total exposure of the transaction to be identified. The LGD associated to the transaction was therefore eliminated on said share and a "Stato Italia" (Italian State) coverage assigned.

The provisions are therefore calculated as the sum of the expected credit loss on the share of the exposure not guaranteed by the State, plus an ECL calculated through the application of the "Stato Italia" coverage to the share of the exposure guaranteed by the State.

More detailed information on the way in which the Group has determined the aforementioned IFRS 9 compliant risk parameters, with specific reference to the methods used to include the forward-looking factors is provided below.
In that regard, it must be noted that the update of the time series of the parameters and, as a result, their recalibration, is carried out on an annual basis.

<u>Estimating the PD parameter</u>

The PD values are obtained on the basis of regulatory ones, which are anchored to the average level of risk observed in the long term, suitably calibrated to reflect the current conditions of the economic cycle (Point in Time approach). Subsequently, the PD values are conditioned, from a Forward-Looking perspective, to macroeconomic forecasts through the use of forward-looking rates of default at economic sector level. Said values must be estimated not only with reference to the time horizon of the twelve months following the reporting date, but also in the future years, for the purpose of calculating lifetime provisions. The lifetime PD curves were constructed by multiplying, using a Markov approach, the migration matrices of the rating at 12 months, separately by risk segment (Large Corporate, Mid Corporate, Mid Corporate Plus, Small Business, Private) impacted by the forward-looking macroeconomic scenarios. Each rating class assigned to the counterparties using the AIRB internal models is associated with its related lifetime PD curve. The main methodological steps used to estimate the lifetime PD parameter are provided below:

- the construction of historical Point in Time (PiT) migration matrices for each risk segment defined by the rating models and on the basis of the average of these matrices and the attainment of the long-term Through The Cycle (TTC) migration matrices for each risk segment;
- the determination of future PiT matrices for the first three years following the reporting date, obtained on the basis of PiT matrices conditioned on the basis of macroeconomic scenarios, through the application of shocks resulting from forward-looking sector-based rates of default. The latter are able to express the sensitivity of the PD levels with respect to changes in the main income statement items and consider the mitigation measures and, in particular, the various liquidity decrees issued by the Italian Government;
- obtaining cumulative PDs by rating class and scenario, via a matrix product (Markov chain techniques) of the future PiT migration matrices for the first three years, as previously calculated, while from the fourth year onwards so-called smoothed matrices are used, which allow for the gradual smoothing with the TTC migration matrix;
- the generation of the cumulative lifetime PD curve as the average of the cumulative PD curves of each selected macroeconomic scenario weighted by the respective probability of occurrence.

Refer to the paragraph "Inclusion of forward-looking factors", below, for more details on the method of constructing the PD.

<u>Estimating the LGD parameter</u>
LGD values are assumed to be equal to the regulatory recovery rates calculated through the economic cycle (TTC) and suitably adjusted in order to remove some of the conservativism margins of the regulatory models, which are represented by indirect costs and the component associated with the adverse economic cycle (the downturn component), as well as to reflect the most current recovery rates (PiT) and expectations concerning future (forward-looking) trends. In detail, the forward-looking estimate of the parameter takes account of the impact on the economic cycle of the components represented by the probability of non-performance and the Loss Given Non-Performance (LGNP) using specific forward-looking scaling factors to obtain point in time and forward looking LGDs.

<u>EAD Estimation</u>
For on-balance sheet exposures, the EAD is represented, at each future payment date, by the remaining payable based on the repayment plan, plus any unpaid and/or past due instalments.
For off-balance sheet exposures, represented by guarantees and irrevocable or revocable commitments to disburse funds, the EAD is equal to the nominal value weighted by a specific credit conversion factor (CCF), determined in compliance with the previously validated internal models and using the standardised approach for the remaining exposures.

Inclusion of forward-looking factors

In accordance with IFRS 9, when estimating expected losses it is necessary to take forward-looking information into account, conditioning the risk parameters according to the different macroeconomic scenarios in which it is expected to operate.

In particular, the approach followed by the Group up to 31 December 2019 provided for the use of so-called "satellite" models, through which was estimated, using statistical regression techniques, the relationship between a limited number of significant macroeconomic variables and the decay rates of different sectors of activity (e.g. "industry", "financial companies", "consumer households"). As from 30 June 2020, the use of these models was abandoned because, partly in light of the macroeconomic scenarios assumed, it was considered that they were not sufficiently granular to reflect the effects of Covid-19, which are significantly differentiated according to the different sectors of economic activity of the customers ("geo-sector" approach). As a result, as at 30 June 2020, the inclusion of forward-looking factors in the PD (Probability of Default) parameters was achieved by conditioning them using the decay rates referred to the Italian banking system, provided by an external provider and differentiated according to the different sectors in which the Group operates.

In addition, to include the effects of the Covid-19 pandemic in the financial statements at the end of 2020, the SICR thresholds were made more prudential through new macroeconomic forecasts underlying the use of sector-based forward-looking default rates used for the PD parameter. This intervention increased the interception percentage of counterparties characterised by SICR (Stage 2), increasing the impact in terms of ECL on the Group's credit portfolio.

In line with the methodology used for the 2019 financial statements, the Group's calculation model provides for the development of different macroeconomic scenarios; in addition to the baseline scenario (hereinafter also referred to as "Baseline"), which is considered more likely, two alternative scenarios should be produced, namely an adverse scenario (hereinafter also "Severe but plausible") and another positive scenario (hereinafter referred to as "Favourable").

With regard to macroeconomic scenarios, note that the forward-looking measurements shown below for the estimates of expected losses as at 31 December 2020 have been made on the basis of the information provided by leading providers and available in November 2020, based on three different scenarios ("baseline", "adverse" and "favourable") approved by a specific Scenario Council of Banco BPM, based on policies in place. The use of this information was necessary, as already mentioned in Part A "Accounting Policies" as the timing for the publication of the macroeconomic scenarios of the ECB and the Bank of Italy expected respectively on 10 and 11 December 2020, would have created delays in the process of preparation of the financial statements.

The forecasts used by the Bank, considering the ECB recommendation to anchor the macroeconomic scenarios to the forecasts published by the ECB on 16 December 2020, were compared by the Scenario Council with the scenarios published by the ECB and by the Bank of Italy, confirming the macroeconomic forecasts approved in November, insofar as retained to be substantially in line with the indications provided by the Regulators, or with conservative margins particularly for 2022 and 2023.

More specifically, with regard to the probability of occurrence of the scenarios, considering:

- the prudential nature of the Baseline scenario, which is in the lowest bracket of the range observed among the various estimators and the median of Bloomberg consensus;
- the high asymmetry of the alternative scenarios with respect to the Baseline Scenario, which makes the latter just above the adverse one,

it was decided to assign the Baseline scenario with a probability of 60%, while a probability of occurrence of 20% was assigned respectively to the favourable scenario (more in line with the other estimators) and to the adverse one.

The following table shows the values of the main macroeconomic indicators for the period 2020-2023 for each of the three scenarios assumed:

Scenario	Macroeconomic indicators	2020	2021	2022	2023
favourable	GDP Italy	-8.3%	5.6%	2.7%	1.7%
baseline	GDP Italy	-8.7%	3.7%	2.8%	1.8%
adverse	GDP Italy	-8.8%	2.6%	3.1%	2.1%
favourable	Unemployment rate	9.35	10.00	8.97	8.53
baseline	Unemployment rate	9.46	11.45	11.64	11.65
adverse	Unemployment rate	9.34	11.61	12.13	11.87
favourable	Index of residential property prices	-0.43%	0.41%	1.49%	1.69%
baseline	Index of residential property prices	-0.18%	-0.55%	0.46%	0.75%
adverse	Index of residential property prices	-0.10%	-2.29%	-1.47%	0.81%
favourable	Household consumption	-9.61%	4.48%	2.89%	1.68%
baseline	Household consumption	-9.83%	3.48%	2.68%	1.58%
adverse	Household consumption	-9.62%	3.40%	1.68%	2.53%
favourable	Construction investments	-7.9%	15.47%	7.17%	2.28%
baseline	Construction investments	-9.33%	9.44%	6.42%	2.09%
adverse	Construction investments	-9.8%	1.53%	9.16%	3.53%
favourable	3-month Euribor	-0.40	-0.45	-0.40	-0.27
baseline	3-month Euribor	-0.40	-0.47	-0.44	-0.41
adverse	3-month Euribor	-0.40	-0.49	-0.46	-0.43
favourable	ECB rate	0.00	0.00	0.00	0.06
baseline	ECB rate	0.00	0.00	0.00	0.00
adverse	ECB rate	0.00	0.00	0.00	0.00
favourable	Return on Italian 10-year government bonds	1.12	0.65	0.77	1.09
baseline	Return on Italian 10-year government bonds	1.18	1.11	1.20	1.17
adverse	Return on Italian 10-year government bonds	1.19	1.36	1.71	1.44
favourable	BTP/Bund Spread	1.59	1.02	0.93	0.83
baseline	BTP/Bund Spread	1.67	1.59	1.63	1.41
adverse	BTP/Bund Spread	1.69	2.04	2.34	1.88
favourable	Italian consumer price index	0.15%	0.91%	1.39%	1.59%
baseline	Italian consumer price index	0.04%	0.54%	1.06%	1.32%
adverse	Italian consumer price index	0.05%	0.08%	0.69%	1.33%
favourable	Imports	-12.0%	16.8%	8.5%	4.5%
baseline	Imports	-12.8%	11.6%	7.7%	4.4%
adverse	Imports	-13.0%	8.2%	2.2%	6.6%
favourable	Exports	-15.5%	17.6%	4.0%	2.6%
baseline	Exports	-16.2%	13.1%	4.5%	3.0%
adverse	Exports	-17.2%	8.3%	2.5%	3.9%
favourable	Public administration expenditure	1.3%	0.78%	0.22%	0.09%
baseline	Public administration expenditure	1.07%	0.29%	0.29%	0.08%
adverse	Public administration expenditure	1.6%	3.29%	-0.53%	-0.60%

The “Baseline” scenario envisages a new series of partial restrictions that impact growth in Q4-20 and in Q1-21, essentially penalising the service sectors subject to social distancing rules (around 25% of GDP pre-Covid out of a total of 55% of services), while the share of manufacturing (17% of GDP) and Construction (11% of GDP), should be little impacted in this second wave.
Now that the prospect of more than one available vaccine has materialised, the timing of the immunisation process has become the variable key of the scenario. In detail the following is expected:

- the Italian GDP incorporates the strong recovery of the third quarter of 2020, forecasting a contraction in the following two quarters due to the second wave of the virus; this limits the bounce-back of 2021 to +3.7%, significantly reducing the growth acquired for the new year;
- the rate of unemployment rises to 11.4% in 2021 and then stabilises in the following two years;

- the yield of Italian 10-year government bonds at 1.2% in 2020 and estimated at 1.1% in 2021;
- the collapse of consumption and investment in 2020, partly recovered in 2021, high investments in construction +9.44%;
- benefits of the NGEU not before 2022 (additional GDP, +1.3% average per annum, +1.7% against 2023), risks concentrated in the first 3 quarters of 2021 as the mitigation measures expire. Recovery of the pre-Covid level at the beginning of 2023.

With regard to the "Adverse" scenario, the health risk and the capacity of the healthcare system to withstand the crisis could lead to new restrictions, jeopardising the continuation of a recovery that is not cyclical but linked to the end of the previous measures. This means boosting mitigation measures to support household income and the financial resistance of companies as public debt rises. In detail the following is expected:

- GDP down by -8.8% in 2020 followed by a rebound of only +2.6% in 2021;
- substantial increase in the rate of unemployment in 2021 and also in 2022 (11.6% and 12.1% respectively);
- yield of Italian 10-year government bonds which rises to 1.36% in 2021 from 1.19% in 2020.

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

- GDP down by -8.3% in 2020 followed by a rebound of +5.6% in 2021;
- unemployment rate at 9.3% in 2020, rising to 10% in 2021;
- yield of Italian 10-year government bonds at 1-12% in 2020, a significant improvement due to economic growth rates that improve the public debt to GDP ratio.

Inclusion of State guarantees

As from 30 June 2020, the calculation of expected losses has been refined in order to enhance the value of the credit support actions introduced by the Italian Government towards businesses and households, through the banking system, in favour of which first application guarantees on new loans granted to businesses are provided (art. 13 of the Liquidity Decree) rather than subsidiary guarantees on 33% of the amount of suspended instalments (art. 56 of the Liquidity Decree).

Sensitivity analysis of expected losses

As illustrated in the paragraph "Risks, uncertainties and impacts of the Covid-19 pandemic", contained in "Part A – Accounting policies", the calculation of expected losses on performing loans entails significant judgements, with specific reference to the model used to measure losses and the related risk parameters, the triggers deemed expressive of significant loan impairment, and the selection of macroeconomic scenarios.

More specifically, the inclusion of forward-looking factors is a particularly complex exercise, insofar as it requires macroeconomic forecasts to be made, scenarios and relative probabilities of occurrence to be selected, as well as defining a model able to represent the relationship between the cited macroeconomic factors and the default rates of the exposures measured, as illustrated in the previous paragraph.

To assess how forward-looking factors can influence expected losses, it was retained reasonable to conduct a sensitivity analysis in the context of different scenarios based on forecasts that are consistent with the evolution of the various macroeconomic factors. In fact, the countless interrelations between the separate macroeconomic factors make a sensitivity analysis of expected losses based on a single macroeconomic factor poorly significant.

To that end, for performing exposures (Stage 1 and Stage 2) relating to loans granted to customers, evidence is provided below:

- of the expected losses as at 31 December 2020, quantified based on the scenarios/probability of occurrence reported in the table above;
- of the percent changes that would be recorded in the above losses assuming a 25% probability of occurrence for the "Severe but plausible" scenario and 15% for the "Favourable" scenario;
- of the percent changes that would be recorded in the above losses assuming a 15% probability of occurrence for the "Severe but plausible" scenario and 25% for the "Favourable" scenario:

Performing loans to customers (Stage 1 and Stage 2)	***figures in millions of euro***
Total value adjustments as at 31/12/2020	464.8
% Change in total value adjustments assuming:	
25% severe but plausible scenario and 15% favourable scenario	+1.30%
15% severe but plausible scenario and 25% favourable scenario	-1.28%

Based on changes in ECL observed as the probability of occurrence attributed to the three scenarios used changes, and of Italy's GDP associated to each scenario, it is estimated that a change of 1bp of GDP corresponds to a change in ECL of around 500 thousand euro of the opposite sign.

Expected Credit Loss – Stage 3

With regard to the models used to determine the expected losses on exposures classified under Stage 3, i.e. non-performing exposures, reference should be made to the section "Methods for determining impairment losses on IFRS 9 Financial Instruments" in Part "A.2 - Key financial statement items".

As stated in the paragraph "Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated financial statements", contained in "Part A – Accounting policies", the determination of the expected losses on non-performing loans entails significant judgements, with specific reference to the estimate of flows deemed recoverable and the related timing of recovery.

In greater detail, as at 31 December 2020 the expected losses on non-performing loans were determined analytically, based on the recovery forecasts formulated by the manager or resulting from the application of the "lump-sum" calculation method, discounted based on the original effective interest rates and the relating timing of recovery. Considering that the recovery forecasts use the debtor's specific situation as reference, it is deemed impossible to prove any reasonable sensitivity analysis of the expected losses.
However, it cannot be ruled out that a deterioration in the debtor's credit situation, also as a result of possible negative effects on the economy correlated with the uncertainty of the international spread of the coronavirus, may result in the recognition of additional, even significant, losses, in relation to those considered as at 31 December 2020 based on the conditions existing at the reporting date.

2.4 Credit risk mitigation techniques

The Group has always kept a watchful eye on the acquisition of loan collaterals and securities, i.e. the use of applications and techniques that mitigate credit risk. When deemed necessary, the typical bank guarantees are acquired, namely mortgages on properties, collaterals on securities in addition to personal guarantees issued by the guarantors.
In general, the decision on the acquisition of a guarantee is based on the customer's creditworthiness and on the characteristics of the transaction. Following this analysis, it may be deemed appropriate to obtain additional guarantees to mitigate credit risk, considering the estimated recoverable value offered by the collateral.
The system for the recording of collateral property used to guarantee lending transactions enables an automatic periodic assessment of the property's value and identifies which properties require updated appraisals, in line with the criteria established by current legislation.
The value of the financial collaterals is constantly and automatically monitored, enabling a comparison between the present value of the collateral and the initial one, and to allow the manager to act promptly in the event that the collateral incurs a significant impairment loss.
As regards collateral represented by a pledge on securities, an automatic warning system is in place, which is triggered when impairment goes beyond a certain threshold value, reporting the same to the customer relationship manager so that the same may take prompt action.
With regard to derivative transactions with market counterparties, we favour entities with which we have entered into agreements requiring the provision of collateral, especially ISDA - Credit Support Annex, to obtain a significant credit risk mitigation.

3. Non-performing credit exposures

3.1 Management strategies and policies

The classification of non-performing exposures is conducted in line with the criteria established by the EBA. More specifically, the classification as non-performing is made:

- automatically, for exposures that reach the thresholds envisaged by the provisions of the Supervisory Authority as regards Past Due;
- by means of a decision taken by an authorised Body (i) on a proposal generated automatically by the IT system, for exposures that reach the envisaged thresholds, on each occasion, by internal credit monitoring and management processes, or (ii) on the proposal of a proponent Body, for exposures that indicate the occurrence of events that may prejudice the "performing" status of the same.

The management of non-performing loans in Banco BPM Group is based, to a great extent, on a model that assigns the management of a specific set of loans (portfolio) to specialist resources. During 2019 an in-depth reorganisation of the management of the Group's non-performing loans was completed, which led to the transfer of a business segment focused on credit 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. Thus, as a result of that agreement, the management of bad loans is now mainly conducted by a leading player in the sector, while the management of the remaining non-performing exposures is handled by specialised internal personnel.
Also, in 2019, and as a result of the transfer of the business segment mentioned above, management of all the non-performing exposures was unified within the structure reporting to the Chief Lending Officer (CLO).
Management responsibility changes depending on the classification status of the exposure:

- the management of exposures classified as Past Due and Unlikely to Pay is assigned, with the exception of exposures under a certain threshold, to specialist managers, who may work, depending on the importance of the exposure, for the CLO or for the Loans offices of the Network (Divisions and Business Areas). For these exposures, the managers of non-performing loans are responsible for the operating decisions relating to the loans assigned to the respective portfolios, in accordance with their decision making authority, and are assisted, as regards the administrative part, by (business) managers from the Network, where the portfolio containing the exposure is placed, as well as the related economic results;
- management of positions classified as Bad Loans is conducted by the specialised internal structures of the CLO, assisted (as part of the agreement mentioned above) for most of this, by Credito Fondiario Liberty Servicing or by managers of Release S.p.A., coordinating with the structures of the CLO.

In addition to the recovery process, the managers are responsible for assessing loans with a view to calculating the amount of expected losses for individual positions that have an overall exposure exceeding the threshold defined for collective provisioning. During 2019 the Bank raised that threshold from the previous 300 thousand euro to 1 million euro. When making said assessment, the manager must take the following into account:

- overall risk of the customer and of related accounts, as well as any Economic Group it belongs to;
- situation in the Italian Central Credit Register, with specific attention to any loans guaranteeing third parties;
- equity standing of the borrower and of any guarantors;
- value of the asset used as collateral;
- time needed to recover the debt.

To support the activities relating to the last two points, the Bank has estimated Haircut parameters on a statistical basis, defined as the difference to apply to the value of the assets used as collateral, to align them to the amount that the Bank is likely to collect after their sale, and the timeframe that the manager has to consider in order to make an analytical assessment of the bad loan. The expected losses obtained in this way are periodically reviewed and continuously monitored.
The process described above is not applied to bad loans with a total exposure equal to or less than the materiality threshold of 1 million euro, for which the automatic valuation model was used, aimed at replicating the methodology applied by managers above the materiality threshold. That model, developed and maintained by the Credit Governance structure, is subject to validation by the Risk Functions.

Regarding Past Due and Unlikely to Pay (UTP) positions, the credit assessment for determining the amount of expected losses differs according to the status and size of the exposure:

- for Past Due positions, irrespective of their amount, as well as for UTP positions within pre-determined amount limits (equivalent to those applied for bad loans), the collective valuation model is applied;
- for UTP positions that exceed the above threshold, the loss forecasts are evaluated analytically by the manager using a similar process to the one described above for the non-performing portfolio.

The expected losses valued analytically by the manager are periodically reviewed.

System of controls for credit processes

The structure of the control system relating to credit processes is based on:

- 1st level controls (or line controls), addressed to ensuring that the processes are correctly carried out. First level controls include so-called "automatic" controls, namely performed directly by applications procedures, controls performed directly by operating structures and hierarchical controls, performed within the same chain of responsibility. 2nd level controls are also implemented, through the CLO structures of Monitoring and Control and Credit Governance;
- second-level controls (or controls on risks and compliance), under the "Second-Level Controls" structure located within the Risk - Enterprise Risk Management function. The controls are conducted constantly via immense analysis of the Group's credit portfolios and through the review of individual positions - statistically sampled or based on the specific risk profile, independent of the functions responsible for carrying out the activities subject to verification - are aimed at ensuring the correct implementation of the risk management process (set up by the operating structures) by verifying performance monitoring for individual exposures, especially non-performing loans, and the assessment of the consistency of classifications, the congruity of provisions and the adequacy of the recovery process, in line with internal and external regulations. Since December 2019, following the aforementioned change to the Regulations, the structure has provided opinions on the following Significant Transactions (ST) in the credit area: proposals to i) change provisions; ii) assign forbearance measures, and iii) increase or decrease the risk of the administrative classification status.

3.2 Write-offs

For all positions classified as bad loans, the Group assesses whether it is appropriate to continue to maintain the non-performing loan because the out-of-court or judicial actions underway allow a reasonable expectation of recovery, even partial, or whether it is appropriate to proceed with a derecognition or write-off, total or partial, by virtue, respectively, of the conclusion of the recovery process or the circumstance that there is no reasonable prospect of recovery.
The write-off, in compliance with IFRS 9, and the "Guidelines for Banks on Non-Performing Loans (NPL)" issued by the ECB, is the reduction in the gross book value of the loan following the acknowledgement that there are no reasonable expectations of its recovery for amounts exceeding those considered collectable or already received.
It does not imply a waiver by the Bank of its legal right to recover the debt and must be carried out if all the information available indicates that the debtor is unable to repay all or part of the amount of the debt.
The criteria that the Group has identified to determine whether a position falls within the category of those to be assessed for the purposes of any write-off depend on the possible presence of bankruptcy procedures, the levels of cover and the seniority of the position in the non-performing status.

3.3 Acquired or originated impaired financial assets

With regard to the accounting treatment of these assets and the related presentation methods, reference should be made to that illustrated in part "A.2 - Key financial statement items" and in the Introduction to this section.

4. Financial assets subject to commercial renegotiations and forborne exposures

In response to the health crisis, to mitigate its impact, the Government implemented strong policies to sustain the economy (e.g. Heal Italy decree, Relaunch decree, Liquidity decree, etc.).

In this context, the competent authorities (ECB, EBA, ESMA, BIS) therefore invited the banks to take into consideration the mitigation measures set in place by the public authorities and to limit the impact of the macroeconomic shock when calculating write-downs containing the elements of procyclicality implied in IFRS 9.
To this end, Banco BPM included the government measure regarding state guarantees (collateralisation particularly emphasised in the Liquidity Decree) in its calculation of write-downs. The introduction of this measure enabled a share of the exposure guaranteed by the State, at low risk, to be included in the procedure to calculate write-downs. The impact of this manoeuvre, estimated at June 2020 (introduction into the system), led to a reduction of write-downs of around 41 million (-8%).

An analysis of the exposures relating to forborne assets at amortised cost is provided below, on the basis of seniority, distinguishing between non-performing and performing exposures.

Year of last forbearance	Performing exposures	Non-performing exposures	Total
2020	537,860	542,285	1,080,145
2019	420,527	786,823	1,207,350
2018	352,303	613,402	965,705
2017	246,120	452,292	698,412
2016	111,574	639,941	751,515
2015	56,952	391,746	448,698
2014	38,785	288,849	327,634
2013	7,057	381,648	388,706
2012	3,200	21,464	24,664
2011	2,699	13,142	15,841
2010	3,589	17,548	21,138
previous years	11,930	6,112	18,042
Total	**1,792,596**	**4,155,253**	**5,947,849**

The above exposures, related to the scope of prudential consolidation, are broken down in the following table according to the number of forbearance measures granted to the counterparty (one measure, two measures, more than two measures).

Number of forbearance measures	Performing exposures	Non-performing exposures	Total
1	992,190	2,598,534	3,590,724
2	441,598	722,181	1,163,779
>2	358,808	834,538	1,193,346
total	**1,792,596**	**4,155,253**	**5,947,849**

QUANTITATIVE INFORMATION

A. Credit quality

In this part, for the purposes of quantitative information on credit quality, the term "on-balance sheet credit exposures" means all financial assets held on-balance sheet with banks or customers, regardless of their portfolio of accounting allocations (at fair value through profit and loss, at fair value through other comprehensive income, at amortised cost, financial assets held for sale), but excludes equity instruments and UCIT units.

A.1 Non-performing and performing credit exposures: outstanding amounts, value adjustments, changes and economic distribution

A.1.1 Prudential consolidation – Distribution of financial assets by past due bands (book values)

Portfolios/risk stages	Stage 1			Stage 2			Stage 3		
	From 1 day to 30 days	From more than 30 days to 90 days	Over 90 days	From 1 day to 30 days	From more than 30 days to 90 days	Over 90 days	From 1 day to 30 days	From more than 30 days to 90 days	Over 90 days
1. Financial assets at amortised cost	893,683	189,676	63,388	150,867	226,709	248,858	42,051	123,707	3,266,539
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-	-	-	11,374
Total 31/12/2020	**893,683**	**189,676**	**63,388**	**150,867**	**226,709**	**248,858**	**42,051**	**123,707**	**3,277,913**
Total 31/12/2019	**354,664**	**78,789**	**18,640**	**206,932**	**410,735**	**228,615**	**46,425**	**111,188**	**4,119,548**

A.1.2 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees given: changes in total value adjustments and total provisions

Causes/risk stages	Total value adjustments									
	Stage 1 assets					Stage 2 assets				
	Financial assets at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	Financial assets at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs
Total value adjustments - opening balance	**127,628**	**2,207**	**-**	**-**	**129,932**	**207,723**	**1,314**	**-**	**-**	**209,037**
Increases in financial assets acquired or originated	-	-	-	-	-	-	-	-	-	-
Derecognitions other than write-offs	(18)	(596)	-	-	(614)	-	(385)	-	-	(385)
Net credit impairment losses/recoveries	41,442	474	-	-	41,916	107,296	(256)	-	-	107,040
Contractual modification without derecognition	-	-	-	-	-	33	-	-	-	33
Changes in estimation methodology	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly in the income statement	(8,771)	-	-	-	(8,771)	(1,853)	-	-	-	(1,853)
Other changes	1	-	-	-	1	-	-	-	-	-
Total value adjustments - closing balance	**160,282**	**2,085**	**-**	**-**	**162,464**	**313,199**	**673**	**-**	**-**	**313,872**
Recoveries from collections on financial assets subject to write-off	-	-	-	-	-	-	-	-	-	-
Write-off recorded directly in the income statement	-	-	-	-	-	-	-	-	-	-

Causes/risk stages	Total value adjustments						Total provisions for commitments to disburse funds and financial guarantees given			Total
	Stage 3 assets									
	Financial assets at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	Of which: originated or acquired impaired financial assets	Stage 1	Stage 2	Stage 3	
Total value adjustments - opening balance	**4,572,755**	**-**	**219,561**	**4,759,204**	**33,112**	**475,255**	**18,313**	**7,777**	**14,374**	**5,171,652**
Increases in financial assets acquired or originated	-	-	-	-	-	-	-	-	-	**-**
Derecognitions other than write-offs	(641,811)	-	(186,972)	(828,783)	-	(79,549)	-	-	-	**(829,782)**
Net credit impairment losses/recoveries	765,422	-	24,840	781,471	8,791	47,270	5,093	244	10,413	**954,968**
Contractual modification without derecognition	(1,289)	-	-	(1,289)	-	-	-	-	-	**(1,256)**
Changes in estimation methodology	-	-	-	-	-	-	-	-	-	**-**
Write-offs not recognised directly in the income statement	(399,903)	-	(46,415)	(441,296)	(5,022)	(19,910)	-	-	-	**(456,942)**
Other changes	29,013	-	3,015	31,856	172	(5,340)	-	-	-	**32,029**
Total value adjustments - closing balance	**4,324,187**	**-**	**14,029**	**4,301,163**	**37,053**	**417,726**	**23,406**	**8,021**	**24,787**	**4,870,669**
Recoveries from collections on financial assets subject to write-off	5,946	-	-	5,935	11	56	-	-	-	**5,946**
Write-off recorded directly in the income statement	(90,562)	-	-	(90,157)	(405)	(4,481)	-	-	-	**(90,562)**

A.1.3 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees given: transfers between the different credit risk stages (gross and nominal values)

Portfolios/risk stages	Gross exposure/nominal value					
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
	From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
1. Financial assets at amortised cost	3,280,846	1,569,304	565,190	196,707	328,884	18,897
2. Financial assets measured at fair value through other comprehensive income	-	53,413	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-
4. Commitments to disburse funds and financial guarantees given	426,298	365,887	35,725	10,805	95,539	20,885
Total 31/12/2020	**3,707,144**	**1,988,604**	**600,915**	**207,512**	**424,423**	**39,782**
Total 31/12/2019	**2,418,090**	**2,794,922**	**653,968**	**388,083**	**507,306**	**50,270**

A.1.3a Loans subject to Covid-19 support measures: transfers between the different credit risk stages (gross values)

Portfolio/quality	Gross values					
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
	From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
A. Loans measured at amortised cost	**869,242**	**333,091**	**27,662**	**7,477**	**25,144**	**474**
A.1 forborne exposures compliant with GL	856,674	326,287	26,276	7,332	23,832	457
A.2 other forborne exposures	6,772	4,343	778	145	801	17
A.3 new loans	5,796	2,461	608	-	511	-
B. Loans measured at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**
B.1 forborne exposures compliant with GL	-	-	-	-	-	-
B.2 other forborne exposures	-	-	-	-	-	-
B.3 new loans	-	-	-	-	-	-
Total 31/12/2020	**869,242**	**333,091**	**27,662**	**7,477**	**25,144**	**474**

The table in question, introduced with the Bank of Italy Communication on 15 December 2020, shows the transfers between the three stages of risk of exposures subject to Covid-19 support measures, if the risk stage at year-end is different to the risk stage that the exposures were classified as at the beginning of the year or on the date of initial recognition (if after the beginning of the year).

A.1.4 Prudential consolidation - On-balance sheet and off-balance sheet credit exposures to banks: gross and net values

Type of exposure/value	Gross exposure		Total value adjustments and total provisions	Net Exposure	Total partial write-offs*
	Non-performing	Performing			
A. On-balance sheet credit exposures					
a) Bad loans	116	X	(93)	23	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to pay	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
c) Non-performing past-due exposures	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past-due exposures	X	1	-	1	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	14,460,759	(2,565)	14,458,194	-
- of which: forborne exposures	X	-	-	-	-
Total (A)	**116**	**14,460,760**	**(2,658)**	**14,458,218**	**-**
B. Off-balance sheet credit exposures					
a) Non-performing	-	X	-	-	-
b) Performing	X	5,072,972	(343)	5,072,629	-
Total (B)	**-**	**5,072,972**	**(343)**	**5,072,629**	**-**
Total (A+B)	**116**	**19,533,732**	**(3,001)**	**19,530,847**	**-**

(*) Value to be shown for disclosure purposes

A.1.5 Prudential consolidation - On-balance sheet and off-balance sheet credit exposures to customers: gross and net values

Type of exposure/value	Gross exposure		Total value adjustments and total provisions	Net exposure	Total partial write-offs*
	Non-performing	Performing			
A. On-balance sheet credit exposures					
a) Bad loans	3,602,612	X	(2,131,994)	1,470,618	549,237
- of which: forborne exposures	985,808	X	(526,505)	459,303	33,201
b) Unlikely to pay	5,217,616	X	(2,313,037)	2,904,579	2,000
- of which: forborne exposures	3,312,006	X	(1,453,690)	1,858,316	2,000
c) Non-performing past-due exposures	62,278	X	(16,386)	45,892	-
- of which: forborne exposures	7,875	X	(1,678)	6,197	-
d) Performing past-due exposures	X	1,823,690	(40,734)	1,782,956	-
- of which: forborne exposures	X	188,721	(10,121)	178,600	-
e) Other performing exposures	X	136,331,251	(432,935)	135,898,316	-
- of which: forborne exposures	X	1,616,845	(84,968)	1,531,877	-
Total (A)	**8,882,506**	**138,154,941**	**(4,935,086)**	**142,102,361**	**551,237**
B. Off-balance sheet credit exposures					
a) Non-performing	997,043	X	(84,365)	912,678	-
b) Performing	X	59,142,922	(42,923)	59,099,999	-
Total (B)	**997,043**	**59,142,922**	**(127,288)**	**60,012,677**	**-**
Total (A+B)	**9,879,549**	**197,297,863**	**(5,062,374)**	**202,115,038**	**551,237**

(*) Value to be shown for disclosure purposes

A.1.5a Loans subject to Covid-19 support measures: gross and net values

Type of loan / Value	Gross exposure	Total value adjustments and total provisions	Net exposure	Total partial write-downs (*)
A. Bad loans	**950**	**725**	**225**	**-**
b) Forborne exposures compliant with GL	147	15	132	-
b) Other forborne exposures	683	678	5	-
c) New loans	120	32	88	-
B. Unlikely to pay loans	**70,358**	**20,325**	**50,033**	**-**
b) Forborne exposures compliant with GL	52,541	15,502	37,039	-
b) Other forborne exposures	9,979	3,247	6,732	-
c) New loans	7,838	1,576	6,262	-
C. Non-performing past-due loans	**3,674**	**1,334**	**2,340**	**-**
b) Forborne exposures compliant with GL	2,063	772	1,291	-
b) Other forborne exposures	520	287	233	-
c) New loans	1,091	275	816	-
D. Other performing past-due loans	**71,372**	**3,256**	**68,116**	**-**
b) Forborne exposures compliant with GL	50,074	1,864	48,210	-
b) Other forborne exposures	6,529	1,283	5,246	-
c) New loans	14,769	109	14,660	-
E. Other performing loans	**22,558,529**	**128,759**	**22,429,770**	**-**
b) Forborne exposures compliant with GL	12,259,615	117,543	12,142,072	-
b) Other forborne exposures	102,770	1,272	101,498	-
c) New loans	10,196,144	9,944	10,186,200	-
Total (A+B+C+D+E)	**22,704,883**	**154,399**	**22,550,484**	**-**

(*) Value to be shown for disclosure purposes

Based on the communication of the Bank of Italy dated 15 December 2020, the table shows the credit quality of the exposures subject to Covid-19 support measures, represented by loans for which moratoria have been granted or other forbearance measures not yet expired as at the reference date of the financial statements, or by new loans disbursed through public guarantee mechanisms. In this regard, note that the sub-item "a) Forborne exposures compliant with GL" refers to those support measures that are compliant with the guidelines of the EBA (EBA/GL/2020/02).
The loans affected by these support measures totalled 22,704.9 million, in terms of gross exposure, and 22,518.9 million relate to the Parent Company.
More specifically, these loans are classified for 22,693.7 million in the accounting portfolio of "Financial assets at amortised cost", as shown in table "4.4a Loans at amortised cost subject to Covid-19 support measures: gross value and total value adjustments" contained in Part B of these Notes. The residual amount of 11.1 million refers to exposures subject to moratoria classified in the accounting portfolio "Financial assets mandatorily measured at fair value through profit and loss".

For further details on the types of measures granted by the Group to support its customers, please refer to the section dedicated to the significant events during the year in the Report on Operations. For further quantitative information on these measures, please refer to the content of the document "Disclosure to the public by entities (Pillar III)" of Banco BPM, available on the website www.gruppo.bancobpm.it.

A.1.6 Prudential consolidation - On-balance sheet credit exposures to banks: changes in gross non-performing exposures

Causes/Categories	Bad loans	Unlikely to pay	Non-performing past-due exposures
A. Gross exposure: opening balance	**317**	**-**	**-**
- of which: exposures transferred but not derecognised	-	-	-
B. Increases	**-**	**-**	**-**
B.1 entries from performing exposures	-	-	-
B.2 entries from originated or acquired impaired financial assets	-	-	-
B.3 transfers from other categories of non-performing loans	-	-	-
B.4 contractual modification without derecognition	-	-	-
B.5 other increases	-	-	-
C. Decreases	**(201)**	**-**	**-**
C.1 exits to performing exposures	-	-	-
C.2 write-offs	-	-	-
C.3 collections	-	-	-
C.4 gains on disposal	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other categories of non-performing loans	-	-	-
C.7 contractual modification without derecognition	-	-	-
C.8 other decreases	(201)	-	-
D. Gross exposure: closing balance	**116**	**-**	**-**
- of which: exposures transferred but not derecognised	-	-	-

A.1.6 bis Prudential consolidation - On-balance sheet credit exposures to banks: changes in gross forborne exposures, broken down by credit quality

As at 31 December 2020, as in the previous year, there were no forborne exposures to banks. The related table is therefore omitted.

A.1.7 Prudential consolidation - On-balance sheet credit exposures to customers: changes in gross non-performing exposures

Causes/Categories	Bad loans	Unlikely to pay	Non-performing past-due exposures
A. Gross exposure: opening balance	**3,883,606**	**6,789,746**	**98,568**
- of which: exposures transferred but not derecognised	34,696	12,042	433
B. Increases	**657,693**	**1,217,112**	**90,550**
B.1 entries from performing exposures	92,497	817,482	68,938
B.2 entries from originated or acquired impaired financial assets	-	-	-
B.3 transfers from other categories of non-performing loans	509,278	70,111	1,105
B.4 contractual modification without derecognition	-	-	-
B.5 other increases	55,918	329,519	20,507
C. Decreases	**(938,687)**	**(2,789,242)**	**(126,840)**
C.1 exits to performing exposures	(162)	(217,372)	(8,699)
C.2 write-offs	(228,790)	(307,414)	(298)
C.3 collections	(165,700)	(497,380)	(26,641)
C.4 gains on disposal	(134,204)	(418,608)	-
C.5 losses on disposal	(94,358)	(296,003)	-
C.6 transfers to other categories of non-performing loans	(5,106)	(484,186)	(91,202)
C.7 contractual modification without derecognition	-	(1,289)	-
C.8 other decreases	(310,367)	(566,990)	-
D. Gross exposure: closing balance	**3,602,612**	**5,217,616**	**62,278**
- of which: exposures transferred but not derecognised	29,104	11,581	1,205

With reference to transactions for the sale of non-performing loans, the item “other decreases” includes the gross amount of the exposures subject to transfer exceeding the sum of the realizable value and any loss on assignment.

A.1.7 bis Prudential consolidation - On-balance sheet credit exposures to customers: changes in gross forborne exposures broken down by credit quality

Causes/Quality	Forborne exposures: non-performing	Forborne exposures: performing
A. Gross exposure: opening balance	**4,927,967**	**2,089,539**
- of which: exposures transferred but not derecognised	11,151	14,687
B. Increases	**1,019,769**	**788,763**
B.1 entries from non-forborne performing exposures	122,979	588,725
B.2 entries from forborne performing exposures	150,048	X
B.3 entries from forborne non-performing exposures	X	189,397
B.4 entries from non-forborne non-performing exposures	229	-
B.5 other increases	746,513	10,641
C. Decreases	**(1,642,047)**	**(1,072,736)**
C.1 exits to non-forborne performing exposures	X	(705,959)
C.2 exits to forborne performing exposures	(189,397)	X
C.3 exits to forborne non-performing exposures	X	(150,048)
C.4 write-offs	(115,373)	-
C.5 collections	(305,290)	(80,202)
C.6 gains on disposal	(340,380)	-
C.7 losses on disposal	(236,721)	-
C.8 other decreases	(454,886)	(136,527)
D. Gross exposure: closing balance	**4,305,689**	**1,805,566**
- of which: exposures transferred but not derecognised	10,184	10,651

A.1.8 Prudential consolidation - Non-performing on-balance sheet credit exposures to banks: changes in total value adjustments

Causes/Categories	Bad loans		Unlikely to pay		Non-performing past-due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Total value adjustments - opening balance	**254**	**-**	**-**	**-**	**-**	**-**
- of which: exposures transferred but not derecognised	-	-	-	-	-	-
B. Increases	**-**	**-**	**-**	**-**	**-**	**-**
B.1 value adjustments to originated or acquired impaired assets	-	X	-	X	-	X
B.2 other value adjustments	-	-	-	-	-	-
B.3 losses on disposal	-	-	-	-	-	-
B.4 transfers from other categories of non-performing exposures	-	-	-	-	-	-
B.5 contractual modification without derecognition	-	-	-	-	-	-
B.6 other increases	-	-	-	-	-	-
C. Decreases	**(161)**	**-**	**-**	**-**	**-**	**-**
C.1 recoveries from valuation	(161)	-	-	-	-	-
C.2 recoveries from collection	-	-	-	-	-	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 transfers to other categories of non-performing exposures	-	-	-	-	-	-
C.6 contractual modification without derecognition	-	-	-	-	-	-
C.7 other decreases	-	-	-	-	-	-
D. Total value adjustments - closing balance	**93**	**-**	**-**	**-**	**-**	**-**
- of which: exposures transferred but not derecognised	-	-	-	-	-	-

A.1.9 Prudential consolidation - Non-performing on-balance sheet credit exposures to customers: changes in total value adjustments

Causes/Categories	Bad loans		Unlikely to pay		Non-performing past-due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Total value adjustments - opening balance	**2,229,835**	**449,044**	**2,749,360**	**1,488,530**	**25,498**	**4,792**
- of which: exposures transferred but not derecognised	17,465	671	615	314	15	4
B. Increases	**719,687**	**197,657**	**1,234,384**	**922,336**	**14,366**	**2,969**
B.1 value adjustments from originated or acquired impaired financial assets	-	X	-	X	-	X
B.2 other value adjustments	423,942	108,815	900,941	440,146	13,396	1,532
B.3 losses on disposal	94,358	8,674	296,003	228,048	-	-
B.4 transfers from other categories of non-performing exposures	173,992	59,943	15,735	5,324	148	98
B.5 contractual modification without derecognition	-	-	1,289	1,289	-	-
B.6 other increases	27,395	20,225	20,416	247,529	822	1,339
C. Decreases	**(817,528)**	**(120,196)**	**(1,670,707)**	**(957,176)**	**(23,478)**	**(6,083)**
C.1 recoveries from valuation	(73,071)	(16,175)	(287,169)	(189,365)	(2,764)	(712)
C.2 recoveries from collection	(45,300)	(7,118)	(37,000)	(17,893)	(57)	(8)
C.3 gains on disposal	(39,228)	(1,232)	(51,129)	(38,312)	-	-
C.4 write-offs	(228,790)	(21,491)	(307,414)	(93,872)	(298)	(10)
C.5 transfers to other categories of non-performing exposures	(1,734)	(1,720)	(167,782)	(58,339)	(20,359)	(5,306)
C.6 contractual modification without derecognition	-	-	-	-	-	-
C.7 other decreases	(429,405)	(72,460)	(820,213)	(559,395)	-	(47)
D. Total value adjustments - closing balance	**2,131,994**	**526,505**	**2,313,037**	**1,453,690**	**16,386**	**1,678**
- of which: exposures transferred but not derecognised	15,555	845	1,371	703	144	6

With regard to sales of non-performing loans, the item "Other decreases" includes the total amount of derecognitions other than accounting write-offs (i.e. for the amount equal to the difference between the gross credit exposure and the amount of the transfer).

A.2 Classification of exposures according to external and internal ratings

A.2.1 Prudential consolidation - Distribution of financial assets, commitments to disburse funds and financial guarantees given by external rating classes (gross values)

Non-performing exposures	External rating classes						Unrated	Total
	AAA/AA-	A+/A-	BBB+/BBB-	BB+/BB-	B+/B-	below B-		
A. Financial assets at amortised cost	**4,889,382**	**13,935,276**	**27,800,615**	**12,633,881**	**2,121,203**	**600,837**	**84,600,361**	**146,581,555**
- Stage 1	4,889,382	13,711,087	27,360,057	11,420,327	1,557,571	289,391	71,318,341	130,546,156
- Stage 2	-	224,189	439,081	1,189,616	554,235	307,820	4,699,330	7,414,271
- Stage 3	-	-	1,477	23,938	9,397	3,626	8,582,690	8,621,128
B. Financial assets measured at fair value through other comprehensive income	**2,239,301**	**2,078,137**	**5,513,230**	**79,756**	**137,730**	**20,256**	**319,533**	**10,387,943**
- Stage 1	2,235,933	1,988,624	5,487,763	77,702	137,730	-	315,254	10,243,006
- Stage 2	3,368	89,513	25,467	2,054	-	20,256	4,279	144,937
- Stage 3	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**25,403**	**25,403**
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	25,403	25,403
Total (A+B+C)	**7,128,683**	**16,013,413**	**33,313,845**	**12,713,637**	**2,258,933**	**621,093**	**84,945,297**	**156,994,901**
of which: acquired or originated impaired financial assets	-	-	-	1,991	-	-	757,234	759,225
D. Commitments to disburse funds and financial guarantees given								
- Stage 1	599,813	7,774,515	8,738,080	4,421,976	441,013	42,550	22,265,627	44,283,574
- Stage 2	-	12,918	55,378	123,391	61,139	10,378	498,573	761,777
- Stage 3	-	-	-	3,000	3,831	203	617,651	624,685
Total (D)	**599,813**	**7,787,433**	**8,793,458**	**4,548,367**	**505,983**	**53,131**	**23,381,851**	**45,670,036**
Total (A+B+C+D)	**7,728,496**	**23,800,846**	**42,107,303**	**17,262,004**	**2,764,916**	**674,224**	**108,327,148**	**202,664,937**

Banco BPM Group adopts the credit risk assessments issued by the following external credit assessment agencies (ECAIs): Standard & Poor's ratings Services, Moody's Investors Service, Fitch Ratings and Cerved Rating Agency S.p.A..

These agencies apply to all banks belonging to the Group. It should be noted that, where there are two assessments of the same customer, the most prudent one is adopted; in the case of more than one assessment, the two assessments corresponding to the two lowest weight factors are selected. If the two lowest weight factors are different, the highest factor is applied. If the two lowest weight factors are identical, said factor is applied (art. 138 of Regulation (EU) 575/2013).

The table below shows the reconciliation between the risk classes and ratings of the agencies used.

CLASS	Fitch Ratings	Moody's	Standard & Poor's	Cerved Rating Agency SpA
AAA/AA-	*AAA to AA-*	*Aaa to Aa3*	*AAA to AA-*	*A1.1 to A1.3*
A+/A-	*A+ to A-*	*A1 to A3*	*A+ to A-*	*A2.1 to A3.1*
BBB+/BBB-	*BBB+ to BBB-*	*Baa1 to Baa3*	*BBB+ to BBB-*	*B1.1 to B1.2*
BB+/BB-	*BB+ to BB-*	*Ba1 to Ba3*	*BB+ to BB-*	*B2.1 to B2.2*
B+/B-	*B+ to B-*	*B1 to B3*	*B+ to B-*	*C1.1*
Below B-	*CCC+ and below*	*Caa1 and below*	*CCC+ and below*	*C1.2 and below*

A.2.2 Prudential consolidation - Distribution of financial assets, commitments to disburse funds and financial guarantees given by internal rating classes (gross values)

With the exception of the bank prospectus, the exposures shown in tables A.2.2 are associated with ratings also used to determine capital requirements for credit risks, limited to what can be traced back to the Business and Retail regulatory portfolios.
In particular, with regard to business customers, four separate rating models have been developed, based on the following customer segments: Large Corporate, Mid Corporate Plus, Mid Corporate and Small Business – and one for private customers. The counterparty rating system provides, at the level of each segment, twelve rating classes (eleven performing and one default) grouped below by risk category.

Exposures to banks	Internal rating classes								Unrated	Total
	AAA	AA	A	BBB	BB	B	CCC	Default		
A. Financial assets at amortised cost	**-**	**5,186**	**1,235,701**	**875,532**	**272,664**	**1,276**	**-**	**116**	**9,358,557**	**11,749,032**
- Stage 1	-	5,186	1,235,701	875,532	271,495	1,276	-	-	9,357,617	11,746,807
- Stage 2	-	-	-	-	1,169	-	-	-	940	2,109
- Stage 3	-	-	-	-	-	-	-	116	-	116
B. Financial assets measured at fair value through other comprehensive income	**8,700**	**33,674**	**524,373**	**478,195**	**441,583**	**-**	**-**	**-**	**151,328**	**1,637,853**
- Stage 1	8,700	31,584	508,950	478,195	418,366	-	-	-	149,275	1,595,070
- Stage 2	-	2,090	15,423	-	23,217	-	-	-	2,053	42,783
- Stage 3	-	-	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Stage 1	-	-	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-	-	-
Total (A + B + C)	**8,700**	**38,860**	**1,760,074**	**1,353,727**	**714,247**	**1,276**	**-**	**116**	**9,509,885**	**13,386,885**
of which: acquired or originated impaired financial assets	-	-	-	-	-	-	-	-	-	-
D. Commitments to disburse funds and financial guarantees given										
- Stage 1	4,431	21,873	776,526	347,449	404,699	24,311	-	-	304,047	1,883,336
- Stage 2	-	-	-	-	-	-	-	-	1,312	1,312
- Stage 3	-	-	-	-	-	-	-	-	-	-
Total (D)	**4,431**	**21,873**	**776,526**	**347,449**	**404,699**	**24,311**	**-**	**-**	**305,359**	**1,884,648**
Total (A + B + C + D)	**13,131**	**60,733**	**2,536,600**	**1,701,176**	**1,118,946**	**25,587**	**-**	**116**	**9,815,244**	**15,271,533**

Exposures to customers	Internal rating classes							Total
	LOW	MEDIUM-LOW	MEDIUM	MEDIUM-HIGH	HIGH	Default	Unrated	
A. Financial assets at amortised cost	**23,077,857**	**31,991,192**	**20,291,155**	**5,907,624**	**3,379,504**	**6,876,551**	**1,773,056**	**93,296,939**
- Stage 1	22,872,729	31,512,003	18,919,795	3,930,467	454,326	-	1,649,499	79,338,819
- Stage 2	205,128	479,189	1,371,360	1,977,157	2,925,130	-	81,721	7,039,685
- Stage 3	-	-	-	-	48	6,876,551	41,836	6,918,435
B. Financial assets measured at fair value through other comprehensive income	**99,165**	**45,382**	**18,321**	**-**	**-**	**-**	**-**	**162,868**
- Stage 1	99,165	39,013	18,321	-	-	-	-	156,499
- Stage 2	-	6,369	-	-	-	-	-	6,369
- Stage 3	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**7,459**	**-**	**7,459**
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	7,459	-	7,459
Total (A + B + C)	**23,177,022**	**32,036,574**	**20,309,476**	**5,907,624**	**3,379,504**	**6,884,010**	**1,773,056**	**93,467,266**
of which: acquired or originated impaired financial assets	-	323	623	19,160	6,706	628,898	-	655,710
D. Commitments to disburse funds and financial guarantees given								
- Stage 1	19,219,107	11,842,506	5,961,432	1,265,084	102,507	-	58,906	38,449,542
- Stage 2	12,120	46,094	204,246	219,758	148,054	-	1,204	631,476
- Stage 3	-	-	-	-	-	604,361	-	604,361
Total (D)	**19,231,227**	**11,888,600**	**6,165,678**	**1,484,842**	**250,561**	**604,361**	**60,110**	**39,685,379**
Total (A + B + C + D) by segment	**42,408,249**	**43,925,174**	**26,475,154**	**7,392,466**	**3,630,065**	**7,488,371**	**1,833,166**	**133,152,645**
Grand total	**-**	**-**	**-**	**-**	**-**	**1,726,173**	**52,512,425**	**54,238,598**
Total	**42,408,249**	**43,925,174**	**26,475,154**	**7,392,466**	**3,630,065**	**9,214,544**	**54,345,591**	**187,391,243**

Non-performing exposures	Internal rating classes							Total
	LOW	MEDIUM-LOW	MEDIUM	MEDIUM-HIGH	HIGH	Default	Unrated	
Large Corporate	8,843,943	5,254,820	5,085,368	492,252	30,759	245,116	-	19,952,258
Mid Corporate Plus	7,921,564	8,192,697	3,893,236	1,216,507	422,171	1,708,482	22,743	23,377,400
Mid Corporate	8,210,810	9,593,080	7,073,050	2,695,761	823,528	1,997,494	41,713	30,435,436
Small Businesses	9,010,072	6,639,008	7,094,427	2,187,133	804,199	2,613,983	322,257	28,671,079
Private	8,421,860	14,245,569	3,329,073	800,813	1,549,408	923,296	1,446,453	30,716,472
Total Exposures by segment	**42,408,249**	**43,925,174**	**26,475,154**	**7,392,466**	**3,630,065**	**7,488,371**	**1,833,166**	**133,152,645**

A.3 Distribution of secured credit exposures by type of guarantee

A.3.1 Prudential consolidation - On-balance sheet and off-balance sheet secured credit exposures to banks

	Gross exposure	Net exposure	Collateral (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Unsecured loans				
								Other derivatives								
			Real estate - Mortgages	Real estate - Finance leases	Securities	Other collateral	CLN	Central counterparties	Banks	Other financial companies	Other entities	Public Administrations	Banks	Other financial companies	Other entities	
1. Secured on-balance sheet credit exposures:	**1,820,308**	**1,820,283**	**-**	**1,311**	**1,814,941**	**501**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,816,753**
1.1. fully secured	1,818,037	1,818,015	-	1,311	1,814,941	-	-	-	-	-	-	-	-	-	-	1,816,252
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2. partially secured	2,271	2,268	-	-	-	501	-	-	-	-	-	-	-	-	-	501
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured off-balance sheet credit exposures:	**67,281**	**67,261**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,726**	**26,755**	**33,481**
2.1. fully secured	27,346	27,337	-	-	-	-	-	-	-	-	-	-	-	6,352	20,985	27,337
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2. partially secured	39,935	39,924	-	-	-	-	-	-	-	-	-	-	-	374	5,770	6,144
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.3.2 Prudential consolidation - On-balance sheet and off-balance sheet secured credit exposures to customers

			Collateral (1)				Personal guarantees (2)									
							Credit derivatives					Unsecured loans				
								Other derivatives								
	Gross exposure	Net exposure	Real estate - Mortgages	Real estate - Finance leases	Securities	Other collateral	CLN	Central counterparties	Banks	Other financial companies	Other entities	Public Administrations	Banks	Other financial companies	Other entities	Total (1)+(2)
1. Secured on-balance sheet credit exposures:	**80,672,856**	**77,355,264**	**42,275,683**	**1,240,210**	**5,746,877**	**1,878,719**	**-**	**-**	**-**	**-**	**-**	**13,079,877**	**167,418**	**343,847**	**7,563,317**	**72,295,948**
1.1. fully secured	69,354,787	66,316,362	42,270,481	1,240,210	5,589,019	1,780,971	-	-	-	-	-	6,831,730	40,049	311,971	7,267,334	65,331,765
- of which non-performing	6,376,290	3,652,935	2,456,109	417,646	11,286	175,337	-	-	-	-	-	74,100	887	44,562	291,523	3,471,450
1.2. partially secured	11,318,069	11,038,902	5,202	-	157,858	97,748	-	-	-	-	-	6,248,147	127,369	31,876	295,983	6,964,183
- of which non-performing	402,960	156,902	4,228	-	13,587	2,925	-	-	-	-	-	37,649	1,244	4,487	40,532	104,652
2. Secured off-balance sheet credit exposures:	**13,029,247**	**12,998,687**	**666,503**	**13**	**3,202,395**	**573,632**	**-**	**-**	**-**	**-**	**-**	**319,216**	**203,826**	**669,454**	**6,214,074**	**11,849,113**
2.1. fully secured	10,858,968	10,836,144	663,898	13	3,060,624	475,922	-	-	-	-	-	164,923	108,426	497,833	5,540,063	10,511,702
- of which non-performing	94,735	81,381	8,315	-	2,001	3,358	-	-	-	-	-	253	-	1,108	63,385	78,420
2.2. partially secured	2,170,279	2,162,543	2,605	-	141,771	97,710	-	-	-	-	-	154,293	95,400	171,621	674,011	1,337,411
- of which non-performing	80,655	75,574	-	-	852	959	-	-	-	-	-	1,599	-	3,060	41,627	48,097

Note that this table does not show the risk mitigations represented by CSA contracts on derivative instruments, as well as forms of support relating to synthetic securitisation transactions.

A.4 Prudential consolidation - Financial and non-financial assets obtained through the enforcement of guarantees received

	Derecognised credit exposure	Gross value	Total value adjustments	Book value	
					of which obtained during the year
A. Property, plant and equipment	**935,113**	**1,029,006**	**(329,816)**	**699,190**	**5,257**
A.1. Used in operations	82,257	96,966	(42,225)	54,741	-
A.2. For investment purposes	852,856	932,040	(287,591)	644,449	5,257
A.3. Inventories	-	-	-	-	-
B. Equity instruments and debt securities	**15,554**	**15,554**	**(5,593)**	**9,961**	**-**
C. Other assets	**-**	**-**	**-**	**-**	**-**
D. Non-current assets and disposal groups held for sale	**36,538**	**41,808**	**(20,281)**	**21,527**	**-**
D.1. Property, plant and equipment	36,538	41,808	(20,281)	21,527	-
D.2. Other assets	-	-	-	-	-
Total 31/12/2020	**987,205**	**1,086,368**	**(355,690)**	**730,678**	**5,257**
Total 31/12/2019	**998,089**	**1,097,010**	**(349,797)**	**747,213**	**29,514**

B. Breakdown and concentration of exposures

B.1 Prudential consolidation - Breakdown by sector of on- and off-balance-sheet credit exposures to customers

Exposures/Counterparties	Public Administrations		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance sheet credit exposures										
A.1 Bad loans	46	(365)	12,629	(42,560)	-	-	1,164,613	(1,827,271)	293,330	(261,798)
- of which: forborne exposures	-	-	982	(3,827)	-	-	372,386	(471,543)	85,935	(51,135)
A.2 Unlikely to pay	1,836	(2,140)	78,314	(156,205)	-	-	2,297,174	(1,962,419)	527,255	(192,273)
- of which: forborne exposures	12	(18)	22,066	(91,206)	-	-	1,571,002	(1,282,578)	265,236	(79,888)
A.3 Non-performing past-due exposures	1	(1)	28	(24)	-	-	10,683	(5,921)	35,180	(10,440)
- of which: forborne exposures	-	-	-	-	-	-	1,112	(826)	5,085	(852)
A.4 Performing exposures	30,823,427	(7,381)	17,557,988	(16,834)	234,998	(350)	56,347,698	(332,210)	32,952,159	(117,244)
- of which: forborne exposures	1,120	(4)	6,265	(389)	-	-	1,144,098	(75,966)	558,994	(18,730)
Total (A)	**30,825,310**	**(9,887)**	**17,648,959**	**(215,623)**	**234,998**	**(350)**	**59,820,168**	**(4,127,821)**	**33,807,924**	**(581,755)**
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	12,049	(765)	4,094	(636)	-	-	883,678	(81,391)	12,857	(1,573)
B.2 Performing exposures	4,128,410	(35)	6,393,707	(9,756)	162,916	(17)	42,899,078	(25,436)	4,647,342	(7,696)
Total (B)	**4,140,459**	**(800)**	**6,397,801**	**(10,392)**	**162,916**	**(17)**	**43,782,756**	**(106,827)**	**4,660,199**	**(9,269)**
Total (A+B) 31/12/2020	**34,965,769**	**(10,687)**	**24,046,760**	**(226,015)**	**397,914**	**(367)**	**103,602,924**	**(4,234,648)**	**38,468,123**	**(591,024)**
Total (A+B) 31/12/2019	**35,829,963**	**(11,216)**	**23,582,611**	**(311,356)**	**372,001**	**(197)**	**102,743,374**	**(4,681,681)**	**37,728,438**	**(451,268)**

B.2 Prudential consolidation - Breakdown by geographic area of on- and off-balance sheet credit exposures to customers

Exposures/Geographic areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance sheet credit exposures										
A.1 Bad loans	1,462,471	(2,117,917)	6,923	(12,834)	520	(113)	467	(931)	237	(199)
A.2 Unlikely to pay	2,877,756	(2,295,927)	26,820	(17,101)	1	(4)	1	(3)	1	(2)
A.3 Non-performing past-due exposures	45,643	(16,243)	245	(140)	2	(2)	1	(1)	1	-
A.4 Performing exposures	124,631,221	(470,489)	9,539,631	(1,809)	3,118,638	(1,101)	316,955	(183)	74,827	(87)
Total (A)	**129,017,091**	**(4,900,576)**	**9,573,619**	**(31,884)**	**3,119,161**	**(1,220)**	**317,424**	**(1,118)**	**75,066**	**(288)**
B. Off-balance sheet credit exposures	-	-	-	-	-	-	-	-	-	-
B.1 Non-performing exposures	912,500	(84,358)	147	(7)	1	-	1	-	29	-
B.2 Performing exposures	55,603,635	(42,779)	1,907,503	(107)	206,437	-	80,155	(34)	270,807	(3)
Total (B)	**56,516,135**	**(127,137)**	**1,907,650**	**(114)**	**206,438**	**-**	**80,156**	**(34)**	**270,836**	**(3)**
Total (A+B) 31/12/2020	**185,533,226**	**(5,027,713)**	**11,481,269**	**(31,998)**	**3,325,599**	**(1,220)**	**397,580**	**(1,152)**	**345,902**	**(291)**
Total (A+B) 31/12/2019	**182,415,480**	**(5,380,163)**	**13,177,274**	**(42,192)**	**3,752,230**	**(899)**	**305,061**	**(32,065)**	**234,341**	**(202)**

In greater detail the exposures of Italy are broken down by geographic area as shown in the following table:

Exposures/Geographic areas	North West Italy		North East Italy		Central Italy		South Italy and Islands	
	Net exposure	**Total value adjustments**	**Net exposure**	**Total value adjustments**	**Net exposure**	**Total value adjustments**	**Net exposure**	**Total value adjustments**
A. On-balance sheet credit exposures								
A.1 Bad loans	647,641	(948,555)	259,757	(417,826)	383,624	(517,627)	171,449	(233,909)
A.2 Unlikely to pay	1,633,750	(1,269,253)	523,922	(490,702)	498,206	(427,647)	221,878	(108,325)
A.3 Non-performing past-due exposures	19,142	(2,075)	7,582	(2,791)	12,444	(8,814)	6,475	(2,563)
A.4 Performing exposures	51,542,948	(235,614)	23,257,986	(86,497)	43,596,681	(111,093)	6,233,606	(37,285)
Total (A)	**53,843,481**	**(2,455,497)**	**24,049,247**	**(997,816)**	**44,490,955**	**(1,065,181)**	**6,633,408**	**(382,082)**
B. Off-balance sheet credit exposures								
B.1 Non-performing exposures	370,852	(46,954)	265,311	(22,490)	241,911	(11,874)	34,426	(3,040)
B.2 Performing exposures	26,902,122	(23,293)	13,559,971	(5,653)	13,268,158	(12,220)	1,873,384	(1,613)
Total (B)	27,272,974	(70,247)	13,825,282	(28,143)	13,510,069	(24,094)	1,907,810	(4,653)
Total (A+B) 31/12/2020	**81,116,455**	**(2,525,744)**	**37,874,529**	**(1,025,959)**	**58,001,024**	**(1,089,275)**	**8,541,218**	**(386,735)**
Total (A+B) 31/12/2019	**80,311,429**	**(2,527,989)**	**37,535,411**	**(1,118,303)**	**56,533,752**	**(1,327,229)**	**8,034,888**	**(406,642)**

B.3 Prudential consolidation - Breakdown by geographic area of on- and off-balance sheet credit exposures to banks

Exposures/Geographic areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance sheet credit exposures										
A.1 Bad loans	-	-	23	(93)	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	11,025,998	(1,479)	3,190,935	(862)	165,627	(77)	32,316	(51)	43,319	(96)
Total (A)	**11,025,998**	**(1,479)**	**3,190,958**	**(955)**	**165,627**	**(77)**	**32,316**	**(51)**	**43,319**	**(96)**
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	1,028,903	(79)	2,092,687	(107)	133,759	(35)	521,291	(70)	254,403	(52)
Total (B)	**1,028,903**	**(79)**	**2,092,687**	**(107)**	**133,759**	**(35)**	**521,291**	**(70)**	**254,403**	**(52)**
Total (A+B) 31/12/2020	**12,054,901**	**(1,558)**	**5,283,645**	**(1,062)**	**299,386**	**(112)**	**553,607**	**(121)**	**297,722**	**(148)**
Total (A+B) 31/12/2019	**11,133,064**	**(2,186)**	**3,603,051**	**(1,701)**	**297,870**	**(73)**	**598,542**	**(167)**	**275,558**	**(251)**

B.4 Large exposures

From 1 January 2014, the new harmonised regulations for banks and investment companies contained in (EU) Regulation no. 575/2013 ("CRR") and in Directive no. 2013/36/EU ("CRD IV") dated 26 June 2013 came into force. These transpose the standards defined by the Basel Committee for banking supervision (Basel 3 framework) to the European Union.
This item shows the amount ("non-weighted value" and "weighted value") and the number of the "risk positions" that represent a "large exposure" according to the provisions of Chapter 5 (art. 13) of Implementing Regulation (EU) no. 680/2014, laying down implementing technical standards with regard to supervisory reporting of institutions.
The provisions of Part Two - Chapter 10 of Circular 285 issued by the Bank of Italy are also applied.
An entity's exposure to a customer or a group of related customers is considered a large exposure if the value is equal to or more than 10% of the entity's eligible capital ("CRR", art. 392).
Taking into account the effect of the exemptions and the credit risk mitigation, large exposures must, in any case, individually respect the limit of 25% of the entity's eligible capital.
As at 31 December 2020 the eligible capital coincides with the amount of Own Funds.

In addition to the implementing technical standards for the supervisory reporting of entities, the reporting of Large Exposures was produced, applying the EBA Guidelines (EBA-GL-2017-15) on connected clients, limited to the alternative approach to Central Governments.

On the basis of the new combined provisions, at said date there were 25 risk positions classified as "large exposures" for a total ("non-weighted") amount of 410,816.9 million corresponding to a net ("weighted") exposure of 9,804.7 million.

The main Groups identified as "large exposures" have the following risk assets:

- the Ministry of Economy and Finance for 24,763.6 million (11.4 million considering the weight factors and the exemptions pursuant to art. 400 of the CRR), mainly consisting of the government bonds in the portfolio and tax assets.
  The exposures of this Central Government are in turn included in each group of connected clients, identified separately for directly-controlled or directly-related legal entities, as better specified in paragraph 5 (Alternative approach for exposures to central governments) of the previously-cited EBA guidelines;
- London Stock Exchange Group plc for 21,489.3 million (17.2 million considering the weight factors and the exemptions pursuant to art. 400 of the CRR), mainly consisting of repurchase agreements with Cassa Compensazione e Garanzia;
- three Central Governments of foreign countries for a total of 8,526.6 million (0 million considering the weight factors and the exemptions pursuant to art. 400 of the CRR), consisting exclusively of the government bonds in the portfolio;
- the Bank of Italy for 15,936.3 million (119.5 million considering the weight factors and the exemptions pursuant to art. 400 of the CRR), mainly consisting of demand deposits and for the mandatory reserve;
- at the end of 2020, the set of exposures transferred and derecognised underlying the "Red Sea" and "Leviticus" securitisation transactions, in application of regulation (EU) no. 1187/2014, to determine the overall exposure to a client or a group of connected clients in respect of transactions with underlying assets was also reported as a "large exposure".

The remaining 18 positions are those of leading banking, financial and industrial groups, both national and foreign. Each of the positions reported respects the limit of 25% of the eligible capital.

	31/12/2020	31/12/2019
a) Amount (book value) (*)	410,816,906	375,693,660
b) Amount (weighted value) (*)	9,804,654	14,461,328
c) Number	25	29

(*) figures in thousands of euro

C. Securitisation transactions

Traditional securitisations

This section illustrates the Group's exposure in terms of securitisations, both those in which the Group acts as the Originator of the receivables, and those in which the Group acts as an investor.

In that regard, it must be stated that the structuring of the securitisation transactions originated by the Group and its issues of covered bonds is overseen by a dedicated organisational structure that is part of the Finance function of the Parent Company. The collateralised portfolios of the transactions performed are constantly monitored by way of monthly and quarterly reports detailing the performance of principal and interest collections and the status of receivables.

During 2020 the Group continued finalising its own securitisation transactions through the *en bloc* sale of bad loans for the purpose of implementing derisking actions. In particular, the securitisation transactions finalised during the past years since 2018 have entailed:

- the subscription of Senior securities issued by the SPE and the sale to third parties of the Mezzanine and Junior tranches, in compliance with the requirements of prudential regulations. In relation to such holding, the assigned receivables were derecognised from the financial statements, since the risks and rewards of the financial assets sold were substantially transferred;
- the state guarantee for Senior securities was obtained (the Guarantee for Securitisation of Bad Loans - GACS pursuant to Decree no. 18 of 14 February 2016 converted into Italian Law no. 49 of 8 April 2016 and the subsequent Decree of the Ministry of the Economy and Finance of 3 August 2016).

With regard to the third party securitisations, detailed in table C.2 below, the book value amounted to 44.3 million. That exposure represents the Group's only involvement in structured credit securities issued within the sphere of transactions originated by companies external to the Group (in percentage terms equal to about 0.1% of the Group's total investment in debt securities).

Lastly, note that the disclosure on "self-securitisation" transactions is contained in Part E - Section 2 - Risks of prudential consolidation "1.4 - Liquidity risk". In these transactions, the Group fully subscribed the securities issued by the SPE, with the objective of using them to obtain liquidity, through monetary policy transactions with the Eurosystem or through repurchase agreements with market counterparties.

QUALITATIVE INFORMATION

The following table shows securitisation transactions in place as at 31 December 2020, including originated securitisations derecognised from the financial statements as illustrated in more detail in the notes below the table.

SPE	Originator	Securities issue date	Transaction	Type of securitisation
Securitisations not derecognised from the financial statements				
BP Mortgages S.r.l.	Banco BPM	June 2007	BP Mortgages 2	Performing residential mortgage loans
BP Mortgages S.r.l.	Banco BPM	March 2007	BP Mortgages 1	Performing residential mortgage loans
Securitisations fully derecognised from the financial statements				
Red Sea SPV S.r.l.	Banco BPM	June 2018	Project Exodus	Bad loans
Leviticus SPV S.r.l.	Banco BPM	February 2019	Project Ace	Bad loans
Tiberina SPV S.r.l.	Banco BPM	December 2020	Project Django	UTP and Bad loans
Titan SPV S.r.l.	Banco BPM and Release	December 2020	Project Titan	Bad loans

The securitisation transactions that are "fully derecognised" are represented by the "Red Sea SPV", "Leviticus SPV", "Tiberina SPV" and "Titan SPV" transactions, for which Banco BPM Group substantially transferred the risks and rewards of the assets sold to the SPEs, as it sold 95% of the junior tranche and 95% of the mezzanine tranche on the market.

The new transactions not completed during the period and those closed are illustrated below.

New transactions of the period

Tiberina SPV S.r.l (Project Django)

On 5 November 2020, the Board of Directors of Banco BPM, based on the binding offer made by Credito Fondiario S.p.A., resolved to proceed with the sale of loans to Tiberina SPV, as part of a securitisation transaction, pursuant to Italian Law 130/99.

Subsequently, on 11 December 2020, the sale contract was signed with the SPV regarding a portfolio of 40 positions classified as Unlikely To Pay and 1 position classified as Bad Loan, for a total gross value of 288 million.

On 22 December 2020, the purchase of the loans portfolio was funded by the SPV through the issue of the following asset backed securities for a total nominal value of 120.0 million:

- Class A Senior for a nominal value of 84.0 million;
- Class B1 Mezzanine for a nominal value of 18.0 million;
- Class B1 Mezzanine for a nominal value of 9.0 million;
- Class J Junior for a nominal value of 9.0 million.

The senior tranche was entirely subscribed by Banco BPM, together with 5% of the mezzanine tranche and of the junior tranche - in accordance with the retention rule envisaged by regulatory provisions - for a total nominal value of 85.8 million.
The remaining 95% of the Mezzanine and Junior tranches was instead subscribed by Credito Fondiario.

The finalisation of this sale resulted in the significant transfer of the risks and rewards of the loans sold, which were, therefore, derecognised from the financial statements, based on the regulations set out in the accounting standard IFRS 9.

The situation at the date of the subscription and as at 31 December 2020, of the securities subscribed by the Parent Company is summed up below:

Type	Type	Nominal issue value	Nominal share subscribed by Banco BPM	Initial recognition value	Value as at 31/12/2020	Maturity	Rating	Interest rate
Class A Asset Backed Floating Rate Notes due October 2040	Senior	84,037,000	84,037,000	84,037,000	84,023,788	01/10/2040	Unrated	Euribor (floor @0%)+2%
Class B1 Asset Backed Floating Rate Notes due October 2040	Mezzanine	18,008,000	901,000	901,000	903,027	01/10/2040	Unrated	Euribor (floor @0%)+9%
Class B2 Asset Backed Floating Rate Notes due October 2040	Mezzanine	9,004,000	451,000	451,000	452,353	01/10/2040	Unrated	Euribor (floor @0%)+12%
Class J Asset Backed Variable Return Notes due October 2040	Junior	9,004,000	451,000	451,000	451,000	01/10/2040	Unrated	n.a.
Total		**120,053,000**	**85,840,000**	**85,840,000**	**85,830,168**			

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

Titan SPV S.r.l. (Project Titan)

The transaction was a multi-originator securitisation (Banco BPM S.p.A., Release S.p.A. and Alba Leasing S.p.A.), where the underlying was a portfolio of Lease NPL with a gross contractual value totalling 335.4 million (value referred to the valuation date, which under the contract was 31 December 2019).
As this was a lease portfolio, where the Originators are the owners of the repossessed assets, the structure of the transaction envisaged two SPEs:

- the lease exposures were sold, without recourse and against payment to the SPE established pursuant to Italian law 130, called Titan SPV S.r.l.;

- the relative legal relations and underlying assets were sold to LeaseCo (Zeus LeaseCo S.r.l.). The LeaseCo, managed by Prelios through a specific management contract, will receive the proceeds of the sale of the assets and will pay said proceeds to the SPE Titan.

On 12 December 2020, a sale contract was signed, on the basis of which Banco BPM and Release sold a portfolio of loans to the SPE Titan for a gross contractual value totalling 145.0 million, of which 87.2 million related to Release and 57.8 million to Banco BPM.

On 28 December 2020, the purchase of the portfolio sold was funded by the SPE through the issue of the following asset backed securities for a nominal value of 115.6 million, including the issue to fund Alba Leasing:

- Class A Senior for a nominal value of 90.5 million, for which the State Guarantee on the Securitisation of Bad Loans ("GACS") will be requested;
- Class B Mezzanine for a nominal value of 15.0 million;
- Class J Junior for a nominal value of 10.1 million. The issue of the tranches in question, in addition to funding the purchase of the loans, also covered the 6.5 million initial expenses of the securitisation.

On the issue date, the securities were entirely subscribed pro-rata by the originators; more specifically, the share of the securities issued to fund the Group's portfolio amounted to 41.7 million (22.3 million relating to the Parent Company and 19.4 million to Release).

At Group level, 95% of the Mezzanine and Junior tranches (with a nominal value of 5.1 million and 3.8 million respectively) was placed with a third-party investor.

Furthermore, it should be clarified that as at 31 December 2020, all tranches of the transaction were held by the Parent Company insofar as on 30 December 2020, Release sold the latter:

- 100% of the Senior tranche;
- 100% of the Mezzanine and Junior tranches subscribed by Release. At Group level, the retention rule was therefore respected by Banco BPM, as it held 5% of all Mezzanine and Junior tranches.

The finalisation of this sale resulted in the significant transfer of the risks and rewards of the loans sold, which were, therefore, derecognised from the financial statements, based on the regulations set out in the accounting standard IFRS 9.

The situation at the date of the subscription and as at 31 December 2020, of the securities subscribed by the Group and held by Parent Company is summed up below:

Type (in euro)	Type	Nominal issue value	Nominal share subscribed by the Group	Initial recognition value	Value as at 31/12/2020	Maturity	Rating	Interest rate
Class A Asset Backed Floating Rate Notes due January 2041	Senior	90,500,000	32,343,000	32,343,000	32,321,353	01/01/2041	DBRSM: BBB Scope: BBB	Euribor 6M + 0.5%
Class B1 Asset Backed Floating Rate Notes due January 2041	Mezzanine	15,500,000	269,000	73,635	73,803	01/01/2041	Unrated	Euribor 6M + 8%
Class J Asset Backed Variable Return Notes due January 2041	Junior	10,070,000	200,000	-	158	01/01/2041	Unrated	n.a.
Total		**116,070,000**	**32,812,000**	**32,416,635**	**32,395,314**			

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

Transactions closed during the year

BPM Securitisation 2 S.r.l.

On 22 January 2020, following the liquidation process, BPM Securitisation S.r.l. was removed from the relevant Company Register.

Erice Finance S.r.l. (ITABEI)

On 9 January 2020, following the liquidation process, Erice Finance S.r.l. was removed from the relevant Company Register.

Leasimpresa Finance S.r.l. (LSMP2)

On 15 January 2020, following the liquidation process, Leasimpresa Finance S.r.l. was removed from the relevant Company Register.

Italfinance Securitization Vehicle S.r.l. (ITA 8)

In December 2020, with the signing of the relative contracts, the securitisation transaction realised through the SPE Italfinance Securitisation Vehicle S.r.l. was closed. More specifically, on 30 November 2020, Banco BPM repurchased the entire residual portfolio of lease receivables underlying said transaction and, on 14 December 2020, the SPE repaid the outstanding available funds. On 11 December 2020, with the signing of the Termination Agreement, all the contracts signed and accounts opened within the context of the transaction were closed.

Italfinance Securitization Vehicle 2 S.r.l. (ITA 11)

For information on the ITA 11 transaction, please refer to the content of the section entitled “Liquidity risk” in these Notes to the consolidated financial statements.

Simultaneous to the repurchase of the loans of the ITA8 and ITA11 transactions, on payment of the price by the same, the loans, whose risks and rewards were the subject of the Agreement on securitised loans, were transferred to the beneficiaries. With the cancellation of the securitisations, said agreement was no longer valid.

Existing and significant securitisation transactions during 2020

BP Mortgages 2 (June 2007)

On 22 June 2007, Banca Popolare di Novara and Credito Bergamasco, both now Banco BPM sold residential landed mortgage loans and residential mortgage loans backed by a voluntary mortgage on the property to the SPE BP Mortgages S.r.l. The portfolio sold amounted to 1,610 million; on 29 June 2007, the SPE issued four classes of rated securities that were placed with institutional investors and two classes of unrated junior securities subscribed by the Originators; all of the classes of securities were listed on the Irish Stock Exchange.
The Originator Banks, now only Banco BPM, acted as Servicers and managed the loan collection.

Loans portfolio

Bank	Value 31/12/2020	Value 31/12/2019
Banco BPM	212,178	250,883

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

Issue characteristics

Class	Type	Issue value	Value as at 31/12/2020	Interest rate	Maturity	Rating Moody's/S&P/ Fitch (4)
A1	Senior	147,300	-	3-month Euribor + 0.07%		
A2	Senior (1)	1,382,000	78,706	3-month Euribor + 0.13%	July 2044	Aa3/AA/AA-
B	Mezzanine	28,200	28,200	3-month Euribor + 0.25%	July 2044	Aa3/AA/AA-
C	Mezzanine (1)	36,200	36,200	3-month Euribor + 0.66%	July 2044	Aa3/AA/AA-
M1	Junior (2)	8,639	8,639	3-month Euribor + 2% + Additional return	July 2044	unrated
M2	Junior (3)	7,479	7,479	3-month Euribor + 2% + Additional return	July 2044	unrated
Total		**1,609,818**	**159,224**			

(1) Following their placement on the market, Banco BPM (former Banco Popolare) purchased Senior securities amounting to a nominal value of 685.8 million and mezzanine securities for a nominal value of 11.4 million.
(2) The class M1 junior security was subscribed by the former Banca Popolare di Novara, now Banco BPM.
(3) The M2 class junior security was subscribed to by the former Credito Bergamasco, now Banco BPM.
(4) Rating as at 31 December 2020.

Significant events during 2020
On 14 May 2020, Fitch lowered the rating of A2, B and C Class securities of the transaction from "AA" to "AA-", following the downgrading of the sovereign rating on Italy.

Accessory financial transactions
To immunise the interest rate risk to which the SPE is exposed owing to the mismatch between the securitised mortgage rates and the yield of the issued bonds, the Originator Banks, now Banco BPM, a market counterparty and the SPE entered into an interest rate swap agreement with Banca Akros as intermediary.

Contractual agreements with an obligation to provide financial support to the SPE (IFRS 12, par. 14)
In June 2012, following the loss of the minimum rating needed for the issue of the guarantee relating to the agreement called "First Demand Guarantee", Banco BPM, the former Banco Popolare, set up a collateral account, segregated with respect to the company's separate equity, the amount of which is reviewed annually on the Interest Payment Date in July, to take into account the amortisation of the portfolio assigned. As at 31 December 2020, the amount of collateral paid in was 9.3 million.

Financial support provided to the entity (IFRS 12, par. 15)
During the year no financial support other than that envisaged under the agreement was given.

BP Mortgages 1 (March 2007)

On 16 March 2007, in its capacity as Originator Bank, Banca Popolare di Verona, now Banco BPM, sold mortgage and land loans amounting to 1,476 million to the SPE BP Mortgages S.r.l. on 11 April 2007, the SPE issued four classes of rated securities, placed with institutional investors, and one class of unrated junior securities subscribed to by the Originator; all classes of securities are listed on the Luxembourg Stock Exchange. As part of the transaction, the Originator Bank, now Banco BPM, had the role of Servicer to manage the collection of the loans.

Loans portfolio

Bank	Value 31/12/2020	Value 31/12/2019
Banco BPM	106,342	131,954

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

Issue characteristics

Class	Type	Issue value	Value as at 31/12/2020	Interest rate	Maturity	Rating Moody's/S&P/ Fitch (3)
A1	Senior	202,700	-	3-month Euribor + 0.06%		
A2	Senior (1)	1,172,650	8,421	3-month Euribor + 0.13%	April 2043	Aa3/AA/AA-
B	Mezzanine (1)	25,300	25,300	3-month Euribor + 0.19%	April 2043	Aa3/AA/AA-
C	Mezzanine (1)	32,600	32,600	3-month Euribor + 0.48%	April 2043	Aa3/AA/AA-
M	Junior (2)	14,500	14,500	3-month Euribor + 2.5% plus Additional return	April 2043	unrated
Total		**1,447,750**	**80,821**			

(1) Following their placement on the market, Banco BPM (former Banco Popolare) purchased Senior notes amounting to a nominal value of 429.6 million and mezzanine notes for 8.3 million.
(2) The junior securities were subscribed to by the former Banca Popolare di Verona, now Banco BPM.
(3) Rating as at 31 December 2020

Significant events during 2020
On 14 May 2020, Fitch lowered the rating of A2, B and C Class securities of the transaction from "AA" to "AA-", following the downgrading of the sovereign rating on Italy.

Accessory financial transactions
To immunise the interest rate risk to which the SPE is exposed owing to the mismatch between the securitised mortgage rates and the yields of the issued bonds, the Originator Banks, a market counterparty and the SPE entered into an Interest Rate Swap agreement with Banca Akros as intermediary.

Contractual agreements with an obligation to provide financial support to the SPE (IFRS 12, par. 14)
In June 2012, following the loss of the minimum rating needed for the issue of the guarantee relating to the agreement called "First Demand Guarantee", Banco BPM, the former Banco Popolare, set up a collateral account, segregated with respect to the Company's separate equity, the amount of which is reviewed annually on the Interest Payment Date in July, to take into account the amortisation of the portfolio assigned. As at 31 December 2020, the amount of collateral paid in was 6.3 million.

Financial support provided to the entity (IFRS 12, par. 15)
During the year no financial support other than that envisaged under the agreement was given.

Synthetic securitisations

Synthetic securitisations envisage, through the contracting of collateral arrangements, the purchase of protection from the credit risk underlying a portfolio of loans, of which the Originator retains full ownership. Thus, the purpose of those transactions is to transfer the credit risk from the Originator to an external counterparty, without derecognising the assets, which are therefore kept in the Originator's financial statements.
The characteristics of these transactions allow regulatory and economic capital to be freed up due to the reduction in the level of risk of the underlying portfolio ("Significant Risk Transfer" pursuant to prudential regulations), thereby contributing to creating value by optimising the use of capital.
The reference regulations for those transactions is EU Regulation 575/2013 (Capital Requirements Regulation, "CRR"). Art. 245 of the CRR establishes the conditions at which the Significant Risk Transfer (SRT) criterion is met, i.e. the significant transfer of risk to third parties using collateral or personal guarantees as credit protection. Those conditions must be constantly monitored for the entire duration of the transaction.

QUALITATIVE INFORMATION

The following table shows synthetic securitisation transactions in place as at 31 December 2020.

Guarantor	Originator	Transaction date	Type of securitisation
European Investment Fund	Banco BPM	June 2019	Performing mortgage loans
European Investment Fund	Banco BPM	December 2020	Performing loans

New transactions of the period

European Investment Fund synthetic securitisation 2020

In December 2020, Banco BPM concluded its second synthetic securitisation transaction with the European Investment Fund (EIF).
The portfolio securitised was composed of performing loans originated by Banco BPM to SMEs and Corporate customers, for 1,894.9 million.
Based on the structure of the transaction, the portfolio is virtually divided into 3 tranches based on the degree of risk: Senior, Mezzanine and Junior, for an initial value of the portfolio of 1,702.4 million, broken down as follows:

- Senior: 1,608.8 million;
- Mezzanine: 76.6 million;
- Junior: 17.0 million.

In addition, to meet the requirement to retain a minimum economic interest of at least 5% (retention), 192.5 million is expected to be initially withheld from the entire portfolio.

Specifically, the Junior and Senior portions are not secured in any way, while the Mezzanine portion is guaranteed by the European Investment Fund (EIF) and counter-guaranteed by the European Investment Bank (EIB).

Against said guarantee, the transaction entails Banco BPM making 462 million available (of which 77 million to be disbursed within 6 months of signature of the guarantee contract) in subsidised loans to be disbursed, with a view to supporting investments and working capital, to Midcap companies, with a workforce of up to 2,999 employees and, at least 50%, to SMEs with a workforce of up to 249 employees, operating in any economic sector (with the exception of some business sectors excluded by the EIB as retained "sensitive").
These loans will start to be disbursed in 2021.

As at 31 December 2020, the gross securitised portfolio amounted to 1,808.1 million and the net exposure of Banco BPM was 1,730.2 million, as illustrated in table C.1 below, in the item "Loans to businesses".

Description of transactions

European Investment Fund synthetic securitisation 2019

In June 2019, Banco BPM concluded its first synthetic securitisation transaction with the European Investment Fund (EIF).
The portfolio securitised was composed of performing mortgage loans originated by Banco BPM to Corporate customers.
Based on the structure of the transaction, the portfolio was virtually divided into 3 tranches based on the degree of risk: Senior, Mezzanine and Junior, for an initial value of the portfolio of 1,656.6 million, broken down as follows:

- Senior: 1,589.1 million;
- Mezzanine: 55.0 million;
- Junior: 12.5 million.

The Junior and Senior portions were not secured in any way, while the Mezzanine portion was guaranteed by the European Investment Fund (EIF) and counter-guaranteed by the European Investment Bank (EIB). In addition, 5% of the entire portfolio, equal to 59.5 million, at the start of the transaction, was envisaged to be withheld to meet the requirement to retain a minimum economic interest (retention).

As at 31 December 2020, the gross securitised portfolio amounted to 715.7 million and the net exposure of Banco BPM was 682.0 million, as illustrated in table C.1 below, in the item "Loans to businesses".

QUANTITATIVE INFORMATION

C.1 Prudential consolidation - Exposures deriving from the main "own" securitisation transactions broken down by type of securitised asset and by type of exposure

Type of securitised assets/Exposures	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
	Book value	Losses/ Recoveries	Book value	Losses/ Recoveries	Book value	Losses/ Recoveries
A. Fully derecognised	**2,432,962**	**(1,553)**	**8,868**	**-**	**451**	**-**
Non-performing assets:						
A.1 Bad loans	2,432,962	(1,553)	8,868	-	451	-
Performing assets:						
A.2 Leases	-	-	-	-	-	-
B. Partially derecognised						
C. Not derecognised	**2,225,112**	**(8,092)**	**51,868**	**-**	**152,311**	**(263)**
Performing assets:						
C.1 Residential mortgage loans	55,839	-	51,868	-	122,995	-
C.2 Leases	-	-	-	-	-	-
C.3 Loans to businesses (*)	2,169,273	(8,092)	-	-	29,316	(263)

(*) The sub-item "Loans to businesses" relates to the synthetic securitisation transaction. As at 31 December 2020 the value of the retention by Banco BPM came to 213.6 million.

The part of the table relative to the guarantees issued and the credit facilities is omitted inasmuch as there are none.

C.2 Prudential consolidation - Exposures deriving from the main "third party" securitisation transactions broken down by type of securitised asset and by type of exposure

Type of securitised assets/Exposures	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
	Book value	Losses/ Recoveries	Book value	Losses/ Recoveries	Book value	Losses/ Recoveries
A.1 PHARMA FIN.SR3 TV 28	1,751	-	-	-	-	-
- other						
A.2 PHARMA FIN.SRL TV 28	-	-	987	-	-	-
- other						
A.3 PHARMA FIN.EUR TV 28	-	-	4,540	-	-	-
- other						
A.4 BNT PORT 14-42 TV	-	-	-	-	28,306	-
- agricultural and animal husbandry loans						
A.5 FAW3 SPV 23 A-1-S 2% (*)	6,001	(10)	-	-	-	-
- other						
A.6 BERENICE 13-33 CL.B 6% (**)	-	-	974	-	-	-
- bad loans						
A.7 ALBA 10 SPV	1,302	(17)	-	-	-	-
- other						
A.8 POP NPLS 2020 class B	-		397	-	-	-
- bad loans						
A.9 POP NPLS 2020 class J	-		-	-	1	-
- bad loans						

(*) This was a single tranche, typically indicated as a Senior security.
(**) Held through the investment in the Voluntary Scheme of the Interbank Deposit Guarantee Fund.

The part of the table relative to the guarantees issued and the credit facilities is omitted inasmuch as there are none.

Exposures deriving from third party securitisation transactions amounted to 44.3 million, of which 37.0 million is classified in the portfolio of "Financial assets at fair value through profit and loss c) other financial assets mandatorily measured at fair value", 6.0 million in the portfolio if "Financial assets at amortised cost" and the remaining 1.3 million in the portfolio of "Financial assets measured at fair value through other comprehensive income".
The exposure relative to "BNT Port 14-42 TV", classified under the "Financial assets at fair value through profit and loss: c) other financial assets mandatorily measured at fair value" is referred to in the following paragraph.

C.3 Prudential consolidation - Shareholdings in securitisation SPEs

The SPEs in which the Banking Group companies have been involved in the structuring activity and in which a shareholding is held are illustrated below.
They are, in particular, SPEs created to finalise their own securitisation transactions, as described in "Part A – Accounting policies", "3. Scope of consolidation and methods", the separate capital is consolidated inasmuch as the Group holds contractual rights for the management of the entity's relevant assets and is exposed to the variable returns of the same, regardless of the voting rights.
In addition, the shareholding in the company "BNT Portfolio SPV" is worth mentioning. This is an SPE established in 2014 for the securitisation of agricultural loans of Banca della Nuova Terra, financed by the issue of a single tranche of securities for a nominal value of 397.8 million subscribed by the member banks of Banca della Nuova Terra, including the former Banco Popolare. Under the agreements entered into, the former Banco Popolare had subscribed the said security for a nominal value of 84.6 million; as at 31 December 2020, the fair value of the security, posted under the "Financial assets at fair value through profit and loss: c) other financial assets mandatorily measured at fair value" came to 28.3 million net of collections.

The following table shows all the assets and liabilities of the separate capital of the SPE.

Name of Securitisation/ Name of SPE	Registered office	Consolidation	Assets			Liabilities		
			Loans	Debt securities	Other	Senior	Mezzanine	Junior
BNT Portfolio SPV S.r.l.	Milan	no	163,024	-	14,066	-	-	270,359
BP Mortgages mar 2007	Milan	accounting	106,552	-	29,711	8,421	57,900	14,558
BP Mortgages giu 2007	Milan	accounting	212,674	-	38,024	78,706	64,411	16,166

C.4 Prudential consolidation - SPE for non-consolidated securitisation

As at 31 December 2020 the non-consolidated SPEs were Red Sea SPV S.r.l., an SPE established for the transaction regarding the sale of bad loans called "Project Exodus" finalised during 2018 and Leviticus SPV S.r.l. an SPE established for the transaction regarding the sale of a portfolio of bad loans called the "Project ACE", finalised during 2019, Tiberina SPV S.r.l., an SPE established for the transaction regarding the sale of a portfolio of UTP and bad loans called "Project Django" and Titan SPV S.r.l., an SPE established for the transaction regarding the sale of a portfolio of bad loans called "Project Titan", as illustrated above.

The table below shows the Group's assets and liabilities due to and from those SPEs, mainly attributable to the senior securities subscribed by the Group, classified in the portfolio of "Loans to customers".
In this regard, it is noted that these companies have no off-balance sheet exposures, non-revocable credit facilities or financial guarantees, therefore the maximum exposure to the risk of loss corresponds to the difference between the assets and liabilities held in respect of the SPE.

(thousands of euro)	Red Sea SPV	Leviticus SPV	Tiberina SPV	Titan SPV
Total assets	**1,134,765**	**1,184,172**	**166,325**	**40,012**
Other financial assets mandatorily measured at fair value	2,959	4,480	1,806	74
Loans to customers	1,130,538	1,178,463	164,519	39,939
Other assets	1,267	1,230		
Total liabilities	**4,908**	**-**	**47,847**	**417**
Due to customers	4,907			
Other liabilities	1		47,847	417

(thousands of euro)	Red Sea SPV	Leviticus SPV	Tiberina SPV	Titan SPV
Net interest income	5,162	4,653	46	0

It is also specified that no financial support was provided during the year.

C.5 Prudential consolidation - Servicer activities – own securitisations: collections of securitised loans and redemptions of securities issued by the SPE for the securitisation

SPE	Securitised assets (end of period figure)		Collection of loans during the year		% of securities redeemed (end of period figure)					
					senior		mezzanine		junior	
	Non-performing	Performing	Non-performing	Performing	non-performing assets	performing assets	non-performing assets	performing assets	non-performing assets	performing assets
ITA 8 / Italease Securitisation vehicle	-	-	41	317	-	-	-	-	-	-
ITA 11 / Italease Securitisation vehicle 2	-	-	-	-	-	-	-	-	-	21.00%

The above amounts relate to the last movements prior to the closure of both transactions.

C.6 Prudential consolidation - SPEs for consolidated securitisation

There are no SPEs for securitisation that are part of the Banking Group.

D. Sale transactions

A. Financial assets sold and not fully derecognised

QUALITATIVE INFORMATION

As at 31 December 2020, the following sale transactions did not involve the derecognition from the financial statements of the underlying financial assets:

- securitisation transactions of credit exposures to customers (318.5 million);
- repurchase agreements payable on treasury securities mainly classified in the portfolio of "Financial assets measured at fair value through other comprehensive income" and "Financial assets at amortised cost".

For repurchase agreements, the non-derecognition of the security of the repurchase agreement derives from the fact that the bank substantially holds the risks and rewards linked to the security, having the obligation of the forward repurchase at a contractually established price. Therefore the securities transferred continue to be represented in the relative accounting portfolio; the payment for the sale is posted under the "Liabilities at amortised cost: a) due to banks or b) due to customers", according to the type of counterparty. To this regard, it must be noted that the following table does not include the repurchase agreements payable on securities not posted in the financial statements if its availability is consequent to reverse repurchase agreements (see the paragraph "Other information" in Part B of these Notes).

The securitisation transactions described in the preceding paragraph "C. Securitisation transactions" are not derecognised due to the Group's subscription of the tranches of junior securities or similar exposures which involve the first loss risk for the Group and, similarly, the reward linked to the yield of the portfolio of the transferred assets. The payment collected for the transfer is posted as a balancing entry of a payable due to the SPE, net of the tranches of the underlying securities subscribed or the use of forms of liquidity support for the SPE for the payment of the principal. The loan to the SPE, thus posted, will decrease by effect of the sums collected from the originator in its capacity as servicer and transferred to said SPE.
By effect of the consolidation of the equity of the SPE, this last liability is not posted in the consolidated financial statements. Otherwise, the liabilities will be posted under the securities issued by the SPE not subscribed by companies of the Group.

QUANTITATIVE INFORMATION

D.1 Prudential consolidation - Fully recognised financial assets sold and associated financial liabilities: book values

	Fully recognised financial assets sold				Associated financial liabilities		
	Book value	of which: subject to securitisation transactions	of which: subject to repurchase agreements	of which non-performing	Book value	of which: subject to securitisation transactions	of which: subject to repurchase agreements
A. Financial assets held for trading	**601,214**	**-**	**601,214**	**X**	**612,899**	**-**	**612,899**
1. Debt securities	369,367	-	369,367	X	369,401	-	369,401
2. Equity instruments	231,847	-	231,847	X	243,498	-	243,498
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value	**4,531**	**4,531**	**-**	**345**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	4,531	4,531	-	345	-	-	-
C. Financial assets designated at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**1,381,335**	**-**	**1,381,335**	**-**	**1,381,081**	**-**	**1,381,081**
1. Debt securities	1,381,335	-	1,381,335	-	1,381,081	-	1,381,081
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets at amortised cost	**7,233,640**	**313,989**	**6,919,651**	**31,947**	**6,920,279**	**88,525**	**6,831,754**
1. Debt securities	6,919,651	-	6,919,651	-	6,831,754	-	6,831,754
2. Loans	313,989	313,989	-	31,947	88,525	88,525	-
Total 31/12/2020	**9,220,720**	**318,520**	**8,902,200**	**32,292**	**8,914,259**	**88,525**	**8,825,734**
Total 31/12/2019	**12,935,854**	**383,892**	**12,551,962**	**36,684**	**12,374,501**	**134,065**	**12,240,436**

"Fully recognised financial assets sold" amounted to 1,129.3 million in book value underlying funding repurchase agreements of the Parent Company, shown in the table in "Associated financial liabilities" for 938.5 million, but are not represented in the Balance Sheet liabilities as they are subject to offsetting pursuant to IAS 32.

D.2 Prudential consolidation - Partly recognised financial assets sold and associated financial liabilities: book values

As at 31 December 2020 there were no partly recognised financial assets sold or associated financial liabilities.

D.3 Prudential consolidation - Sale transactions with liabilities with recourse only against the assets sold and not fully derecognised: fair value

This table shows the fair value of assets and related liabilities resulting exclusively from securitisation transactions, inasmuch as they are considered the only types existing for the Group in which the transferor, i.e. the SPE, has exclusive recourse against the transferred assets, being in fact the only cash flows available for the payment of the securities issued.

	Fully recognised	Partly recognised	Total	
			31/12/2020	31/12/2019
A. Financial assets held for trading	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-
2. Equity instruments	-	-	-	-
3. Loans	-	-	-	-
4. Derivatives	-	-	-	-
B. Other financial assets mandatorily measured at fair value	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-
2. Equity instruments	-	-	-	-
3. Loans	-	-	-	-
C. Financial assets designated at fair value	**4,531**	**-**	**4,531**	**5,252**
1. Debt securities	-	-	-	-
2. Loans	4,531	-	4,531	5,252
D. Financial assets measured at fair value through other comprehensive income	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-
2. Equity instruments	-	-	-	-
3. Loans	-	-	-	-
E. Financial assets at amortised cost (fair value)	**333,148**	**-**	**333,148**	**401,073**
1. Debt securities	-	-	-	-
2. Loans	333,148	-	333,148	401,073
Total financial assets	**337,679**	**-**	**337,679**	**406,325**
Total associated financial liabilities	**-**	**-**	**X**	**X**
Net value as at 31/12/2020	**337,679**	**-**	**337,679**	**X**
Net value as at 31/12/2019	**272,260**	**-**	**X**	**406,325**

B. Financial assets sold and fully derecognised with recognition of continuous involvement

The Group has none of this type at the reporting date.

D.3 Prudential consolidation - financial assets sold and fully derecognised

Multi-originator sales of loans to mutual investment funds

Based on that established by Bank of Italy Communication of 23 December 2019, this Section provides the qualitative and quantitative information relating to multi-originator sales of loan portfolios attributable to the scheme of sale to a mutual investment fund with allocation of the related units to the originators.

In previous years, Banco BPM Group, concluded several sales of classified exposures to mutual investment funds in exchange for units issued by the same funds.

QUALITATIVE INFORMATION

General objectives of the loan sale transactions carried out through the mutual investment fund scheme

In general, the business and strategic objective in this case is to assign the management of several exposures classified as high risk to specialist, independent operators (i.e. represented by asset management companies, hereinafter also "SGR"), which, through changes in management, should enable more effective company turnaround than what the bank could achieve by continuing to manage its own exposure. The strategies pursued by the asset management company specifically focus on managerial leverage that is difficult for single banks to activate, such as, merely by way of example: converting the loans into equity, joining the management bodies of the companies to carry out effective operational turnaround, developing distressed M&A operations to safeguard the value of the companies through business partnerships, directly repossessing the property in the case of real estate operators and, lastly, third party investors contributing new financing to relaunch the companies.

In that view, the intervention of an asset management company enables the creation of suitable mechanisms to safeguard the rights of the contributing banks, through the powers assigned to specific investor committees. In addition, in order to align the interests of the asset management company with those of the contributing banks, the structure of fees to the asset management company generally entails management fees consistent with the net assets of the fund, as well as performance fees or a carried interest on the extra yield of the transaction.

Accounting treatment

In accounting terms, pursuant to the accounting standard IFRS 9, the above sale transactions resulted in the derecognition of the loans sold, as the Group did not substantially retain the risks or rewards of the transferred assets, and also did not retain any substantial control over the assets, as the control was instead assumed by the fund management company. In particular, the risks and rewards that the Group may obtain from the units held in exchange for the loans are not anchored to the occurrence, amount or timing of the events that involve the loans sold, given that the economic and financial dynamics linked to the single loans will not automatically or directly influence the returns of individual unitholders (including Banco BPM) which, instead, will depend on the general performance of the fund managed by the asset management company. In that regard, it must be noted that, as these are multi-originator transactions, the loans contributed by the single participants may differ from those contributed by other participants and, where these concern the same debtor, may also change the percentage of exposure contributed by each participant.

In relation to said derecognition, the fund units obtained as a conversion from the sale were recognised in the accounting portfolio of "Other financial assets mandatorily measured at fair value". The difference between these derecognised loans and the recognition value of the fund units was recognised in the income statement as an effect of the loans, based on the regulations set out in paragraph 3.2.12 of the accounting standard IFRS 9.

With regard to the need to consolidate the mutual funds subscribed - in line with that illustrated in "Part A – Accounting policies" with regard to the requirements of the accounting standard IFRS 10 for holding control over an entity - no funds were identified that required consolidation. Based on the powers assigned to the bodies establishing the fund (Board of Directors, Investors Committee, Investors' Meeting) and the majorities required to pass the related resolutions, no funds were identified in which the Group is deemed to hold the power to manage significant activities.

QUANTITATIVE INFORMATION

Breakdown of units of mutual investment funds held as at 31 December 2020

As at 31 December 2020, the value of mutual investment funds in the financial statements deriving from the transactions in question totalled 164.6 million (194.1 million as at 31 December 2019), fully referring to the Parent Company. The table below provides the breakdown of funds held, indicating the fund management company, the first closing date and the subsequent contributions, as well as the investment policy followed by the fund.

Fund name	Book value as at 31/12/2020(*)	Asset Management Company	First closing date/subsequent contributions	Fund investment policy
IDeA Corporate Credit Recovery I	1,677	Dea Capital Alternative Funds SGR	23 June 2016 27 June 2017 4 July 2019	Past due loans, unlikely to pay or corresponding or similar categories of loans and/or loans subject to restructuring, due from target companies, participating financial instruments or shares issued by the above and, possibly, short-term loans deriving from self-liquidating credit lines granted to said target companies
IDeA Corporate Credit Recovery II	23,788	Dea Capital Alternative Funds SGR	28 December 2017 18 February 2019	Past due loans, unlikely to pay or corresponding or similar categories of loans and/or loans subject to restructuring, due from target companies, from participating financial instruments or shares issued by the above and, possibly, short-term loans deriving from self-liquidating credit lines granted to said target companies
IDeA Corporate Credit Recovery II – Shipping segment	81,002	Dea Capital Alternative Funds SGR	21 December 2018	Past due loans, unlikely to pay or corresponding or similar categories of loans and/or loans subject to restructuring, due from target companies operating in the field of shipping and maritime transport, without specific sector restrictions, from participating financial instruments or shares issued by the above and, possibly, short-term loans deriving from self-liquidating credit lines granted to said target companies
Clessidra Restructuring Fund	23,812	Clessidra SGR	25 September 2019	Past due loans, unlikely to pay, forborne performing and non-performing loans, performing high risk loans due from target companies, from participating financial instruments/shares/convertible bonds issued by said companies, loans disbursed in the form of debtor in possession financing transactions to support the target companies in restructuring the debt disbursed
Back2bonis	34,288	Prelios SGR	23 December 2019	Untranched asset backed securities issued as part of securitisation transactions carried out pursuant to Law 130/99, whose underlying is represented by loans mainly classifiable as "unlikely to pay", not due from consumer debtors, as well as loans disbursed to those debtors as part of debt restructuring transactions, recovery and/or turnaround and/or similar operations or as part of repossessions and similar actions on collateral

(*) Assets included in the financial statement item "20 c. Financial assets at fair value through profit and loss - other financial assets mandatorily measured at fair value"

The negative change in the year, totalling 29.5 million, is attributable to the distributions received from the SGRs (-5.2 million), to the valuation losses (-15.4 million), as well as to the effects of the conversion of the investment into dollars held in the "IDeA Corporate Credit Recovery II - Shipping segment" fund (-8.9 million).
The fair value measurement of the above funds is made on the basis of the NAV communicated periodically by the SGR (IDeA funds), or through a valuation technique based on the discounting of the expected recovery flows based on a discount rate that is considered to reflect the remuneration requested by the market for a similar asset ("Clessidra Restructuring Fund" and "Back2bonis" funds).

It is also specified that the fund units held represent the Group's maximum exposure to risk; with regard to the above transactions, there are no guarantees or irrevocable credit lines issued to the fund, nor are there commitments to subscribe additional units of the fund.

For the transactions carried out through the scheme of the sale of loans to a securitisation SPE pursuant to Law 130/99 and the concurrent subscription of ABS by the assigning intermediaries, refer to that illustrated in "C. Securitisation transactions" above.

D.4 Prudential consolidation - covered bond transactions

Covered bond issue programmes

QUALITATIVE INFORMATION

Strategic goals

The Covered Bonds ("CB") issue is part of Banco BPM Group's strategic plan, and represents a tool to diversify sources of funding, to reduce the relative cost and to extend the maturities of liabilities.

Banco BPM Group has three Covered Bond Loan issue programmes in place: specifically, the "BP CB1", "BPM CB1" and "BPM CB2" programmes.

For the former Banco Popolare Group, during 2010 the first programme of CB issues concerning residential mortgages ("Residential CB" or "BP CB1") was launched. The maximum amount of CB that may be issued under the programme was extended from the initial 5 billion to 10 billion in February 2011.
At the former BPM Group level, on 13 November 2007, the Board of Directors of Banca Popolare di Milano authorised a CB issue programme ("BPM CB1"), for a maximum amount of 10 billion, relative to only residential landed and mortgage loans, structured, however, to also include commercial mortgages. Subsequently, on 10 March 2015, the Board of Directors of the former BPM Group approved a second CB programme ("BPM CB2") structured to only include the assignment of residential landed and mortgage loans for a maximum amount of 10 billion.

Structure of the Programmes

Following the merger by incorporation of BPM S.p.A. into Banco BPM, which was completed in November 2018, Banco BPM took on the role of sole Originator Bank for the assets pursuant to art. 7-bis of Italian Law no. 130 of 30 April 1999, as well as the role of Issuer Bank for the Group's CB programmes.

With reference to the BP CB1 Programme, Banco BPM provided for without-recourse transfers to the SPE BP Covered Bond S.r.l. (60%-owned by Banco BPM), the related monetary receivables deriving mortgage loans having the characteristics set forth in art. 2, paragraph 1, letter a) of the MEF Decree (Mortgage Loans).

With reference to the BPM CB1 and BPM CB2 Programmes, the pecuniary claims deriving from residential landed and mortgage loans with the features set out in art. 2 of the MEF Decree (Mortgage Loans), and the commercial loans of only the BPM CB1 Programme, were transferred to the SPE BPM Covered Bond S.r.l. (of which Banco BPM holds 80%) within the sphere of the "BPM CB1" Programme and to the SPE BPM Covered Bond 2 S.r.l. (of which Banco BPM holds 80%) within the sphere of the "BPM CB2" Programme.

Subordinated loan

For all Banco BPM Group's CB programmes, the Originator Banks (now only Banco BPM) granted a Subordinated Loan to the SPEs on the sale of assets to provide them with the financial resources required to acquire the related receivables (except when the SPE provided for the direct payment of the assets purchased). The SPEs must repay the subordinated loans on the final repayment date, also taking into account the extension of the deferral of the repayment date in the event of the Issuer's default, in accordance with the applicable priority of payments and within the limits of the funds available. In any event, at each interest payment date, there is an option to repay the subordinate loans in advance provided that the residual principal amount of the loans is equal to or higher than the residual debt of the Covered Bonds outstanding and that the tests contemplated by the regulations and by contract are complied with. Interest is paid on subordinated loans at a fixed rate or at a rate equal to the average interest rate of the CB Series issued, plus any excess spread generated by the structure.

Derivative Contracts

The BPM CB2 Issue Programme has three derivative contracts in place called "Covered Bond Swaps" subscribed by the SPEs and market counterparties. Said swaps are interest rate swaps that hedge, at the consolidated level and also in the case of the Issuer's default, the interest rate risk deriving from the misalignment between the interest flows of the portfolio of assets sold to the respective SPEs and the interest flows on the CBs issued. The "BP CB1" Programme has only one Covered Bond Swap contract in place, entered into by the SPE and UBS, while there are no Covered Bond Swap contracts in place for the "BPM CB1" Programme.

There are no longer any Mortgage Pool Swap contracts in place for any of the three CB Programmes of the Group.

Guarantees

In order to guarantee the repayment of the Covered Bonds should the Issuer not fulfil its obligations to pay, the SPEs have issued an unconditional and irrevocable primary guarantee valid for separate assets for the benefit of the investors that will subscribe the Covered Bonds. The guaranteed amount is equal to total interest and principal that must be paid to the investors on each class of Covered Bond. The regulations require that the integrity of the guarantee should be ensured during the life of the Covered Bonds and to this end, specific tests are envisaged that take the amount and the characteristics of both the assets assigned and the CB issued into account. The tests are carried out quarterly by the Group's Finance Organisational Structure and are checked by the Risk Management Organisational Structure. The accuracy of the tests carried out when the individual CB series are issued and then on a quarterly basis is also checked by an external party, the Asset Monitor, which, in accordance with the Supervisory Regulations, must be an audit firm other than that assigned to audit the financial statements. The Asset Monitor must also check the quality and integrity of the assets sold and draw up an annual report containing the results of the checks carried out. The control system also avails of the Internal Audit department, which verifies the adequacy of the internal checks, also on the basis of the annual report drawn up by the Asset Monitor.

Regulatory and contractual tests

Regulatory tests, conducted quarterly on the portfolios of each of the issue programmes, are as follows:

- the Nominal Value Test, which verifies that the nominal value of the residual loans in the portfolio sold is higher than the nominal value of the outstanding CB;
- the NPV Test, which checks that the present value of the residual credit portfolio is greater than the present value of the outstanding CBs;
- the Interest Coverage Test, which verifies that the interest collected and to be collected, net of the costs of the SPE, is higher than the interest to be paid to the holders of CB.

If the requirements of all of the tests are met, payments may be made in accordance with the "order of payment". In accordance with the contractual documentation of the programmes, the Asset Coverage Test on the portfolio should also be respected, which checks that the nominal value of the loans, weighted on the basis of any delays in the payment of the latter and the level of over-collateralisation envisaged by the contracts, is higher than the nominal value of the outstanding CB. The infringement of the regulatory and contractual tests leads to an obligation for the assigning banks to add to the portfolio.

Collection and administrative management services

For each BP Programme of the Group, the collection and management of transferred receivables is carried out by Banco BPM, which acts in the capacity of the sole Servicer.

In particular, for the "BP CB1" programme, the amounts collected are paid into current accounts held in the name of the SPE BPM Covered Bond S.r.l. at Banco BPM (Interim Account Bank) and then transferred daily to the accounts held in the name of the SPE, also at Banco BPM (Transaction Account Bank). Banco BPM also acts as Administrative Servicer, namely it provides administrative services and fulfils tax-related requirements on behalf of the SPE BP Covered Bond S.r.l.

For the "BPM CB1" and "BPM CB2" programmes, the amounts collected are paid into current accounts held respectively in the name of BPM Covered Bond S.r.l. and BPM Covered Bond 2 S.r.l. at Banco BPM and then transferred daily to the accounts, also at Banco BPM, held in the name of the SPEs.

QUANTITATIVE INFORMATION

Existing and significant programmes during 2020

Banco Residential CB Programme ("BP CB1")

During previous years, Banco BPM, in its capacity as the Originator Bank, sold a total of twelve mortgage portfolios to the SPE BP Covered Bond S.r.l. for a total residual debt of 16.8 billion; the SPE paid the purchase prices of the various portfolios using the revolving Subordinated Loan granted by the same originator bank and the available liquidity deriving from the amortisation of the loan portfolio deposited in its current accounts held at Banco BPM. Banco BPM took on the role of Servicer, managing the collection of the receivables.

The table below shows the overall value of the loans sold to the SPE as at 31 December 2020:

Bank	Value as at 31/12/2020	Value as at 31/12/2019
Banco BPM	3,964,753	4,565,637

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

The table below shows non-performing loans:

Bank	Value as at 31/12/2020	Value as at 31/12/2019
Banco BPM	281,252	184,850

In 2020, the mortgage loans portfolio generated collections totalling 633 million, of which 567 million represented principal and 66 million represented interest.

Bonds issued by Banco BPM

As part of the BP CB1 Programme, Banco BPM issued twelve series of CBs, listed on the Luxembourg Stock Exchange, and an unlisted Registered Covered Bond. These securities were subscribed to by institutional investors or by Banco BPM.

Overall, the securities issued by Banco BPM amounted to 14,950 million, of which 11,700 million was redeemed, including 1,500 million as redemption of the retained Eleventh Series during the year.

As at 31 December 2020, the securities issued and outstanding amounted to 3,250 million, and break down as follows:

Date of issue	Series/Tranche	Notional value	Coupon	Maturity	Issue Price (flat quotation)	Moody's/ DBRS Rating (**)
24/01/2011	Registered CB (1)	100,000	5.250%	03/04/2029	96.590	Aa3/A
05/04/2013	6th Series 1st tranche (2)	150,000	4.000%	31/03/2023	99.482	Aa3/A
08/01/2014	7th Series 1st tranche (3) (5)	1,000,000	Eur 3M + 100 bps	31/03/2023(*)	100.000	Aa3/A
05/03/2015	9th Series 1st tranche (4)	1,000,000	0.75%	31/03/2022	99.917	Aa3/A
28/03/2018	12th Series 1st Tranche (3)	1,000,000	Eur 1M + 30 bps	30/06/2021	100.000	Aa3/A
		3,250,000				

(1) The securities were placed in the form of a private placement with market investors.
(2) The securities were subscribed by Banca Generali S.p.A.
(3) The securities were fully subscribed by Banco BPM and used as collateral in monetary policy operations with the Eurosystem.
(4) The securities were subscribed by institutional investors.
(5) On 27 March 2019 partial early redemption was carried out for 500 million.
(*) In March 2016, the Maturity Date was extended from 31 March 2016 to 31 March 2019. In March 2019, the Maturity Date was extended from 31 March 2019 to 31 March 2023.
(**) Rating as at 31 December 2020.

Other information

In March 2020 the Final Terms of the retained Eleventh Series were amended so as to enable the right to early redemption, even of a part of the nominal value, to be exercised at any time. Subsequently, a partial early redemption was made for 350 million and, at the maturing date of 30 June 2020, the remaining portion of 1.15 billion was redeemed, by natural settlement.

On the Guarantor Payment Date of 30 June 2020, the SPE redeemed part of the Subordinated Loan granted by Banco BPM for an amount of 1.3 billion in advance, and for an amount of 300 million on the Guarantor Payment Date of 31 December 2020.

In October 2020, Banco BPM repurchased the positions classified as bad loans as at 10 October 2020 "en bloc" and the relative price was paid to the SPE in November 2020.

BPM Covered Bond Programme ("BPM CB1")

In previous years, a total of nine portfolios of eligible assets were sold to the SPE BPM Covered Bond S.r.l., with total residual debt of 12.103 billion.

The SPE paid the purchase prices of the various portfolios using the Subordinated Loans granted by the Originator Banks, now Banco BPM, and the available liquidity deriving from the amortisation of the loan portfolio deposited in its current accounts held at Banco BPM. The Originator Banks, now Banco BPM, took on the role of Servicer, managing the collection of the receivables.

The table below shows the overall value of the loans sold to the SPE as at 31 December 2020:

Bank	Value as at 31/12/2020	Value as at 31/12/2019
Banco BPM	5,429,849	6,170,027

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

The table below shows non-performing loans:

Bank	Value as at 31/12/2020	Value as at 31/12/2019
Banco BPM	466,801	119,402

In 2020 the mortgage loans portfolio generated collections totalling 797 million, of which 727 million represented principal and 70 million represented interest.

Bonds issued by Banco BPM

As part of the "BPM CB1" Programme, Banco BPM issued eleven CB Series, listed on the Luxembourg Stock Exchange, for a total of 11,150 million, originally subscribed by institutional investors or by Banco BPM itself. These have been redeemed for a total of 5,500 million, of which 750 million in 2020 as the full payment of the Sixth Series, fully held by Banco BPM.
Thus, as at 31 December 2020, there are five Series of covered bonds outstanding, fully repurchased by Banco BPM, and used for refinancing operations with the ECB or for Repo transactions with market counterparties, for a total of 5,650 million, broken down as follows:

Date of issue	Series/Tranche	Notional value	Coupon	Maturity	Issue Price (flat quotation)	Moody's Rating (*)
19/11/2015	7th Series	900,000	3-month Euribor + 60 bps	19/11/2022	100.00	Aa3
07/11/2016	8th Series	1,000,000	3-month Euribor + 30 bps	07/11/2021	100.00	Aa3
26/04/2018	9th Series	2,500,000	3-month Euribor + 30 bps	26/04/2021	100.00	Aa3
23/11/2018	10th Series	600,000	3-month Euribor + 90 bps	23/11/2022	100.00	Aa3
25/09/2019	11th Series	650,000	3-month Euribor + 80 bps	25/03/2025	100.00	Aa3
Total		**5,650,000**				

(*) Rating as at 31 December 2020

Other information

With reference to the Sixth Series of CBs issued, a partial early repayment of 150 million was made on 9 January 2020 and, subsequently, on 16 March 2020, the remaining portion of 600 million was repaid in full, by natural settlement.

The subordinated loan granted by Banco BPM to the SPE was repaid for 500 million on the Guarantor Payment Date of 15 April 2020 and for 190 million on both the Guarantor Payment Date of 15 July 2020 and that of 15 October 2020.

In October 2020, Banco BPM repurchased the positions classified as bad loans as at 10 October 2020 "en bloc" and the relative price was paid to the SPE in November 2020.

Events occurring after the end of the year

With regard to the Ninth Series of CBs issued, a partial early repayment of 600 million was made on 7 January 2021.

The subordinated loan granted by Banco BPM to the SPE was repaid for 250 million on the Guarantor Payment Date of 15 January 2021.

BPM Covered Bond 2 Programme ("BPM CB2")

During previous years, ten residential and landed mortgage loan portfolios were sold to the SPE BPM Covered Bond 2 S.r.l. for a total value of 9.2 billion.

To pay the purchase price of the portfolios, the SPE used a subordinated credit facility granted by the Originator Banks. The Originator Banks, now Banco BPM, took on the role of Servicer, managing the collection of the receivables.

The table below shows the overall value of the loans sold to the SPE as at 31 December 2020:

Bank	Value as at 31/12/2020	Value as at 31/12/2019
Banco BPM	5,772,963	6,880,118

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

The table below shows non-performing loans:

Bank	Value as at 31/12/2020	Value as at 31/12/2019
Banco BPM	296,338	62,028

In 2020, the mortgage loans portfolio generated collections totalling 1,199 million, of which 1,093 million represented principal and 106 million represented interest.

Bonds issued by Banco BPM

As part of the BPM CB2 Programme, Banco BPM issued six CB Series, which are listed on the Luxembourg Stock Exchange, for a total nominal value of 4,250 million. All bonds issued by the programme have been placed on the capital market.

Therefore, as at 31 December 2020, the bonds issued and outstanding break down as follows:

Date of Issue	Series/Tranche	Notional value	Coupon	Maturity	Issue Price (flat quotation)	Moody's Rating (*)
14/09/2015	1st Series	1,000,000	0.875%	14/09/2022	99.872	Aa3
02/12/2015	2nd Series	750,000	1.500%	02/12/2025	98.946	Aa3
08/06/2016	3rd Series	750,000	0.625%	08/06/2023	99.761	Aa3
23/01/2018	4th Series	750,000	1.000%	23/01/2025	99.792	Aa3
25/07/2018	5th Series	500,000	1.125%	25/09/2023	99.446	Aa3
05/12/2019	6th Series	500,000	0.5%	05/12/2025	100.000	Aa3
Total		**4,250,000**				

(*) Rating as at 31 December 2020

Other information

The subordinated loan granted by Banco BPM to the SPE was repaid for 300 million on the Guarantor Payment Date of 18 January 2020 and for 250 million on the Guarantor Payment Dates of 18 April 2020, 20 July 2020 and 19 October 2020.

In October 2020, Banco BPM repurchased the positions classified as bad loans as at 10 October 2020 "en bloc" and the relative price was paid to the SPE in November 2020.

Events occurring after the end of the year

The subordinated loan granted by Banco BPM to the SPE was repaid for 350 million on the Guarantor Payment Date of 18 January 2021.

Accounting representation

On the consolidated financial statements of Banco BPM S.p.A. (as Issuer Parent Company and transferor bank) the SPE belong to the Group and are included in the consolidation on a line-by-line basis.
The main balance sheet items linked to the issue of CB are shown below:

- loans sold by the transferor banks to the SPEs continue to be posted under the balance sheet assets under item "40b - Loans to customers", and the relative interest is posted under item 10 of the income statement "Interest and similar income". As at 31 December 2020 the book value of the mortgages is (i) 3,964.8 million for the BP CB1 programme, (ii) 5,429.8 million for the BPM CB1 programme and (iii) 5,773 million for the BPM CB2 programme. Said value is specifically indicated under the "Assets pledged to secure own liabilities and commitments" in the Section "Other information" in "Part B – Information on the Balance Sheet" of these Notes;
- the CBs issued are posted under securities in issue (item 10c of the Liabilities) and valued according to the fair value hedge accounting rules, hedged by the interest rate hedge derivative stipulated by the SPE ("Covered Bond Swap"). The securities issued also include funding transactions by means of repurchase agreements on the series of CB repurchased, in line with the clarifications to this regard set out by the Supervisory Authority. The book value of the CBs as at 31 December 2020 amounts to (i) 1,744.3 million relative to the BP CB programme, (ii) 500 million relative to the BPM CB1 programme and (iii) 4,302.5 million relative to the BPM CB2 programme. Note that the issues of part of the BPM CB1 programme and part of the BP CB1 programme are not posted inasmuch as used as collateral for monetary policy operations with the Eurosystem, as described previously;
- the Covered Bond Swap contracts, between the SPEs and the market counterparties outside the Group, are classified under item 50 "Hedging derivatives" in assets and/or under item 40 "Hedging derivatives" in liabilities.

The consolidated income statement has the following components:

- interests on the loans sold (cover pool), as mentioned above, posted under the item "Interest and similar income";
- interest on the Covered Bonds issued, posted under the item "Interest and similar expense";
- the differentials relative to the hedging derivatives (which transform the Covered Bond rate from fixed to floating) which are posted under the "Interest and similar income" or "Interest and similar expense" according to the balance;
- the fair value delta of the hedging contracts and of the items covered, posted under item 90 "Fair value gains/losses on hedging derivatives".

E. Prudential consolidation - Credit risk measurement models

When measuring the credit risk of portfolios, the bank uses an econometric model for management purposes, supported by an extensive set of data and risk variables, known as the Portfolio Model.
Using Credit-VaR metrics, the model makes it possible to define the probability distribution of losses within the loan portfolio. This distribution is used to measure the maximum potential loss over a yearly time period and with a specific level of confidence.
More specifically, in order to obtain this distribution, the model's processing engine uses a Monte Carlo simulation approach, which simulates a sufficiently high number of scenarios so as to provide a good empirical approximation of the theoretical distribution of loan portfolio losses.
The calculation of the maximum potential loss, which can be broken down into the classic measures of Expected Loss and Unexpected Loss (Economic Capital), is affected by concentration risk and systematic risk, respectively.
Concentration risk derives from large exposures to single counterparties – name concentration – or types of peer counterparties in terms of industries, whose credit risk depends on one or more systematic factors – industry concentration. On the other hand, systematic risk derives from the impact of unexpected changes in macroeconomic factors on risk parameters (PD and LGD) of the single accounts, using the elasticity estimated using satellite models capable of linking PD and LGD of peer counterparties and accounts and a set of (international and domestic) economic-financial factors.
Lastly, the portfolio model periodically undergoes stress testing to evaluate the credit risk sensitivity of the Group's portfolio to extreme changes in economic and financial factors.

As at 31 December 2020, the expected loss, calculated on the Basel III validation perimeter (for which Banco BPM was authorised by the Regulator to use internal rating systems to calculate the capital requirements on credit risks), was 0.51% of the exposure to default, while the overall loss (expected and unexpected loss measured by the C-VaR method with a 99.9% confidence level) amounted to 4.12% of the exposure to default.

The internal models for estimating PD, LGD and EAD are subject to an internal validation process by the Risk Function and to a third-tier control by the Audit Function. The outcome of these processes is outlined in special reports submitted to the Corporate Bodies and sent to the European Central Bank/Bank of Italy.

Outcome of backtesting of rating systems

In order to calculate capital requirements against Credit Risk and only on the scope of the Parent Company, Banco BPM Group adopts internal estimates of PD and of LGD for Corporate and Private Customer portfolios and EAD for the retail segment.
The comparison between estimates and empirical data is made separately for PD, LGD and CCF, by means of backtesting conducted by the Internal Validation function.

With reference to the PD models, Banco BPM Group adopts performance measurements to check the accuracy ratio (AR) of the estimates and calibration tests ("classical" binomial tests on a multi-period and single period basis) to compare the default rates (DRs) recorded over an annual time horizon with the estimated PD values.
Regarding the Corporate segment, the latest backtesting showed a good discriminatory range of models, both in terms of single modules and final integrating ratings, which produced values comparable and at times superior to those obtained during the development phase. With regard to the calibration, satisfactory values were found for all models.

Overall, the model performed well for the Private customer segment. In several modules, the performance was better than that obtained in the development phase. With regard to calibration, the results of the binomial tests were satisfactory.

With regard to the LGD parameter, testing was conducted on both the performing and in default components. Internal Validation did not detect significant problems with the estimates generated for the private and corporate models.

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

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

1.2 MARKET RISKS

Impacts resulting from the Covid-19 pandemic

With regard to the impacts of the Covid-19 pandemic, the risk measurement methods and processes, with a view to continuity, did not change. In fact, the Group continued with its daily monitoring, guaranteeing the reliability of the risk assessments and the fair value measurements of the financial instruments in the portfolio. With regard to the calculation of the Historical VaR, the extreme market scenarios that emerged in March 2020 contributed to a substantial increase in risk measurement.

1.2.1 Interest rate risk and price risk - regulatory trading book

QUALITATIVE INFORMATION

A. General aspects

Market risk is the risk that the Group may generate less revenues than expected, or suffer from the impairment of balance sheet items or capital losses from financial positions held, due to sharp and adverse changes in market conditions, in particular interest rates, share prices, exchange rates, commodities and the associated volatilities and correlations (generic risk), or due to events that may impair the issuer's redemption capability (default risk) or which in any event result in a change in the solvency of the issuer (credit spread risk). Market risks can materialize both with regard to the trading book, which includes trading instruments and the associated derivative instruments, and with regard to the banking book, which includes financial assets and liabilities that are accounted for differently than those included in the trading book.
The organisational model adopted by Banco BPM Group for the trading books exposed to interest rate risk and price risk requires:

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

With regard to the internal model to calculate capital absorption against market risk, following the request submitted in 2019 by Banco BPM Group, in the Internal Model Decision document dated 16 November 2020, the Supervisory Authority granted the authorisation to extend the Internal Model for Market Risk to the specific risk of the debt securities of the trading book.
Therefore, from the reporting date of 31 December 2020, Banco BPM Group will use the extended model for the calculation of the capital requirement against Market Risk. Said requirement is calculated on the basis of VaR and Stressed VaR metrics – including the specific risk of debt securities – and IRC (Incremental Risk Charge) metrics.

Parent Company's Portfolio

Two main types of trading operations can be identified within the Parent Company:

- the investment portfolio, which represents the major source of generic interest-rate risk and credit spread risk, that are recorded in the accounting category Trading, and it is almost completely a bond portfolio. At the end of 2020, the Parent Company's bond portfolio amounted to a nominal value of approximately 901 million (nominal short position), comprised almost exclusively by foreign Government bonds (nominal short position of 784 million) and by a marginal share of foreign financial securities. The sensitivity (delta) to the overall interest rate risk at the end of the financial year, calculated assuming a parallel change in the interest rate curve of 1 bp, was approximately +103 thousand euro, deriving from a net prevalence of exposures on the various nodes of the Euro rate curve. This portfolio also presents an overall exposure to credit spread risk of about +116 thousand euro, considering a 1 basis point shock. That exposure is the result of a long exposure subject to sensitivity on German and French government securities, partially offset by an opposing position in Italian and Spanish government securities. In addition to the bond portfolio, there is the price risk component of the equity trading portfolio, which has a small exposure of approximately 4 million;
- the Treasury portfolio contained no securities at the date of the financial statements.

The above-cited risk exposures of the Parent Company are monitored on a daily basis to verify their compliance with the operating thresholds, on the entire portfolio and on the single underlying assets, set by the Board of Directors.

Trading book of Banca Akros, held as part of its Investment Banking activities

Banca Akros holds a trading book, the main interest rate risk exposures of which concern transactions on both money markets and the associated hedging derivatives, as well as those on the markets for OTC derivatives and structured products and listed derivatives.
Transactions in both plain vanilla and structured instruments and listed and unlisted derivatives, including trades on the secondary market of structured products issued or sold by the banks of the Group. The destructuring of complex transactions based on the underlying enables the centralised management of the interest rate, exchange rate and price risks within the specific offices of the Bank's Global Markets Department, which use sophisticated position keeping systems.
Trading in interest rate derivatives mainly consists of optimising the flows generated by the need to hedge interest rate risk by institutional customers (for example, Banks, Funds and Insurance companies), and corporate customers of Banca Akros and the Parent Company, taking on the risk as its own and managing it using dynamic hedging strategies. Banca Akros operates as a market maker on OTC derivatives, mainly on the Euro interest rate curves. The process of rebalancing risks on an ongoing basis entails, also based on market liquidity, the use of trading in regulated futures and the related options on short and medium/long-term interest rates.
Trading in bonds issued by financial companies or corporates, traded on the secondary market (Eurobonds) derives from the need to meet customer requests, mainly from institutional customers. On the secondary market, the Bank operates as a market maker on bonds from corporate, financial and supranational issuers, primarily denominated in Euro, through trading on multilateral trading facilities or OTC. Other activities to be reported during the year include the market making conducted on the Systematic Internaliser to support the liquidity of retail bond issues of the Group and third parties, which was carried out as part of the larger function of market maker on bonds.
More specifically, bond exposure, net of Banco BPM issues, amounted to a nominal value of around 129 million at the end of the year, 49% of which was represented by Financial securities (mainly Italian), 44% by Corporate bonds, 6% by Supranational bonds, 5% by Italian Government bonds and the remainder by a short position in foreign Government bonds (-3%).
The exposure to credit spread risk was approximately -35 thousand euro overall, considering a shock of 1 basis point, deriving mainly from Italian financial securities (credit spread sensitivity: approximately -32 thousand euro). The exposure to Italian government bonds at the end of the year was lower, equal to a credit spread sensitivity of around -1,000 euro, considering a shock of 1 basis point, as it is concentrated on medium/short-term maturities.
The sensitivity (delta) to the overall interest rate risk at the end of the year, net of long and short exposures on the various currencies and yield curve nodes, was approximately nil, assuming a parallel change in the interest rate curve of 1 basis point. The greatest exposure to interest rate risk was recorded on the following curves: USD (4 thousand euro, negative rho), EUR (3 thousand euro, positive rho), JPY (3 thousand euro, positive rho).
The main exposures to equity risk are related to trading on cash markets and associated listed or plain vanilla derivatives on the derivatives and OTC structured products market and the listed derivatives market.

Specifically, the scope includes portfolios of equities and related listed derivatives, held for trading purposes, for market making transactions on individual stock futures and options and for activities related to specialist services (continuous exposure of proposals to buy/sell), as well as transactions in structured instruments and listed derivatives.
The destructuring of complex operations based on the underlying enables the centralised management of the interest rate, exchange rate and price risks within the specific offices, which use a sophisticated position keeping system specialised in interest rate, exchange rate and price risks. The system is integrated with pricing models and risk measurement (Greeks) developed in-house by the Financial Engineering function and validated by the Parent Company's Risk Function.
At the end of the year, the overall exposure to the rate risk of the share portfolio is equivalent to a delta equivalent short position of about -4 million, concentrated on the Eurozone (-4.2 million), Asia (-1.1 million) and the US (+0.9 million), mainly on liquid share indices. With regard to the indicator Vega (sensitivity to changes in the implicit volatility of the underlying), relating to the equity risk class, at the end of 2020 the exposure was a positive 678 thousand euro, considering a parallel shock of 1% on volatility levels. That exposure mainly originates from liquid share indices and "Large Cap" single stocks.
Lastly, the sensitivity to the dividend risk factor, considering a parallel shock of 10% on the levels of this parameter, was +874 thousand euro at the end of the year, concentrated mainly in the Oil&Gas and Utilities sectors.

Banca Akros' risk to the aforementioned exposures are monitored daily to ensure that the operating limits set by the Board of Directors are complied with for the entire portfolio and for the individual underlying assets.

B. Interest-rate risk and price risk management process and measurement methods

The task of controlling the financial risk management, with a view to identifying the different types of risk, defining the methods to measure the same, to controlling limits at strategic level and verifying the consistency between the operations of the same and the risk/return targets assigned, is centralised in the Parent Company under the responsibility of the Risk Function for all Group banks.
Specifically, for the identification, measurement, management and operating control of the risk positions of the Banks of the Group, the Parent Company's Finance Function and Banca Akros make use of sophisticated position-keeping and risk control systems that provide constant control over exposure levels and over the accurate verification of compliance with the operating limits defined by the Board of Directors of the Parent Company and the Boards of Directors of the Group Banks.
Risk analyses of the Trading book are carried out by means of indicators, both deterministic, such as the sensitivity to market risk factors, and probabilistic, such as VaR (Value at Risk), which measures the maximum potential loss of the portfolio over a certain time horizon and with a specific level of confidence.
The VaR is the main risk measure used by the Group to quantify exposure to market risk. It is calculated by applying a historical simulation model and a full revaluation of market factors approach (the value of the portfolio under analysis is completely revalued based on the results of the simulation). The application of the full revaluation approach perfectly captures the convexity of derivative instruments without making any type of approximation.
In addition to the Regulatory VaR calculated under current conditions, a Regulatory VaR under stressed conditions (Stressed VaR) is calculated, which adopts the period between September 2011 and September 2012 for Banca Akros (March 2008 - March 2009 for the Parent Company) as the most severe scenario. The period of stress is monitored with a frequency and a method defined by internal regulations, which enable it to be promptly identified when changes in the composition of the portfolio occur, at the same time guaranteeing a certain degree of stability of the same.
As envisaged by prudential requirements, that model is used to calculate the capital requirement for market risk, as well as for operational purposes.
With respect to the scope of Banco BPM and Banca Akros, risk capital estimates under the VaR approach are made using the historical simulation method and considering a time horizon of one working day and a statistical confidence interval of 99%. VaR is calculated by applying a Lambda coefficient (decay factor) of 0.99, so as to render the estimate of the metric more reactive to the most recent changes in market parameters, and by equal-weighting historic observations (Lambda=1). For regulatory purposes, equal-weighting measurement is used, while for operational purposes, the higher between the VaR calculated with the cited decay factor and the equal-weighted one is prudentially used.
The measurement of operational risk includes the interest rate risk, both in terms of general and specific risk components, as well as the equity and exchange rate risk. In addition, operational risk measurement includes dividend and correlation risks, through stress testing techniques and without the benefit of diversification.

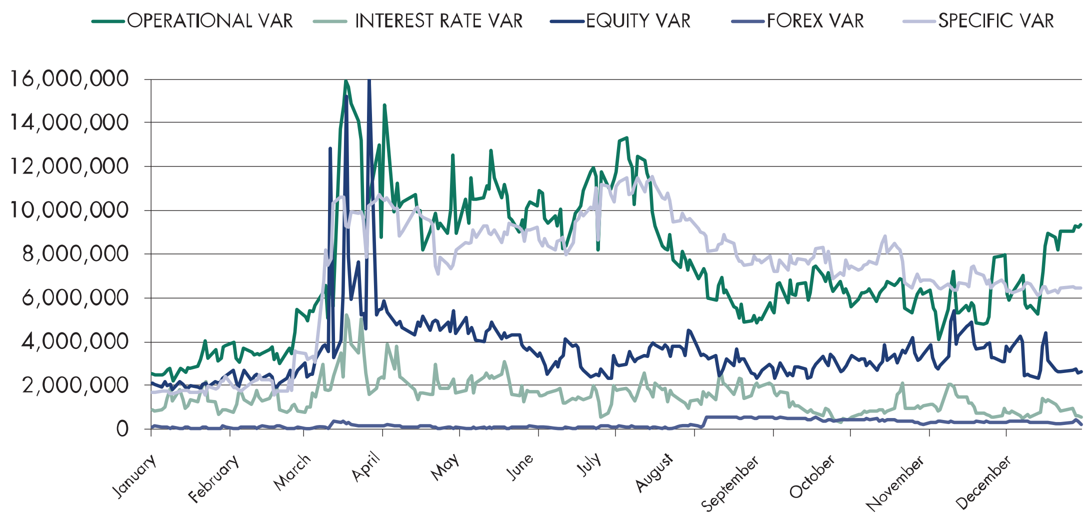
The capital requirement for supervisory purposes is measured with an internal validated model, for equity risk, exchange rate risk, general interest rate risk and specific credit risk (from November 2020), while it is measured with the standard method for other risk factors (exchange risk of the banking book and commodity risk).

QUANTITATIVE INFORMATION

Regulatory trading book: internal models and other sensitivity analysis methods

The Value at Risk (VaR) measurement considers interest rate risk, equity risk, exchange rate risk and credit spread risk, as well as the benefit of correlation between risks. Correlation risk and dividend risk are also considered, measured through stress testing techniques, with the benefit of diversification with respect to the first risk group cited.
The performance graph and a table containing the operational VaR figures are shown below for 2020, referring to the regulatory trading book of Banco BPM Group.

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

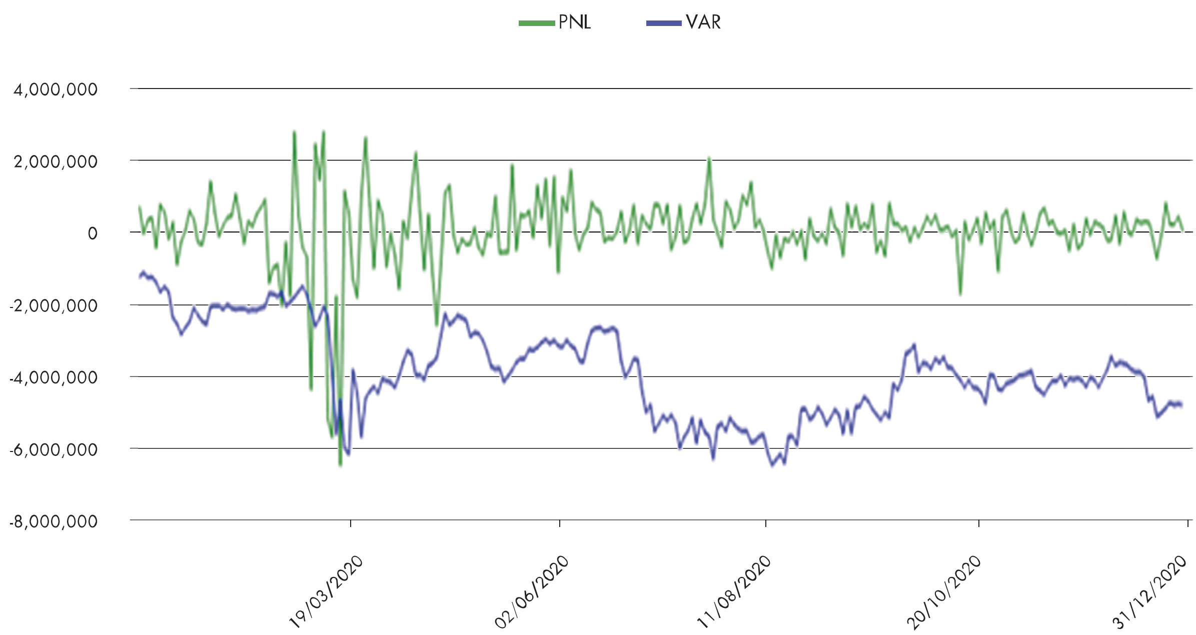


Regulatory trading books *(in millions of euro)*	**2020**			
	31 December	**average**	**maximum**	**minimum**
Interest rate risk	0.576	1.523	5.221	0.345
Exchange rate risk	0.228	0.223	0.560	0.030
Equity risk	2.626	3.743	79.315	1.793
Dividends and Correlations	0.897	1.479	2.597	0.790
Total uncorrelated	**4.327**			
Diversification effect	-1.714			
Total generic risk	**2.614**	**4.058**	**9.838**	**2.285**
Specific debt securities risk	**6.467**	**7.228**	**11.523**	**1.547**
Combined risk	**9.327**	**7.428**	**15.944**	**2.221**

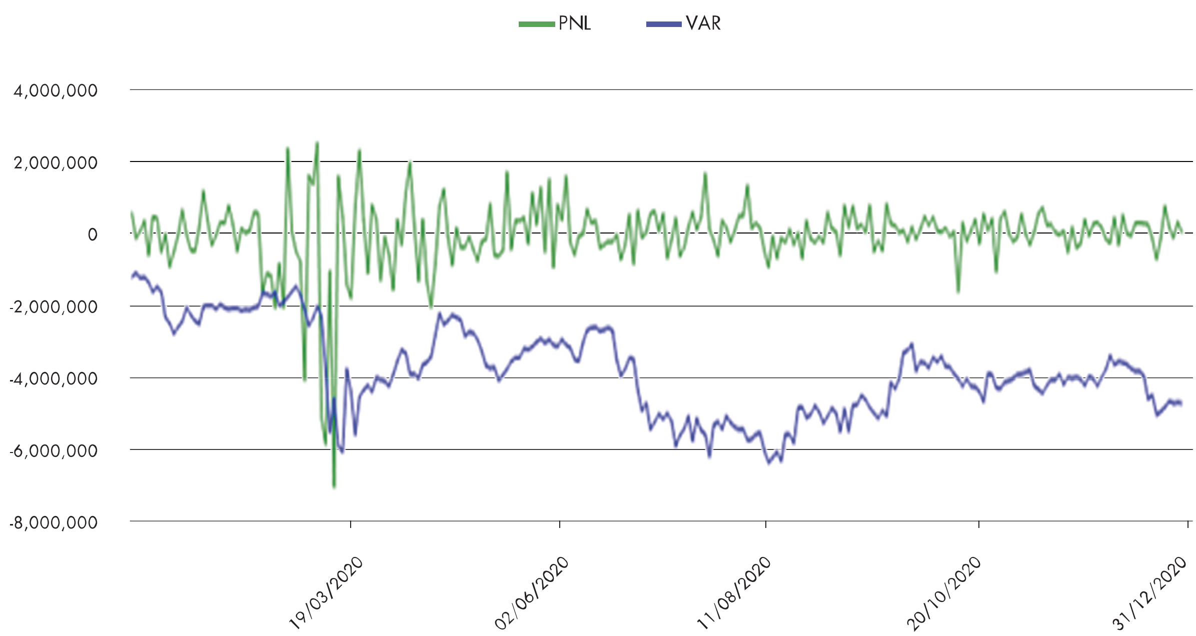
The relevant risk component is that relating to the specific risk of debt securities, due to the presence of positions in Italian financial and government securities. Changes in these securities can be attributed to the Group's overall risk trend. More specifically, in the second half of the year, the portfolio indicated a lower level of risk, to be attributed both to exposures and to the volatility of the Italian government and financial securities market.
In line with the validation of the internal model for the calculation of the capital requirement relating to market risks, backtesting is conducted on a daily basis, with a view to verifying the solidity of the VaR model adopted. These tests are conducted on the regulatory trading book of Banco BPM and of Banca Akros.

The graphs below show the backtesting relating to the VaR method, calculated on the generic and specific risk components of debt securities and equity instruments, interest rate risk and exchange rate risk.
For backtesting purposes, as envisaged by supervisory regulations in force, we used the equally-weighted VaR measurement instead of using a decay factor used in operational approaches.

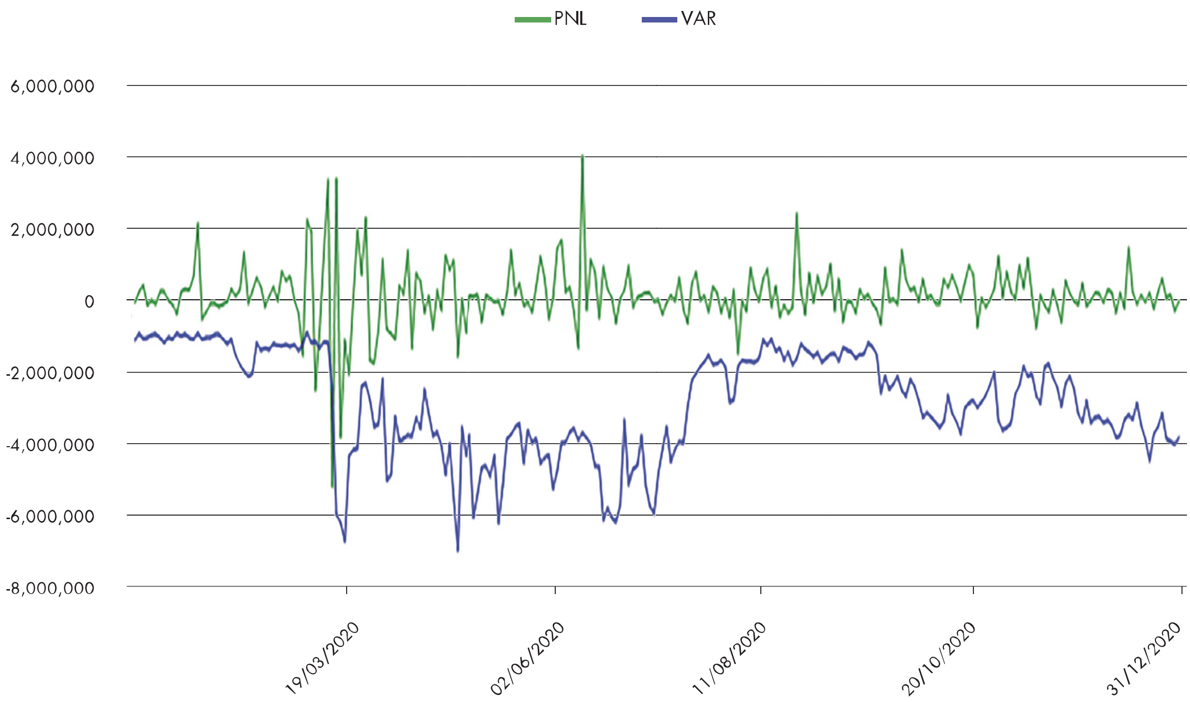
Actual backtesting Banco BPM



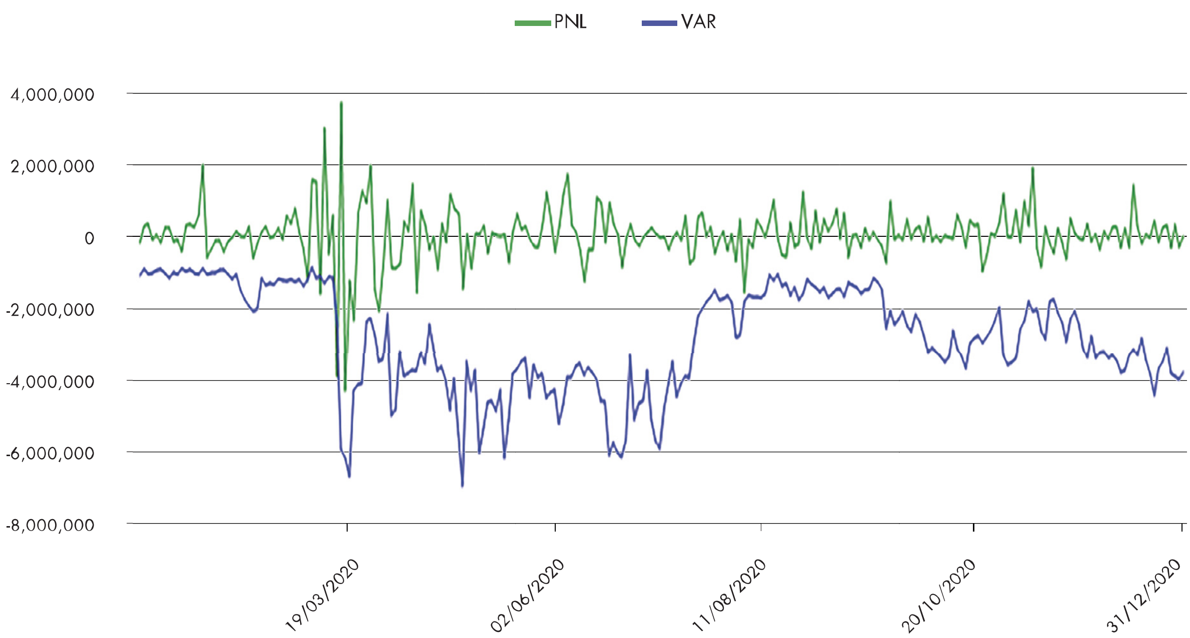
Theoretical backtesting Banco BPM



Actual backtesting Banca Akros



Theoretical backtesting Banca Akros



As regards Banca Akros, in 2020 3 Actual Backtesting exceptions and 3 Theoretical Backtesting exceptions were recorded on the Trading book, mainly due to the widening of the credit spread on issues of financial instruments against a short sensitivity position.
As regards the Parent Company, in 2020 5 Actual P&L Backtesting exceptions were recorded on the Trading book of Banco BPM, mainly due to the widening of the credit spread on issues of financial instruments against a short sensitivity position.

In addition, 6 Theoretical P&L Backtesting exceptions were recorded on the Trading book of Banco BPM, mainly due to the increase of interest rates on the medium and long term EUR curve, against a short sensitivity position.
However, following the Internal Model Decision of the Supervisory Authority on 16 November 2020, relating to the extension of the internal model for Market Risk to the calculation of the specific risk of the Trading Book and to the later Internal Model Decision on 17 December 2020, which excluded several overruns recorded in March, due to the outbreak of the Covid-19 pandemic, the number of overruns that result in an add-on to the multiplying coefficients of VaR and Stressed VaR, used to calculate capital requirements, was reduced to 2 for both entities.

Validation activities

Banco BPM Group adopts internal models to quantify capital requirements for Operational Risk, on which the Internal Validation function conducts qualitative and quantitative analyses to assess their soundness and the accuracy of the estimates for all significant risk components. Additionally, it expresses an opinion on the regular functioning, on the predictive capacity, on the performance of internal risk measurement methods and on the adequacy of operating processes to ensure, on a continuous basis, the compliance of internal methods with company needs and the evolution of the reference market.
With reference to backtesting, the data produced to support overruns is analysed, as well as specific statistical tests (Proportion of Failures test, Time Until First Failure test, Christoffersen Interval Forecast test, Mixed Kupiec test and Conditional Coverage test) that are conducted in regard to different portfolio hierarchical levels and time horizon for Banca Akros and the Parent Company. As regards Banca Akros, the results of the analysis showed that the model has a good capacity to predict the number of backtesting overruns.
Additionally, the adequacy of the scaling method used to quantify the capital requirement, as required by regulations, is reviewed.
To verify the severity of the stressed period used in the Stressed VaR risk measurement, appropriate analysis is carried out to assess any alternative periods that are more conservative than the one currently used to quantify the risk. The analyses showed that the current stressed period was adequate and could continue to be used.
Lastly, the Internal Validation function validates sample pricing models and performs benchmark models in order to evaluate the robustness of those in production.
As regards MiFiD 2 regulations, the Internal Validation Function coordinated the working group created specifically to produce the Annual Validation Report on the Trading Algorithm to be sent to CONSOB (after the assessment of the Audit and Compliance functions), with an overall result of the self-assessment process considered adequate.

1.2.2 Interest rate risk and price risk - banking book

QUALITATIVE INFORMATION

A. General aspects, management procedures and interest rate risk and price risk measurement methods

The interest rate risk relating to the banking book is mainly associated with the core activity performed by the bank acting as an intermediary in the process of transformation of maturities. In particular, the issue of fixed-rate bonds, the granting of fixed-rate commercial and mortgage loans, and funding from demand current accounts represent a fair value interest rate risk, while floating rate financial assets and liabilities represent a cash flow interest rate risk.
The Asset & Liability Management unit of the Parent Company's Finance Function is responsible for managing interest rate risk and operates in compliance with the limits for exposure to interest rate risk defined by the RAF and the indications of the Finance Committee.
The Parent Company's Risk Function is in charge of monitoring and controlling the interest rate risk of the banking book, also for the financial subsidiaries. This activity is performed on a monthly basis to verify that the limits in terms of changes in net interest income or the economic value of the banking book are complied with.
In 2020, in addition to the usual periodic maintenance and updating of internal models, particularly as regards measuring interest rate risk, activities focused on extending the application of the full evaluation to all contractual options and introducing quarterly measurements of net interest income sensitivity in keeping with a dynamic approach to financial statements.

In particular, as part of the monitoring of interest rate risk, the risk measurements used internally and subject to the RAF limit are:

- the change in expected net interest income following a parallel shock of the spot rate curves of +/- 40 bps over a time horizon of twelve months (income perspective) in keeping with a dynamic approach to financial statements (measurement in keeping with a static approach to financial statements is an operating limit);
- the value at risk of the banking book based on the VaR (Value at Risk) method over 12 months and with a confidence interval of 99.9% (capital perspective; the change in economic value following a parallel shock of spot interest rate curves of +/- 200 basis points with relation to Own Funds is an operating limit).

In accordance with normal management practice and internal regulations, Banco BPM Group conducts periodic stress tests, applying instant shocks, both parallel and non-parallel, to the interest rate curves of the currencies in which the banking book items are denominated. Additionally, during the ICAAP exercise, the impact of extreme yet plausible changes in risk factors on VaR is assessed from a capital adequacy perspective.

QUANTITATIVE INFORMATION

1. Banking book: distribution of financial assets and liabilities by residual duration (by repricing date)

Currency of denomination: Euro

Type/Residual duration	On demand	Up to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	From over 5 years to 10 years	Over 10 years	Unlimited duration
1. On-balance sheet assets	**20,427,200**	**68,095,912**	**6,660,118**	**4,876,559**	**25,499,306**	**16,019,364**	**7,248,149**	**-**
1.1 Debt securities	136,203	3,939,168	1,655,465	2,406,647	12,497,353	10,762,407	205,030	-
- with early redemption option	7,176	1,341,683	133,387	122,670	252,545	199,759	70,335	-
- other	129,027	2,597,485	1,522,078	2,283,977	12,244,808	10,562,648	134,695	-
1.2 Loans to banks	1,111,069	9,312,438	114,124	57,908	158,292	-	-	-
1.3 Loans to customers	19,179,928	54,844,306	4,890,529	2,412,004	12,843,661	5,256,957	7,043,119	-
- current accounts	8,328,870	28	20,272	30,703	111,454	1,477	-	-
- other loans	10,851,058	54,844,278	4,870,257	2,381,301	12,732,207	5,255,480	7,043,119	-
- with early redemption option	3,346,450	48,611,787	3,921,883	2,184,094	11,801,889	5,078,991	7,007,411	-
- other	7,504,608	6,232,491	948,374	197,207	930,318	176,489	35,708	-
2. On-balance sheet liabilities	**100,145,846**	**5,678,318**	**821,004**	**1,726,856**	**37,029,350**	**1,643,890**	**708,361**	**-**
2.1 Due to customers	98,523,631	1,022,401	445,614	474,097	528,293	294,812	326,162	-
- current accounts	95,835,706	226,716	50,402	11,402	-	-	-	-
- other payables	2,687,925	795,685	395,212	462,695	528,293	294,812	326,162	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	2,687,925	795,685	395,212	462,695	528,293	294,812	326,162	-
2.2 Due to banks	1,472,842	1,328,569	19,194	441,040	27,492,130	14,031	2,042	-
- current accounts	96,867	-	-	-	-	-	-	-
- other payables	1,375,975	1,328,569	19,194	441,040	27,492,130	14,031	2,042	-
2.3 Debt securities	149,349	3,327,348	356,196	811,719	9,008,927	1,335,047	380,157	-
- with early redemption option	21,321	1,450,482	7,629	602,892	648	847,465	347,211	-
- other	128,028	1,876,866	348,567	208,827	9,008,279	487,582	32,946	-
2.4 Other liabilities	24	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	24	-	-	-	-	-	-	-
3. Financial derivatives	**2,861,576**	**14,221,712**	**2,861,509**	**7,448,481**	**13,526,721**	**8,021,841**	**614,136**	**-**
3.1 With underlying security	-	-	-	-	37,500	-	-	-
- Options	-	-	-	-	37,500	-	-	-
+ Long positions	-	-	-	-	22,500	-	-	-
+ Short positions	-	-	-	-	15,000	-	-	-
- Other	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	2,861,576	14,221,712	2,861,509	7,448,481	13,489,221	8,021,841	614,136	-
- Options	1,786	118,962	33,176	12,057	88,129	19,068	16,965	-
+ Long positions	1,786	111,903	25,083	428	1,226	146	4,500	-
+ Short positions	-	7,059	8,093	11,629	86,903	18,922	12,465	-
- Other derivatives	2,859,790	14,102,750	2,828,333	7,436,424	13,401,092	8,002,773	597,171	-
+ Long positions	275,000	6,024,624	2,798,000	5,975,500	7,587,769	2,028,385	425,000	-
+ Short positions	2,584,790	8,078,126	30,333	1,460,924	5,813,323	5,974,388	172,171	-
4. Other off-balance sheet transactions	**10,298,286**	**9,794,339**	**294,848**	**209,098**	**-**	**-**	**-**	**-**
+ Long positions	7,516,072	2,278,267	294,848	209,098	-	-	-	-
+ Short positions	2,782,214	7,516,072	-	-	-	-	-	-

Currency of denomination: other currencies

Type/Residual duration	On demand	Up to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	From over 5 years to 10 years	Over 10 years	Unlimited duration
1. On-balance sheet assets	**289,505**	**571,764**	**265,791**	**363,811**	**1,556,523**	**719,087**	**5,758**	**-**
1.1 Debt securities	13,666	-	-	282,816	1,519,208	715,566	4,178	-
- with early redemption option	37	-	-	-	-	5,712	-	-
- other	13,629	-	-	282,816	1,519,208	709,854	4,178	-
1.2 Loans to banks	87,363	51,620	387	-	-	23	-	-
1.3 Loans to customers	188,476	520,144	265,404	80,995	37,315	3,498	1,580	-
- current accounts	75,596	-	-	-	-	2	-	-
- other loans	112,880	520,144	265,404	80,995	37,315	3,496	1,580	-
- with early redemption option	13,623	261,861	179,613	79,842	8,652	1,562	1,580	-
- other	99,257	258,283	85,791	1,153	28,663	1,934	-	-
2. On-balance sheet liabilities	**1,016,407**	**3,022,662**	**122,518**	**3,776**	**-**	**-**	**-**	**-**
2.1 Due to customers	864,637	3,254	122,518	1,331	-	-	-	-
- current accounts	860,098	3,254	122,518	1,331	-	-	-	-
- other payables	4,539	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	4,539	-	-	-	-	-	-	-
2.2 Due to banks	151,770	3,019,408	-	2,445	-	-	-	-
- current accounts	10,563	-	-	-	-	-	-	-
- other payables	141,207	3,019,408	-	2,445	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**1,393,529**	**-**	**135,441**	**1,161,275**	**367,696**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	1,393,529	-	135,441	1,161,275	367,696	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	1,393,529	-	135,441	1,161,275	367,696	-	-
+ Long positions	-	1,393,529	-	135,441	-	-	-	-
+ Short positions	-	-	-	-	1,161,275	367,696	-	-
4. Other off-balance sheet transactions	**201,660**	**337,912**	**361**	**-**	**-**	**-**	**-**	**-**
+ Long positions	201,660	67,945	361	-	-	-	-	-
+ Short positions	-	269,967	-	-	-	-	-	-

2. Banking book: internal models and other sensitivity analysis methods

The Group makes use of an Asset & Liability Management procedure to measure on a monthly basis the impact ("sensitivity") from changes in the interest rate structure on the economic value of capital related to the banking book. With regard to the expected financial margin, the ALM system estimates its changes on a one year horizon in the assumption of deterministic shocks of the interest rate curves (bps increases/decreases applied to all the interest rate

curves as if it were a sudden, single and parallel change), and shocks to adjust to the forward rates implied in money market rates, and again shocks from projections that reflect alternative scenarios. Estimates are based on the assumption that the capital structure remains unchanged in terms of aggregate assets and liabilities, as well as in terms of financial characteristics (rates, spreads, duration).
With regard to the economic value of capital, the same assumptions on the interest rate curve changes are applied, measuring the change in present value of all transactions and comparing it with the value of Own Funds.
In light of a market scenario characterised by the persistence of rates close to zero and negative on short-term maturities, for the purpose of the sensitivity analyses the risk measurement metrics are monitored by applying a floor to the development of the future rates used for the calculation.
The table below shows exposure to interest rate risk at the end of 2020 in accordance with operational risk measurements.

Risk ratios (%)	2020				2019	
	31 December	average	maximum	minimum	31 December	average
For shift + 100 bp						
Financial margin at risk/Financial margin	14.1%	14.5%	17.9%	9.2%	11.6%	18.9%
For shift - 100 bp (EBA floor)						
Financial margin at risk/Financial margin	-5.6%	-6.8%	-4.9%	-9.9%	-8.0%	-9.4%
For shift + 100 bp						
Economic value at risk/Economic value of capital	1.4%	-0.5%	1.4%	-2.1%	-0.8%	-0.4%
For shift - 100 bp (EBA floor)						
Economic value at risk/Economic value of capital	1.7%	0.9%	2.1%	-1.3%	-0.5%	-2.3%

With reference to the banking book, the Group also assesses the exposure to default and migration risk of the rating classes of the debt securities classified as HTCS and HTC using a method which involves calculating the VaR spread and the Incremental Default Risk (IDR), to take into consideration the Default component of the HTCS portfolio and the Incremental Risk Charge to capture the Rating Migration component of the HTC portfolio.

1.2.3 Exchange rate risk

QUALITATIVE INFORMATION

A. General aspects, management procedures and exchange rate risk measurement methods

Exchange rate risk management for Banca Akros is centralised within the Forex & Commodities Unit.
The total exposure for Banca Akros as at 31 December 2020, adding all the exchange rate positions against the euro, was around -9 million euro (short foreign currency, long euro), concentrated mainly in the USD (US Dollar, exposure: -3.6 million euro) and CHF (Swiss Franc, exposure: -1.9 million euro).
Regarding the methods for measuring and controlling the exchange rate risk generated by the trading book, please refer to the method described in the "Interest rate risk and price risk - Regulatory trading book" section.
With regard to calculation of capital requirements, note that, with the Final Decision on 16 November 2020, the Supervisory Authority granted authorisation to extend the specific risk of debt securities, while that regarding the exchange rate risk of the banking book is subject to a condition (therefore it will take effect only after fulfilling several relative obligations, following certification by the company control functions and the Supervisory Authority in question). However, as at 31 December 2020 the Banking Book of Banca Akros had no exposure to exchange rate risk.

B. Exchange rate risk hedging

Exchange rate risk exposures are monitored on a daily basis and are hedged so as to meet the risk limits defined by the Group. More specifically, exchange rate risk is managed centrally by a specific unit of the Parent Company ("Forex & Commodities"), which performs the transactions to hedge the currency exposures resulting from its market making activity or for the transactions of other business units, with a view to "on the book" management of exchange rate risk and of the relative volatility. Said unit therefore carries out exchange rate risk hedging "upstream", assuming any risk positions, within the preset limits defined by the internal policies.

The table below shows the distribution, by currency, of the assets, liabilities and derivatives of the Group, based on the rules for preparation envisaged by Bank of Italy Circular no. 262.

In this regard, note that the imbalance resulting from the above-mentioned distribution does not necessarily represent the Group's actual foreign exchange position, as can be inferred from operational risk results. More specifically, the table includes certain instruments in foreign currency, operationally related to liabilities that, however, are not subject to exposure; although a part of the cash flows of said liabilities depends on exchange rate risk, they are actually denominated in Euro. In addition, similarly, the table does not include certain currency derivative instruments, which do not envisage the exchange of capital, but whose flows are operationally related to foreign currency assets or liabilities.

QUANTITATIVE INFORMATION

1. Breakdown by currency of assets and liabilities and of derivatives

Items	Currencies					
	USD	GBP	JPY	CAD	CHF	OTHER
A. Financial assets	**3,843,001**	**86,411**	**111,923**	**10,952**	**81,055**	**89,133**
A.1 Debt securities	2,545,676	-	-	-	21,486	1
A.2 Equity instruments	267,108	12,185	57,016	7,370	30,654	38,237
A.3 Loans to banks	29,139	8,905	51,639	1,045	7,420	47,185
A.4 Loans to customers	1,001,078	65,321	3,268	2,537	21,495	3,710
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**36,635**	**14,796**	**7,411**	**7,054**	**34,281**	**18,338**
C. Financial liabilities	**3,994,521**	**70,412**	**6,800**	**26,727**	**18,009**	**49,727**
C.1 Due to banks	3,148,230	11,257	2,156	1,246	785	9,948
C.2 Due to customers	846,291	59,155	4,644	25,481	17,224	39,779
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**35,353**	**1,313**	**63**	**125**	**2,585**	**3,044**
E. Financial derivatives						
- Options						
+ Long positions	112,755	4,129	-	-	927	3,448
+ Short positions	190,757	2,920	3,399	-	-	2,532
- Other derivatives						
+ Long positions	19,508,291	540,094	232,434	175,210	68,836	294,493
+ Short positions	18,941,607	571,497	281,548	158,711	144,825	304,581
Total assets	**23,500,682**	**645,430**	**351,768**	**193,216**	**185,099**	**405,412**
Total liabilities	**23,162,238**	**646,142**	**291,810**	**185,563**	**165,419**	**359,884**
Imbalance (+/-)	**338,444**	**(712)**	**59,958**	**7,653**	**19,680**	**45,528**

2. Internal models and other sensitivity analysis methods

The exchange rate risks generated by the trading book and the banking book are monitored through an internal VaR model illustrated in the "Interest rate risk and price risk - Regulatory trading book" section, where the values assumed by this indicator are shown.

1.3 DERIVATIVE INSTRUMENTS AND HEDGING POLICIES

Derivative instruments

With regard to derivative transactions, Banco BPM Group has introduced specific and robust validation and control processes of the pricing models and related market parameters.

Validation and control process of Market Parameters

Banco BPM Group adopted a Fair Value Policy defining the accounting rules to be used to value market parameters. To comply with this Policy, a strict process was put in place to count, validate and control the market parameters used to measure the market value and to estimate the risk of derivative positions. This process is implemented by the Parent Company's Risk Function and envisages, in particular:

- the constant update of the Parameter Manual, containing the main parameters used and their most significant features, and the definition of the source;
- the constant update of parameter control methods;
- the daily validation and control of the listed parameters, automatically fed by external info-providers;
- the daily validation and control of illiquid parameters, from an accounting and operational perspective.

In order to support control activities, the Group introduced an advanced application system (fed by the front office system and, for benchmarking purposes, by alternative and highly specialised info-providers) to monitor the performance of the parameters over time, featuring the statistical analysis of variations and operating warnings.

Validation and control process of Pricing Models of OTC derivative products

Banco BPM Group works with OTC derivative instruments using, for the purposes of their valuation, quantitative pricing models in line with market best practices, which are already included in the Front Office application or, for special structures, models developed by the financial engineering department of the Investment Bank.
In order to ensure a precise and strict control over the adoption of new pricing models - be they market or in-house developed models - a validation process is in place, with the following features:

- the validation of the models carried out by the Market Risk Unit of the Risk Function;
- model validation based on strict consistency and robustness tests, conducted with the support of academic experts;
- the official validation of the new pricing models by the Parent Company's Risk Committee and, when this involves a new product, also by the Product Innovation Committee with the involvement of the main members of corporate management.

Note that, based on the current prudential policy pursued by the Group, innovative financial instruments can be entered only after a thorough analysis of the reliability and accuracy of their pricing models.

The table below gives the fair value amount of Banca Akros' positions in derivative financial instruments (with the exclusion of forward exchange contracts), in relation to the type of pricing model used. Note that Banca Akros, in its role as the investment bank of Banco BPM Group, manages the market risk that derives from its overall transactions in derivative financial instruments.

Aggregate ***(fair value in thousands of euro)***	**Number of contracts/lots (in units)**	**Fair Value**	**Positive Fair Value**	**Negative Fair Value**
Total	**355,882**	**(598,951)**	**1,571,135**	**(2,170,086)**
of which: Listed/Quoted Derivatives	351,919	(20,830)	202,486	(223,316)
of which: Certificates valued using internal models developed by the financial engineering department of Banca Akros	34	(358,473)	6,205	(364,678)
of which: OTC derivatives valued using the proprietary models of the Front Office system	3,473	(369,826)	836,043	(1,205,869)
of which: OTC derivatives valued using internal models developed by the financial engineering department of Banca Akros	453	150,115	525,797	(375,682)
of which: OTC derivatives valued using external contributors	3	63	604	(541)

Elimination of intragroup derivatives associated with liabilities designated at fair value

The adoption of the fair value option for certain bond issues, as described in the paragraph "Financial liabilities designated at fair value" contained in "Part A.2 - Key financial statement items", necessarily implies a series of assumptions with reference to the representation of hedging derivatives in the consolidated financial statements. For these issues, which took place before the first half of 2016, the designation at fair value is closely related to the actual way in which the Group has implemented its hedging strategies, managing its exposure to the market in "massive" terms and not through a single or determinable relationship with the individual loan or portfolio of loans. More in detail, the management of the hedges associated with the Group's bond issues was carried out by the Group's investment bank (Banca Akros, formerly Banca Aletti). The intragroup derivatives stipulated with Banca Akros are recorded by Banca Akros in its trading book and managed on a mass basis, together with the other trading instruments, in compliance with the position and risk limits that can be held by Banca Akros. In general, it is therefore possible to state that:

- for the issuer, the adoption of the fair value option makes it possible to represent, in accounting terms, the management hedging strategy for all risks associated with bond issues. This is reflected in the risk exposure of the banking book, in which both issues and related hedging derivatives are classified;
- for Banca Akros, the risk position deriving from the stipulation of these derivatives is added to the other existing positions or those to be activated with market counterparties, to be managed according to a portfolio strategy, within the established risk limits. The total of these positions is recorded in the trading book;
- at consolidated level, it follows that the risks associated with the banking book are substantially hedged and that the Group's actual risk exposure is that resulting from the management carried out by Banca Akros.

As at 31 December 2020, consolidation procedures require that derivatives entered into between Group companies be eliminated. In order to correctly represent the risks associated with the Group's "regulatory trading book" and "banking book", which would be altered as a result of the aforementioned elimination, it is necessary to reclassify the derivatives that Banca Akros has ideally contracted with the market (included in its trading book) to cover the liabilities issued by the Parent Company (included in its banking book), from the "regulatory trading book" to the "banking book". Specifically, this reclassification is carried out assuming that these derivatives are perfectly consistent with those entered into by the Parent Company, from the moment in which the massive management of risks carried out by Banca Akros does not allow the unambiguous identification of the specific derivative contracts entered into with external counterparties. This assumption is supported by the fact that the Banca Akros desks, which act as counterparties to the Parent Company, transfer the risks associated with the fair value option to the market and that any risk position taken by them is the result of a deliberate decision by them, which does not take into account the risks assumed by contracting the derivatives in question.

1.3.1 Trading derivative instruments

A. FINANCIAL DERIVATIVES

A.1 Trading financial derivatives: year-end notional values

Underlying assets/Derivative types	Total 31/12/2020				Total 31/12/2019			
	Over the Counter			Organised markets	Over the Counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting arrangements	Without netting arrangements			With netting arrangements	Without netting arrangements	
1. Debt securities and interest rates	36,507,566	29,788,462	13,716,474	937,200	32,583,242	38,332,797	12,673,000	882,700
a) Options	-	13,418,203	2,466,080	86,200	-	17,234,383	3,035,077	151,500
b) Swaps	36,507,566	16,370,259	9,432,029	-	32,583,242	21,098,414	7,275,081	-
c) Forwards	-	-	57,000	-	-	-	20,570	-
d) Futures	-	-	1,761,365	851,000	-	-	2,342,272	731,200
e) Other	-	-	-	-	-	-	-	-
2. Equity instruments and share indices	-	10,636,861	1,627,201	1,001,981	-	10,632,527	2,116,728	890,756
a) Options	-	10,636,861	1,256,943	964,593	-	10,632,527	1,828,942	847,573
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	370,258	37,388	-	-	287,786	43,183
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	-	36,605,277	1,164,478	-	-	56,314,267	1,013,452	-
a) Options	-	199,349	269,441	-	-	381,102	212,512	-
b) Swaps	-	-	15,138	-	-	1,841	18,665	-
c) Forwards	-	36,405,928	875,202	-	-	55,931,324	774,556	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	4,697	-	-	-	7,719	-
4. Commodities	-	38,027	9,623	-	-	7,387	7,235	-
5. Other	-	-	-	-	-	-	-	-
Total	**36,507,566**	**77,068,627**	**16,517,776**	**1,939,181**	**32,583,242**	**105,286,978**	**15,810,415**	**1,773,456**

A.2 Trading financial derivatives: gross positive and negative fair value - breakdown by products

Derivative types	Total 31/12/2020				Total 31/12/2019			
	Over the Counter			Organised markets	Over the Counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting arrangements	Without netting arrangements			With netting arrangements	Without netting arrangements	
1. Positive fair value								
a) Options	-	680,670	52,748	47,922	-	666,559	37,149	24,314
b) Interest rate swaps	457,759	473,689	249,740	-	326,636	598,207	188,135	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	1,064,054	7,873	-	-	436,629	3,081	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	10,872	1,706	-	-	345	15	-
Total	**457,759**	**2,229,285**	**312,067**	**47,922**	**326,636**	**1,701,740**	**228,380**	**24,314**
2. Negative fair value								
a) Options	-	587,065	370,671	41,616	-	462,663	811,429	31,169
b) Interest rate swaps	635,395	563,899	27,193	-	499,203	732,676	25,954	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	1,187,272	11,201	-	-	399,138	4,584	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	10,176	1,945	-	-	307	153	-
Total	**635,395**	**2,348,412**	**411,010**	**41,616**	**499,203**	**1,594,784**	**842,120**	**31,169**

A.3 OTC trading financial derivatives: notional values, gross positive and negative fair value by counterparties

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
Contracts not included in netting arrangements				
1) Debt securities and interest rates				
- notional value	X	1,961,385	441,931	11,313,159
- positive fair value	X	-	6,576	257,583
- negative fair value	X	-	56	27,710
2) Equity instruments and share indices				
- notional value	X	370,258	89,976	1,166,967
- positive fair value	X	-	10,962	20,468
- negative fair value	X	-	1,410	364,741
3) Currencies and gold				
- notional value	X	496,843	4,697	662,937
- positive fair value	X	1,031	3	13,899
- negative fair value	X	4,505	133	10,666
4) Commodities				
- notional value	X	247	-	9,376
- positive fair value	X	-	-	1,544
- negative fair value	X	-	-	1,789
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included in netting arrangements				
1) Debt securities and interest rates				
- notional value	36,507,566	16,938,778	11,080,342	1,769,342
- positive fair value	457,759	382,210	241,394	37,008
- negative fair value	635,394	418,454	235,586	47
2) Equity instruments and share indices				
- notional value	-	6,433,974	4,202,887	-
- positive fair value	-	268,324	222,519	-
- negative fair value	-	317,930	175,176	-
3) Currencies and gold				
- notional value	-	33,108,881	3,260,962	235,434
- positive fair value	-	968,182	93,305	5,440
- negative fair value	-	1,040,456	149,092	1,495
4) Commodities				
- notional value	-	7,606	30,054	367
- positive fair value	-	3,150	7,746	6
- negative fair value	-	2,992	7,184	-
5) Other				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC financial derivatives: notional values

Underlying/Residual life	Up to 1 year	From over 1 year to 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	19,770,886	44,999,102	15,242,515	80,012,503
A.2 Financial derivatives on equity instruments and share indices	2,806,058	7,725,711	1,732,293	12,264,062
A.3 Financial derivatives on currencies and gold	37,710,626	59,130	-	37,769,756
A.4 Financial derivatives on commodities	47,650	-	-	47,650
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2020	**60,335,220**	**52,783,943**	**16,974,808**	**130,093,971**
Total 31/12/2019	**86,202,356**	**49,662,643**	**17,815,636**	**153,680,635**

OTC financial derivatives: counterparty risk/financial risk – Internal models

Counterparty risk is defined as the risk that the counterparty in a transaction defaults before the final settlement of the cash flows of said transaction (EU Regulation no. 575/2013). As regards this type of risk, for operating purposes and to provide support for capital adequacy assessment processes (ICAAP process), the Parent Company and Banca Akros use an internal method to estimate exposures to the risk of possible default of counterparties in OTC derivative transactions.
This method entails a simplified approach ("Shortcut Method") to estimate the exposure to counterparty risk in derivatives, with regard to existing positions with counterparties who have a signed "collateral agreement" (Credit Support Annex – CSA); the above model entails assessing possible changes of the Mark to Market for the individual contracts underlying the same reference CSA on a time horizon given by the "risk margin period" that characterises each contract. In particular, the expected exposure is assessed based on the future changes to the mark-to-market, simulated starting from historical data, calculating the average of the values in the range, according to that set out also in art. 272 of Reg. EU 575/2013. For the purposes of the calculations under the Shortcut Method, the reference period on which the changes in the MtM are simulated is equal to the margin period of risk, which, according to that set out in art. 285 of Reg. EU no. 575/2013 and in the case of daily margin setting, is equal to 10 working days.
The measurement is also implemented in the lending process chains of the Parent Company and of Banca Akros, with a daily monitoring and reporting system.
For the remainder of the positions in OTC derivatives, Repurchase Agreements, Securities lending and medium/long-term loans, the amount of exposure is calculated using the standardised approach, also adopted for Supervisory Reporting.
The indirect membership (through Clearing Brokers) of Clearing Houses for operations in OTC and credit derivatives enabled the following objectives to be achieved:

- the mitigation of counterparty risk through netting mechanisms, with a reduction of credit facilities to market counterparties;
- reduction of capital requirements;
- compliance with European Directive - European Market Infrastructure Regulation ("EMIR");
- mitigation of operational risks.

In accordance with the Basel 3 Framework Regulation, additional capital requirements regarding the following are to be calculated:

- Own Funds for the Credit Valuation Adjustment (CVA) through the adoption of the standardised method, as established by (EU) Regulation no. 575/2013 for banks that are not authorised to use the internal model method (IMM) for counterparty risk;
- exposures relating to operations with Qualified Central Counterparties (QCCP) by adopting the methods envisaged by arts. 306-308 of EU Regulation no. 575/2013.

B. CREDIT DERIVATIVES

B.1 Trading credit derivatives: year-end notional values

Transaction categories	Trading derivatives	
	on a single party	on several parties (basket)
1. Protection bought		
a) Credit default products	47,000	-
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Other	-	-
Total 31/12/2020	**47,000**	**-**
Total 31/12/2019	**27,000**	**30,000**
2. Protection sold		
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Other	-	-
Total 31/12/2020	**-**	**-**
Total 31/12/2019	**-**	**-**

B.2 Trading credit derivatives: gross positive and negative fair value - breakdown by products

Derivative types	Total 31/12/2020	Total 31/12/2019
1. Positive fair value		
a) Credit default products	311	100
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Other	-	-
Total	**311**	**100**
2. Negative fair value		
a) Credit default products	1,105	1,267
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Other	-	-
Total	**1,105**	**1,267**

B.3 OTC trading credit derivatives: notional values, gross (positive and negative) fair value by counterparty

	Central counterparties	Banks	Other financial companies	Other entities
Contracts not included in netting arrangements				
1) Protection bought				
– notional value	X	-	-	-
– positive fair value	X	-	-	-
– negative fair value	X	-	-	-
2) Protection sold				
– notional value	X	-	-	-
– positive fair value	X	-	-	-
– negative fair value	X	-	-	-
Contracts included in netting arrangements				
1) Protection bought				
– notional value	40,000	2,000	5,000	-
– positive fair value	152	-	159	-
– negative fair value	1,056	49	-	-
2) Protection sold				
– notional value	-	-	-	-
– positive fair value	-	-	-	-
– negative fair value	-	-	-	-

B.4 Residual life of OTC trading credit derivatives: notional values

Underlying/Residual life	Up to 1 year	From over 1 year to 5 years	Over 5 years	Total
1 Protection sold	-	-	-	-
2 Protection bought	-	47,000	-	47,000
Total 31/12/2020	**-**	**47,000**	**-**	**47,000**
Total 31/12/2019	**-**	**57,000**	**-**	**57,000**

B.5 Credit derivatives connected with the fair value option: annual changes

This case is not present for the Group; thus the relevant table has been omitted.

1.3.2 Hedge accounting

QUALITATIVE INFORMATION

A. Fair value hedging

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

In regard to the accounting of these hedging relationships:

- demand items are hedged through fair value hedges;
- bonds placed with ordinary customers are hedged via the fair value option, while fair value hedging is used for bonds placed with institutional investors;
- the securities portfolio is usually hedged through fair value hedges (or, in some specific cases, cash flow hedges);
- loans are hedged through fair value hedges.

For further details, please refer to “Part A – Accounting policies” and the comment under table of the item “30. Financial liabilities designated at fair value” of “Part B – Information on the balance sheet” of these notes to the consolidated financial statements.

The price risk of the alternative asset portfolio is monitored on a daily basis and is not hedged.

B. Cash flow hedging

Cash flow hedges are extremely limited and only concern certain securities on the balance sheet (these are mainly inflation-linked securities).

C. Foreign investment hedging

The only foreign investment hedges made by the Group concern the share held by Banca Aletti in the subsidiary Banca Aletti & C. (Suisse) S.A., in which the book value is expressed in a currency other than euro (Swiss francs). In the individual financial statements, the hedge directly refers to interest in associates and joint ventures recorded in Banca Aletti’s financial statements, while at the consolidated financial statement level, following on from a process of consolidation, the hedge regards the assets and liabilities of the aforementioned subsidiary.

D. Hedging instruments

The main sources of ineffectiveness that could change the hedging relationship during the period of validity are as follows:

- misalignment of the derivative and the hedged underlying recorded on initial designation or subsequently generated, as in the case of partial repayments of mortgages or repurchases of bond loans;
- inclusion in the effectiveness test of the value of the variable leg of the hedging derivative, in the case of fair value hedges.

During the year, no conditions arose that determined hedge ineffectiveness.

During the year, the Group did not implement any dynamic hedging, as defined by IFRS 7, paragraph 23C.

E. Hedged items

Regarding the hedged risks and the relative hedging instruments used, please refer to previous points A and B.
As outlined in Part A of these Notes to the Consolidated Financial Statements, the derivatives can be designated as hedges, provided that the hedging relationship between the hedged instrument and the hedging instruments is formally documented and it is effective at the time the hedge is originated and prospectively throughout its entire life.
The hedge effectiveness depends on the extent to which the changes in the fair value or in the expected cash flows of the hedged instrument are actually offset by those of the hedging instrument. Therefore, effectiveness is measured by comparing said changes, while considering the aim pursued by the entity when the hedge was established.
A hedge is effective (within the limits established as a range of 80% to 125%) when changes in the fair value (or in the cash flows) of the hedging instrument neutralise almost completely the changes in the hedged instrument attributable to the hedged risk.

Subsequent to initial recognition with reference to the partial or total ineffectiveness of the hedging relationships:

- for fair value hedges, the changes in fair value of the hedged element are offset by the changes in fair value of the hedging instrument. Said offset is recognised by charging the changes in value to the income statement, in item "90. Fair value gains/losses on hedging derivatives", referring both to the hedged element (referring to the changes generated by the underlying risk factor), as well as to the hedging instrument. Any resulting difference, which represents the partial ineffectiveness of the hedge, represents the net effect on the income statement. If the hedging relationship ends, the hedged instrument reacquires the measurement approach of the class to which it originally belonged; for instruments measured at amortised cost, the cumulative revaluations/write-downs recognised as a result of changes in fair value of the hedged risk are recognised in the income statement under interest income and expense throughout the residual life of the hedged item, on the basis of the effective interest rate. If the hedged item is sold or repaid, the share of fair value not yet amortised is recognised immediately in the income statement;
- for cash flow hedges, the portion of changes in the fair value of the derivative that is determined to be an effective hedge is recognised in shareholders' equity (item "120. Valuation reserves"), while it is recognised in the income statement only when changes in cash flows to be offset arise in the hedged item. The portion of gains or losses of the hedging instrument that is considered ineffective is charged to the income statement (item "90. Fair value gains/losses on hedging derivatives"). Said portion is equal to any difference between the cumulative fair value of the hedging instrument and the cumulative fair value of the hedged instrument. In any event, the fluctuations in fair value of the hedged item and the related hedge must lie within the 80%-125% range. If the cash flow hedge is no longer considered effective or the hedging relationship is terminated, the total amount of profits or losses on the hedging instrument, previously recognised in "Valuation reserves", is recognised in the income statement only when the hedged transaction will take place or when it is no longer deemed possible that the transaction will take place. In this last circumstance, the profits or losses are transferred from the shareholders' equity item to the income statement item "90. Fair value gains/losses on hedging derivatives".

QUANTITATIVE INFORMATION

A. FINANCIAL HEDGING DERIVATIVES

A.1 Financial hedging derivatives: year-end notional values

Underlying assets/Derivative types	Total 31/12/2020				Total 31/12/2019			
	Over the Counter			Organised markets	Over the Counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting arrangements	Without netting arrangements			With netting arrangements	Without netting arrangements	
1. Debt securities and interest rates	18,758,867	10,680,235	2,100,000	-	14,599,154	6,418,808	2,100,000	-
a) Options	-	206,002	-	-	-	206,898	-	-
b) Swaps	18,758,867	7,974,158	2,100,000	-	14,599,154	5,827,280	2,100,000	-
c) Forwards	-	2,500,075	-	-	-	384,630	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity instruments and share indices	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	**18,758,867**	**10,680,235**	**2,100,000**	**-**	**14,599,154**	**6,418,808**	**2,100,000**	**-**

A.2 Financial hedging derivatives: gross positive and negative fair value - breakdown by products

Derivative types	Positive and negative fair value							
	Total 31/12/2020				Total 31/12/2019			
	Over the Counter			Organised markets	Over the Counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting arrangements	Without netting arrangements			With netting arrangements	Without netting arrangements	
Positive Fair Value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swaps	122,738	67,256	7,746	-	78,885	93,604	7,161	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	2,844	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**122,738**	**67,256**	**7,746**	**-**	**78,885**	**96,448**	**7,161**	**-**
Negative Fair Value								
a) Options	-	269	-	-	-	184	-	-
b) Interest rate swaps	318,539	344,436	-	-	199,196	432,138	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	45,173	-	-	-	129	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**318,539**	**389,878**	**-**	**-**	**199,196**	**432,451**	**-**	**-**

A.3 OTC financial hedging derivatives: notional values, gross positive and negative fair value by counterparty

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
Contracts not included in netting arrangements				
1) Debt securities and interest rates				
- notional value	X	2,100,000	-	-
- positive fair value	X	7,746	-	-
- negative fair value	X	-	-	-
2) Equity instruments and share indices				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Currencies and gold				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) Commodities				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included in netting arrangements				
1) Debt securities and interest rates				
- notional value	18,758,867	7,531,392	3,148,843	-
- positive fair value	122,738	16,551	50,705	-
- negative fair value	318,539	298,761	91,117	-
2) Equity instruments and share indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other	-	-	-	-
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC financial hedging derivatives: notional values

Underlying/Residual life	Up to 1 year	From over 1 year to 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	6,915,845	15,436,364	9,186,892	31,539,101
A.2 Financial derivatives on equity instruments and share indices	-	-	-	-
A.3 Financial derivatives on currencies and gold	-	-	-	-
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2020	**6,915,845**	**15,436,364**	**9,186,892**	**31,539,101**
Total 31/12/2019	**4,272,508**	**11,165,998**	**7,679,456**	**23,117,962**

B. CREDIT HEDGING DERIVATIVES

B.1 Credit hedging derivatives: year-end notional values

This case is not present for the Group; thus the relevant table has been omitted.

B.2 Credit hedging derivatives: gross positive and negative fair value - breakdown by products

This case is not present for the Group; thus the relevant table has been omitted.

B.3 OTC credit hedging derivatives: notional values, gross positive and negative fair value by counterparty

This case is not present for the Group; thus the relevant table has been omitted.

B.4 Residual life of OTC credit hedging derivatives: notional values

This case is not present for the Group; thus the relevant table has been omitted.

C. NON-DERIVATIVE HEDGING INSTRUMENTS

C.1 Hedging instruments other than derivatives: breakdown by accounting portfolio and hedge type

This case is not present for the Group; thus the relevant table has been omitted.

D. HEDGED INSTRUMENTS

D.1 Fair value hedges

	Micro hedges: book value	Micro hedges - net positions: book value of assets or liabilities (before netting)	Micro hedges			Macro hedges: Book value
			Accumulated changes in the fair value of the hedged instrument	Termination of the hedge: residual accumulated changes in fair value	Changes in value used to calculate hedge ineffectiveness	
A. Assets						
1. Financial assets measured at fair value through other comprehensive income – hedging of:	**7,408,024**	**-**	**141,600**	**-**	**-**	**-**
1.1 Debt securities and interest rates	7,408,024	-	141,600	-	-	X
1.2 Equity instruments and share indices	-	-	-	-	-	X
1.3 Currencies and gold	-	-	-	-	-	X
1.4 Loans	-	-	-	-	-	X
1.5 Other	-	-	-	-	-	X
2. Financial assets at amortised cost - hedging of:	**9,491,934**	**-**	**239,085**	**-**	**-**	**47,279**
1.1 Debt securities and interest rates	9,491,934	-	239,085	-	-	X
1.2 Equity instruments and share indices	-	-	-	-	-	X
1.3 Currencies and gold	-	-	-	-	-	X
1.4 Loans	-	-	-	-	-	X
1.5 Other	-	-	-	-	-	X
Total 31/12/2020	**16,899,958**	**-**	**380,685**	**-**	**-**	**47,279**
Total 31/12/2019	**9,353,935**	**-**	**303,081**	**-**	**-**	**22,923**
B. Liabilities						
1. Financial liabilities at amortised cost - hedging of:	**3,699,591**	**-**	**8,629**	**-**	**-**	**122,009**
1.1 Debt securities and interest rates	3,699,591	-	8,629	-	-	X
1.2 Currencies and gold	-	-	-	-	-	X
1.3 Other	-	-	-	-	-	X
Total 31/12/2020	**3,699,591**	**-**	**8,629**	**-**	**-**	**122,009**
Total 31/12/2019	**4,734,635**	**-**	**5,078**	**-**	**-**	**49,355**

D.2 Cash flow hedges and foreign investment hedges

	Changes in value used to calculate hedge ineffectiveness	Hedging reserves	Termination of the hedge: residual value of the hedging reserves
A. Cash flow hedges			
1. Assets	**-**	**4,287**	**-**
1.1 Debt securities and interest rates	-	4,287	-
1.2 Equity instruments and share indices	-	-	-
1.3 Currencies and gold	-	-	-
1.4 Loans	-	-	-
1.5 Other	-	-	-
2. Liabilities	**-**	**-**	**-**
1.1 Debt securities and interest rates	-	-	-
1.2 Currencies and gold	-	-	-
1.3 Other	-	-	-
Total (A) 31/12/2020	**-**	**(4,287)**	**-**
Total (A) 31/12/2019	**-**	**(6,905)**	**-**
B. Foreign investment hedges	**X**	**199**	**-**
Total (A+B) 31/12/2020	**-**	**(4,088)**	**-**
Total (A+B) 31/12/2019	**-**	**(6,699)**	**-**

E. EFFECTS OF HEDGING TRANSACTIONS ON SHAREHOLDERS' EQUITY

E.1 Reconciliation of shareholders' equity components

	Cash flow hedging reserve				
	Debt securities and interest rates	Equity instruments and share indices	Currencies and gold	Loans	Other
Opening balance	**(6,905)**	**-**	**-**	**-**	**-**
Fair value changes (effective portion)	3,911	-	-	-	-
Reclassifications to income statement	-	-	-	-	-
of which: future transactions no longer expected	-	-	-	-	-
Other changes	(1,293)	-	-	-	-
of which: transfers at the initial book value of hedged instruments	-	-	-	-	-
Closing balance	**(4,287)**	**-**	**-**	**-**	**-**

	Hedging instruments (non-designated items)			
	Option time value		Value of forward rate and the differential from foreign currency	
	Hedges related to transactions	Hedges related to a period	Hedges related to transactions	Hedges related to a period
Opening balance	**-**	**-**	**-**	**-**
Changes in value	-	-	-	-
Reclassifications to income statement	-	-	-	-
Other changes	-	-	-	-
Closing balance	**-**	**-**	**-**	**-**

F. DISCLOSURE ENVISAGED BY IFRS 7 RELATING TO THE REFORM OF BENCHMARK RATES

Information on risks and related hedging policies - derivative instruments and hedging policies

Hedge accounting

Paragraph 24H of standard IFRS 7, introduced by Regulation no. 34 of 15 January 2020 illustrated in Part A of these Notes, requires a specific disclosure on the uncertainties resulting from the reform of benchmark rates relating to the calculation of interest rates on hedges and the notional value of the hedging instruments potentially impacted by the reform of benchmark rates.
The notional value of the derivative instruments designated as hedges and index-linked to underlying instruments, which will be replaced by the interest rate reform from the end of 2021, amount to 6,520.5 million, entirely referring to contracts stipulated by the Parent Company with the central counterparty, the London Clearing House (LCH) with expiry after 31 December 2021. More specifically:

- the notional value of hedging derivatives index-linked to the "3-month USD LIBOR (London Interbank Offered Rate)" amounts to USD 1,710 million (equal to 1,393.5 million);
- the notional value of hedging derivatives index-linked to the Eonia rate (Euro OverNight Index Average) amounts to 5,127 million.

Specifically, these are interest rate swaps designated as specific fair value hedges of government bonds classified in the portfolio "Financial assets at amortised cost" for a nominal value of 4,948.4 million and in the portfolio "Financial assets measured at fair value through other comprehensive income" for a nominal value of 1,572.1 million.
In this regard, it should be clarified that during 2020, to measure the fair value of derivative instruments, the discounting of the cash flows considered the new €STR curve as the overnight benchmark rate, replacing the previous one based on the EONIA for derivatives in Euro, and the new SOFR curve, replacing the previous one based on the USONIA for derivatives in US dollars. The transition to the new curves is due to the use of the new €STR and SOFR rates, for the remuneration of the collateral relating to derivatives stipulated with the Clearing Houses. The impact of using the new curves has not been significant, also considering the monetary settlement ("cash compensation") mechanisms exchanged with the counterparties, following the different remuneration of the above-cited collateral.
The remaining interest rate risk hedging derivatives are index-linked to the Euribor interest rate, for which the Group retains that there are no elements of uncertainty related to the reform of the benchmark rates. During 2019, for the purpose of formal continuity, the calculation method (hybrid method) of the Euribor was revised, and is expected to be able to continue also after 1 January 2022.

1.3.3 Other information on derivatives (trading and hedging)

A. FINANCIAL AND CREDIT DERIVATIVES

A.1 OTC financial and credit derivatives: net fair value by counterparty

	Central counterparties	Banks	Other financial companies	Other entities
A. Financial derivatives				
1) Debt securities and interest rates				
- notional value	55,181,933	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	372,717	-	-	-
2) Equity instruments and share indices				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
3) Currencies and gold				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
4) Commodities				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
5) Other				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
B. Credit derivatives				
1) Protection bought				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
2) Protection sold				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-

1.4 LIQUIDITY RISK

QUALITATIVE INFORMATION

Impacts resulting from the Covid-19 pandemic

Right from the initial outbreak of the Covid-19 pandemic, with regard to liquidity and funding risks, Banco BPM Group increased the level of monitoring by implementing specific reports on the trends of the major risk factors (e.g. market spreads and customer funding and loan trends). Even faced with these circumstances, from a risk profile perspective, there are no negative impacts of note, instead, during the year, both the liquidity and funding risk profiles benefited from the expansive measures adopted by the European Central Bank (e.g. extension of the types of collateral accepted by the Central Bank to guarantee refinancing operations) as well as by the positive trend of customer funding.

A. General aspects, management processes and measurement methods of liquidity risk

Liquidity risk means the risk that the Group is not able to meet its payment commitments, which are certain or envisaged with reasonable certainty. Usually, two types of Liquidity Risk are identified: Liquidity and Funding Risk, namely the risk that the Group is not able, in the short term (liquidity) and long term (funding), to meet its payment commitments and its obligations in an efficient manner due to the inability to obtain funds without prejudicing its core business activities and/or its financial situation; Market Liquidity Risk represents the risk that the Group is not able to liquidate an asset, without generating losses in the capital account due to the poor depth of the reference market and/or due to the timing required to conduct the transaction.
In Banco BPM Group, liquidity and funding risk is governed by the "Liquidity, funding risk and ILAAP regulation", which establishes: the roles and responsibilities of the corporate bodies and the corporate functions, the metrics used for risk measurement, the guidelines for conducting stress tests, the Liquidity Contingency Plan and the overall reporting framework related to the Group's liquidity and funding risk.
Liquidity risk is managed and monitored as part of the Internal Liquidity Adequacy Assessment Process (ILAAP), which is the process the Group uses to identify, measure, monitor, mitigate and report the Liquidity risk profile of the Group. As part of said process, the Group makes an annual self-assessment regarding the adequacy of the overall liquidity risk management and measurement framework, which also covers governance, methodologies, information systems, measurement tools and reporting. The results of the risk profile adequacy assessment and the overall self-assessment are reported to the Corporate Bodies and submitted for the attention of the Supervisory Authority.
Liquidity governance is centralised within the Parent Company.
Liquidity risk monitoring and control is conducted on a daily (short-term liquidity) and a monthly basis (structural liquidity); its objective is to monitor the evolution of the risk profile by verifying its adequacy with respect to the Risk Appetite Framework and the operating limits envisaged. Stress tests are conducted on a monthly basis, in order to test the Group's ability to withstand unfavourable scenarios and the estimates of the liquidity that can be generated with the countermeasures (so-called action plan, an integral part of the Liquidity Contingency Plan) that can be activated when a stress scenario occurs, are updated.
More specifically, the Group uses a monitoring system that includes short-term liquidity indicators (with a time horizon from infra-day to twelve months) and long-term ones (beyond twelve months). To this end, both regulatory metrics (LCR, NSFR, ALMM) and metrics processed internally, which include the use of estimation models of behavioural and/or optional parameters, are adopted.
In 2020, the liquidity profile of the new Banco BPM Group showed adequacy in the short and long term, complying with both internal and regulatory risk limits.

QUANTITATIVE INFORMATION

1. Distribution of financial assets and liabilities by residual duration of the contracts. Currency of denomination: Euro

Items/Time bands	On demand	From 1 day to 7 days	From 7 days to 15 days	From 15 days to 1 month	From over 1 month to 3 months	From over 3 months to 6 months	From 6 months to 1 year	From over 1 year to 5 years	Over 5 years	Unlimited duration
On-balance sheet assets	**19,713,473**	**3,329,109**	**2,117,649**	**1,817,287**	**2,961,040**	**4,818,921**	**11,380,340**	**57,047,853**	**43,409,759**	**8,009,331**
A.1 Government securities	106,898	-	-	-	52,019	50,045	3,714,176	11,929,095	9,918,640	-
A.2 Other debt securities	39,746	-	28,350	87,456	55,506	72,631	70,641	2,355,330	4,240,764	401
A.3 UCIT units	916,683	-	-	-	-	-	-	-	-	-
A.4 Loans	18,650,146	3,329,109	2,089,299	1,729,831	2,853,515	4,696,245	7,595,523	42,763,428	29,250,355	8,008,930
- Banks	1,105,747	63,000	1,068,583	577,075	58,520	122,179	226,264	638,123	-	7,855,941
- Customers	17,544,399	3,266,109	1,020,716	1,152,756	2,794,995	4,574,066	7,369,259	42,125,305	29,250,355	152,989
On-balance sheet liabilities	**99,843,885**	**5,536,395**	**813,907**	**1,396,172**	**743,038**	**2,047,410**	**1,453,975**	**43,160,566**	**3,690,836**	**104,900**
B.1 Deposits and current accounts	98,049,806	62,133	21,122	172,565	223,005	403,146	399,212	69,489	-	-
- Banks	375,463	-	-	-	-	8,011	6,517	-	-	-
- Customers	97,674,343	62,133	21,122	172,565	223,005	395,135	392,695	69,489	-	-
B.2 Debt securities	149,415	3,165	1,003	924,470	479,757	1,111,038	396,371	13,567,569	2,487,835	104,900
B.3 Other liabilities	1,644,664	5,471,097	791,782	299,137	40,276	533,226	658,392	29,523,508	1,203,001	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	337	2,456,912	1,252,151	2,345,193	7,247,245	5,923,101	4,590,553	275,999	433	-
- Short positions	57,335	1,383,581	1,149,092	2,253,123	5,957,517	5,467,048	5,439,659	1,115,705	1,380,449	-
C.2 Financial derivatives without exchange of capital										
- Long positions	1,741,246	-	1,314	1,188	30,784	7,520	260,798	-	-	-
- Short positions	2,109,177	-	632	2,416	6,369	8,024	18,843	-	-	-
C.3 Deposits and loans to be received										
- Long positions	7,516,072	-	-	-	-	-	-	-	-	-
- Short positions	-	7,516,072	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	-	2,278,267	-	-	-	294,848	209,098	-	-	-
- Short positions	2,782,214	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	105,398	102	42,425	399	5,137	6,345	50,015	152,197	106,262	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	311	-	-	-	-	-	-	-	-	-
- Short positions	1,105	-	-	-	-	-	-	-	-	-

2. Distribution of financial assets and liabilities by residual duration of the contracts. Currency of denomination: other currencies

Items/Time bands	On demand	From 1 day to 7 days	From 7 days to 15 days	From 15 days to 1 month	From over 1 month to 3 months	From over 3 months to 6 months	From 6 months to 1 year	From over 1 year to 5 years	Over 5 years	Unlimited duration
On-balance sheet assets	**392,187**	**21,550**	**56,399**	**77,820**	**162,627**	**153,394**	**314,708**	**1,835,966**	**856,398**	**1,206**
A.1 Government securities	12,269	-	-	-	-	-	285,225	1,354,415	694,634	-
A.2 Other debt securities	1,501	-	-	-	-	526	246	132,435	39,711	-
A.3 UCIT units	98,694	-	-	-	-	-	-	-	-	-
A.4 Loans	279,723	21,550	56,399	77,820	162,627	152,868	29,237	349,116	122,053	1,206
- Banks	93,332	-	10,652	-	40,983	388	-	-	23	-
- Customers	186,391	21,550	45,747	77,820	121,644	152,480	29,237	349,116	122,030	1,206
On-balance sheet liabilities	**1,015,810**	**697,533**	**945,481**	**851,593**	**528,290**	**123,510**	**3,790**	**-**	**328**	**-**
B.1 Deposits and current accounts	1,004,906	415,888	169,103	13,606	3,759	123,510	3,790	-	-	-
- Banks	145,844	415,888	168,505	11,015	3,691	-	2,453	-	-	-
- Customers	859,062	-	598	2,591	68	123,510	1,337	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	10,904	281,645	776,378	837,987	524,531	-	-	-	328	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	1,360,899	1,158,421	2,145,048	5,898,639	5,094,152	5,258,784	14,650	-	-
- Short positions	-	2,428,605	976,792	2,017,023	6,351,658	4,958,270	3,806,697	38,367	-	-
C.2 Financial derivatives without exchange of capital										
- Long positions	85,192	-	2,387	1,172	2,373	9,714	17,299	-	-	-
- Short positions	69,209	-	-	56	512	371	767	-	-	-
C.3 Deposits and loans to be received										
- Long positions	201,660	13,854	-	-	-	-	-	-	-	-
- Short positions	-	212,255	-	-	3,260	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	-	-	-	87	54,004	361	-	-	-	-
- Short positions	-	54,453	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	6,261	-	-	-	-	16,757	3,679	139	2,445	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

As outlined in "Part E – Section 2 – Risks of Prudential Consolidation – 1.1 Credit risk – C. Securitisation transactions", Banco BPM has subscribed to securities that can be used for refinancing transactions with the ECB or for repurchase agreements with market counterparties, against "self-securitisation" transactions generated by Group companies or banks. The self-securitisation transactions outstanding as at 31 December 2020 are shown below.

Self-securitisation transactions

SPE	Originator	Securities issue date	Transaction	Type of securitisation
Self-securitisation transactions not derecognised from the financial statements				
BPL Mortgages S.r.l.	Banco BPM	June 2014	BPL Mortgages 7	Performing residential and commercial mortgage loans
BPL Mortgages S.r.l.	Banco BPM	December 2012	BPL Mortgages 5	Performing residential mortgage loans
Securitisations in warehousing				
ProFamily SPV S.r.l.	ProFamily	N/A	ProFamily	Consumer credit

New transactions of the period

Consumer credit securitisation – ProFamily SPV (December 2020)

On 16 December 2020, ProFamily S.p.A. sold a portfolio valued at around 958.5 million to the SPV ProFamily SPV S.r.l. as part of a new securitisation transaction with underlying performing consumer loans. In the first quarter of 2021, the SPE will issue several classes of bonds, which will be subscribed by the originator company.

Loans portfolio

Company	Value 31/12/2020
ProFamily S.p.A.	910,878

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including loan instalments.

Transactions closed during the year

Consumer credit securitisation – ProFamily Securitisation (November 2015)

Last year a securitisation transaction performed through the SPE ProFamily Securitisation S.r.l. was closed. In 2020, the Shareholders' Meeting (i) approved, on 5 October 2020, the early dissolution and liquidation of the Company, with effect as of 14 October 2020, and (ii) approved, on 10 November 2020, the final liquidation financial statements as at 6 November 2020 together with the relative distribution plan. The Company was removed from the Companies' Register on 14 December 2020.

Italfinance Securitization Vehicle 2 S.r.l. (ITA 11)

In January 2020, with the signing of the relative contracts, the securitisation transaction realised through the SPE Italfinance Securitisation Vehicle 2 S.r.l. (ITA11) was closed. In particular, on 13 January 2020 Banco BPM repurchased the entire residual portfolio of lease receivables underlying said transaction. On 21 January 2020, the SPE made the early repayment of the outstanding securities and, with the signing of the Termination Agreement of 20 January 2020, all the contracts signed and accounts opened within the context of the transaction were closed.
Following the closing of the securitisation transaction, the Shareholders' Meeting (i) approved, on 24 April 2020, the early dissolution and liquidation of the SPE, with effect as of 30 April 2020, and (ii) approved, on 21 December 2020, the final liquidation financial statements as at 16 December 2020 together with the relative distribution plan. The Company was removed from the Companies' Register on 5 February 2021.

Existing and significant self-securitisation transactions during 2020

Securitisation of mortgages, landed mortgages, agricultural loans and other loans granted to small and medium-sized enterprises – BPL Mortgages 7 (June 2014)

The securitisation transaction was originated by Banco Popolare and Credito Bergamasco, which are now both Banco BPM, and was finalised in a number of phases: on 10 May 2014, the Originator Banks sold mortgages, landed mortgages, agricultural loans and other loans granted to small and medium-sized enterprises (SME) to the SPE, BPL Mortgages S.r.l. for the amount of 1,801.3 million and on 30 June 2014, the SPE issued three classes of bonds. Subsequently, portfolio restructuring was carried out, which resulted in the sale/repurchase of loans and the issue of additional notes. The Senior and Mezzanine Securities are listed on the Irish Stock Exchange. All Classes of Securities are subscribed by Banco BPM and the Senior Notes are used by Banco BPM as collateral for Eurosystem monetary policy transactions.
As part of this transaction, the Originator Banks, now Banco BPM, took on the role of Servicer, managing the collection of receivables; Banco BPM also has the role of Interim Account Bank and Cash Account Bank.

Loans portfolio

Bank	Value 31/12/2020	Value 31/12/2019
Banco BPM	2,477,683	2,936,227

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

Issue characteristics

Class	Type	Issue value	Value as at 31/12/2020	Interest rate	Maturity	Rating Moody's/DBRS (*)
A1	Senior	3,918,187	548,987	3-month Euribor + 0.3%	November 2054	A1/AAL
B1	Mezzanine	325,700	325,700	3-month Euribor + 0.8%	November 2054	A3/A
C1	Junior (1)	737,403	737,403	Additional Return	November 2054	unrated
A2	Senior	1,936,000	118,611	3-month Euribor + 0.3%	November 2054	A1/AAL
B2	Mezzanine	1,000	1,000	3-month Euribor + 0.8%	November 2054	A3/A
C2	Junior (1)	448,072	448,072	Additional Return	November 2054	unrated
	Total	**7,366,362**	**2,179,773**			

(1) Unlisted Junior Securities
(*) Rating as at 31 December 2020

Significant events during 2020

In October 2020, Banco BPM repurchased the positions classified as bad loans as at 10 October 2020 and the relative price was paid to the SPE in November 2020.

Accessory financial transactions

The structure of the transaction envisaged the establishment of a Cash Reserve of 80.8 million, constituted - at the initial date of issue of the securities - mainly through the disbursement of a subordinated loan totalling 76.9 million by Banco BPM, former Banco Popolare. As part of the transaction restructuring that took place in 2016, on the date of issue of the subsequent securities, the initial cash reserve was increased via the disbursement by the bank, of an additional limited loan of approximately 85.6 million. As part of the transaction restructuring that took place during 2018, on the Increase Date of 12 April 2018, the cash reserve was further increased by 91.4 million via the disbursement by BPM, now Banco BPM, of a limited loan of the same amount.

Securitisation of residential mortgage and landed loans – BPL Mortgages 5 (December 2012)

The securitisation transaction was originated by Banco Popolare and Credito Bergamasco, now both Banco BPM, and was finalised in a number of phases. On 17 November 2012, the Originator Banks sold an initial portfolio of performing residential landed and mortgage loans to the SPE BPL Mortgages S.r.l. for a value of 2,505.2 million and on 21

December 2012, the SPE issued two classes of bonds.
Subsequently, portfolio restructuring was carried out, which resulted in the sale/repurchase of loans and the issue of additional notes.
The Senior Securities are listed on the Irish Stock Exchange. All Classes of Securities are subscribed by Banco BPM and the Senior Notes are used by Banco BPM as collateral for Eurosystem monetary policy transactions.
As part of this transaction, the Originator Banks, now Banco BPM, took on the role of Servicer, managing the collection of receivables; Banco BPM also has the role of Interim Account Bank and Transaction Bank.

Loans portfolio

Bank	Value 31/12/2020	Value 31/12/2019
Banco BPM	2,993,003	3,354,467

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

Issue characteristics

Class	Type	Issue value	Value as at 31/12/2020	Interest rate	Maturity	Rating Moody's/DBRS (*)
A1	Senior	2,440,400	580,647	1-month Euribor + 0.3%	October 2058	Aa3/AH
B1	Junior (1)	1,148,455	392,765	Additional Return	October 2058	unrated
A2	Senior	995,100	504,134	1-month Euribor + 0.25%	October 2058	Aa3/AH
A3	Senior	1,504,300	1,126,804	1-month Euribor + 0.25%	October 2058	Aa3/AH
B3	Junior (1)	69,670	69,670	Additional Return	October 2058	unrated
	Total	**6,157,925**	**2,674,020**			

(1) Unlisted Junior Securities
(*) Rating as at 31 December 2020

Significant events during 2020

On 24 February 2020, the rating agency DBRS upgraded the rating of the Class A1, Class A2 and Class A3 Senior Securities of the transaction from “A” to “A (high)”.

In October 2020, Banco BPM repurchased the positions classified as bad loans as at 10 October 2020 and the relative price was paid to the SPE in November 2020.

Accessory financial transactions

The structure of the transaction envisaged the establishment of a Cash Reserve of 64 million, constituted mainly through the disbursement, which took place on 21 December 2012, of a subordinated loan totalling 60 million by the Originator Banks, now Banco BPM.
As part of the transaction restructuring that took place during 2019, on 14 March 2019, the cash reserve was further increased by 24.6 million via the disbursement by Banco BPM, of a limited loan of the same amount.

1.5 BANKING GROUP – OPERATIONAL RISKS

QUALITATIVE INFORMATION

A. General aspects, management processes and measurement methods of operational risk

Type of risk

Operational risk is defined as the risk of losses suffered as a result of inadequacy or malfunction of procedures, human resources and internal systems, or of external events. Losses resulting from fraud, human error, interruption of operations, non-availability of systems, contractual breaches and natural disasters are included in this type of risk. Operational risk also encompasses legal risk, while strategic and reputational risks are not included.

Risk sources

The main sources of operational risk are: the low reliability of operational processes - in terms of effectiveness/efficiency - internal and external frauds, operational mistakes, the qualitative level of physical and logical security, inadequate IT structure compared to the size of operations, the growing recourse to automation, the outsourcing of corporate functions, a limited number of suppliers, changes in strategies, incorrect personnel management and training policies and finally social and environmental impacts.

Risk management model and organisational structure

From the date of the merger, Banco BPM Group was authorised by the European Supervisors to temporarily use, for regulatory purposes, a combination of the three regulatory methods, specifically the AMA (Advanced Measurement Approach), relating to the validated scope of the former Banco Popolare Group (former Banco Popolare segments of the Parent Company and Banca Aletti), the TSA (Traditional Standardised Approach) on the scope of the former Banca Popolare di Milano Group (segments of the former Parent Company BPM S.c.a r.l., former BPM S.p.A., ProFamily and Banca Akros) and the BIA (Basic Indicator Approach) for the other remaining companies making up Banco BPM Group. After the transition period for the above ECB authorisation ended, from the Reporting date of 31 December 2020, the Supervisory Authority asked the Group to fully adopt the Traditional Standardised Approach to calculate capital requirements for all companies that make up the Supervised Group, while with regard to the other qualitative-quantitative elements envisaged by Supervisory Regulations, to fulfil all of the requirements of the CRR 575/2013 for the TSA as well as those envisaged by the above-mentioned AMA in articles 321 (points b-e) and 322 (points b-f).

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

Banco BPM Group adopts a reporting model, consisting of a management IT system for the Corporate Bodies and Top Management (significant losses and related recoveries, overall assessment of the risk profile, capital absorption and risk management policies implemented and/or planned) and an operational reporting system, for the purposes of adequate risk management in the relevant areas.

Impacts resulting from the Covid-19 pandemic

Banco BPM Group proactively managed the Covid-19 health emergency, with a view, first and foremost, to safeguarding the health of all of the people involved in its business activities (employees, customers, suppliers etc.), as well as guaranteeing adequate business continuity, in accordance with the provisions of the laws in force at that time.
In terms of operational risk, the pandemic did not have any extraordinary effects, with the exception of those relating to updating operating processes (cost of specific sanitisation equipment, increase of digitalisation to enable customers and employees to work remotely etc.).

With specific reference to Banca Akros, with regard to Operational/Conduct Risk, a strategic indicator called "Max Single Operational Loss (MM)" (representing the maximum operational loss recorded in the reference period), with a relative limit, was established within the Risk Appetite Framework. In 2020, said limit was always observed, therefore the indicator in question was always considered adequate.

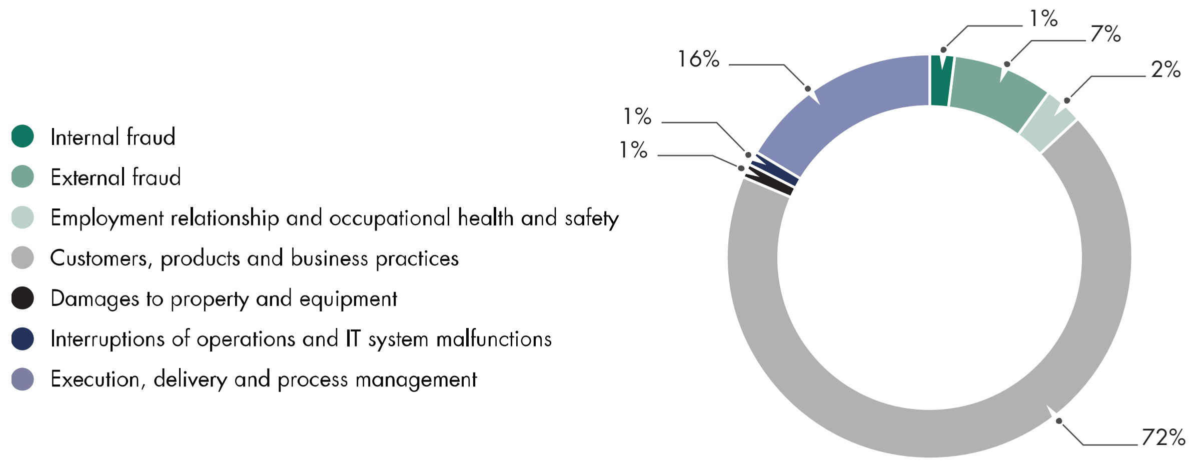
Lastly, again with specific reference to Banca Akros and to operating algorithms in particular, as part of the annual self-assessment cycle conducted by the Bank with regard to the "Validation report on the algorithms, the systems and the strategies of algorithmic trading", an assessment was made through interviews with business owners (Global Markets and Brokerage Department desks) of Banca Akros and with the IT Function of the Parent Company, the aim of which was to quantify the average frequency of occurrence, the average unitary impact and the worst case for the scenarios assumed.

The analysis conducted featured a wide panel of experts, as well as an extensive selection of scenarios identified (even situations whose frequency of occurrence was a very remote possibility, such as those relating to the sanctioning sphere), highlighting impacts aligned with the Bank's investment banking activities.

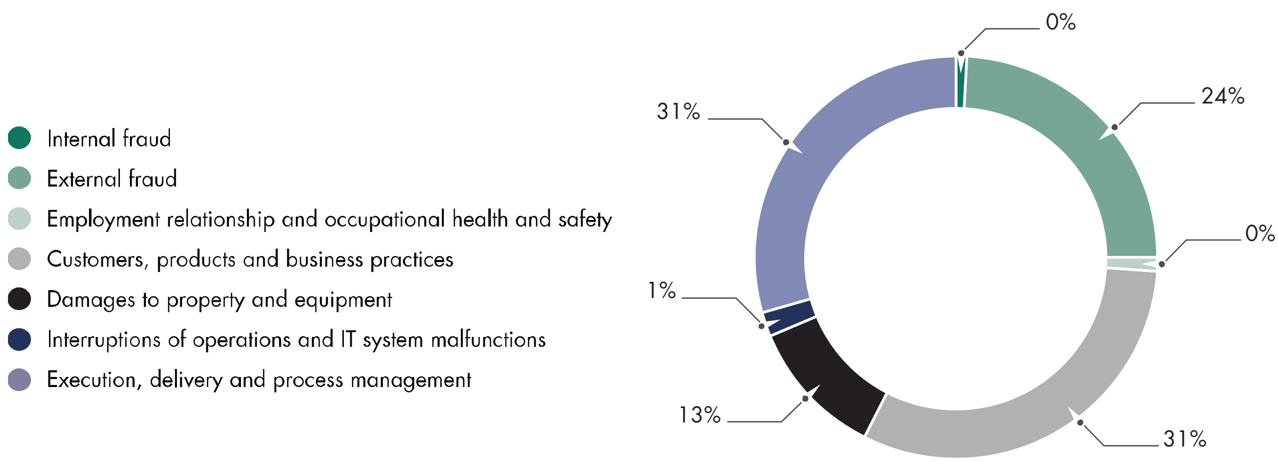
QUANTITATIVE INFORMATION

Regarding the sources of operational risk, an analysis was conducted with reference to operational risk events, with a gross loss greater than or equal to 200 euro (minimum materiality threshold) and with a reporting date of 1 January 2011 or later.
The loss data in question, recorded in the Group's Loss Collection management archive, have been broken down by type of event, with views by impact and by number of events, according to the event classification standards provided by the Regulator.

Breakdown by impact



Breakdown by number of events



The analysis of the graphs reveals that the main event categories in terms of impact relate to:
- commercial practices, with losses resulting from failures to meet professional obligations towards customers or from the nature or characteristics of the product or service provided. The category in question includes operational risk impacts connected to the diamond situation;

- processes, with losses relating to errors/inefficiency/delays in execution, delivery or management of processes, with a prevalence of losses due to anatocism (following the Court of Cassation ruling of 1999) and lack of documentation in the placement of financial products;
- external crimes, with losses due to fraud, undue appropriation or infringement of the law by parties outside the bank, including phenomena relating to cyber risk. The prevalence in terms of impact regards traditional external fraud events (robberies and theft from ATMs).

Validation activities

In the area of Operational Risk, the Internal Validation Unit oversees the management framework and the calculation of risks and capital requirements through annual checks on measurement metrics, with particular focus on the requirements of the internal model validated (AMA). In the context of governance and maintaining the AMA model, the stability, robustness and uncertainty of the model, the consistency of the calculation dataset, through independent repeat tests and checks during the Loss Data Collection and Risk Self Assessment campaign, compliance with current regulatory requirements and best-practices are continuously verified. On the basis of the checks conducted, the Internal Validation unit addresses specific suggestions to the competent departments and monitors the solution in order to ensure the high standards of quality and reliability in risk management are maintained.
Furthermore, every change or extension of the model is appropriately intercepted, verified and communicated to the supervisory bodies according to the provided methods (ex-ante/ex-post notifications). Moreover, during the ICAAP process, the stress scenarios and methods applied to the entire scope of the Group are verified.

Section 3 - Risks to insurance companies

The Group holds share capital in the Vera Assicurazioni, Vera Vita and Bipiemme Vita insurance companies, which is included in the scope of consolidation for companies carried at equity and shown in the consolidated assets under item 70 “Interests in associates and joint ventures”.

With regard to the risks of the segment in question, note that the weight of the above companies on total consolidated assets is of little significance.

Section 4 - Other company risks

No significant additional risks are reported for the remaining companies falling within the consolidation scope that are not part of the Banking Group or of insurance companies. As regards the Group’s real estate companies, including those acquired following credit restructuring arrangements, note that the book value at which said real estate is recognised is consistent with the value stated in specific appraisals and valuations.
The risk of impairment of real estate assets is in any event covered by a specific capital requirement - in terms of credit risk - which the Group calculates in accordance with regulatory methods. Furthermore, the Risk Function uses internal operational methods to periodically check the adequacy of the regulatory capital requirement vis-à-vis real estate risk.

PART F – INFORMATION ON CONSOLIDATED SHAREHOLDERS' EQUITY

Section 1 - Consolidated shareholders' equity

A. QUALITATIVE INFORMATION

The Group's shareholders' equity consists of the sum of the balances of the following balance sheet liability items:

- Shareholder's equity net of repurchased own shares
- Share premium reserve
- Reserves
- Valuation reserves
- Equity instruments
- Own shares
- Profit (loss) for the year.

B. QUANTITATIVE INFORMATION

Consolidated shareholders' equity as at 31 December 2020 amounted to 12,227.1 million (of which 12,225.2 million for the Group and 1.9 million for non-controlling interests), showing a net increase of 340.0 million compared to the 11,887.1 million recorded for consolidated shareholders' equity as at 31 December 2019 (of which 11,861.0 million for the Group and 26.1 million for non-controlling interests).

B.1 Consolidated shareholders' equity: breakdown by business type

Shareholders' equity items	Prudential consolidation	Insurance companies	Other businesses	Consolidation cancellations and adjustments	Total
1. Share capital	7,100,583	-	6,504	(5,777)	7,101,310
2. Share premium reserve	-	-	-	-	-
3. Reserves	4,106,711	-	26,583	(15,962)	4,117,332
4. Equity instruments	695,417	-	-	-	695,417
5. (Own shares)	(14,002)	-	-	-	(14,002)
6. Valuation reserves:	310,412	-	(257)	257	310,412
- Equity instruments designated at fair value through other comprehensive income	6,996	-	-	-	6,996
- Equity instruments designated at fair value through other comprehensive income	-	-	-	-	-
- Financial assets (other than equity instruments) measured at fair value through other comprehensive income	132,263	-	-	-	132,263
- Property, plant and equipment	246,926	-	-	-	246,926
- Intangible assets	-	-	-	-	-
- Foreign investment hedges	199	-	-	-	199
- Cash flow hedges	(4,287)	-	-	-	(4,287)
- Hedging instruments (non-designated items)	-	-	-	-	-
- Exchange rate differences	11,860	-	-	-	11,860
- Non-current assets and disposal groups held for sale	-	-	-	-	-
- Financial liabilities designated at fair value through profit and loss (changes to its own credit risk)	(8,608)	-	-	-	(8,608)
- Actuarial gains/(losses) on defined benefit pension plans	(94,923)	-	(257)	4	(95,176)
- Share of valuation reserves related to interests in associates and joint ventures carried at equity	17,672	-	-	253	17,925
- Special revaluation laws	2,314	-	-	-	2,314
7. Profit (loss) (+/-) for the year attributable to the Group and non-controlling interests	15,869	-	5,740	(4,977)	16,632
Total	**12,214,990**	**-**	**38,570**	**(26,459)**	**12,227,101**

B.2 Valuation reserves for financial assets measured at fair value through other comprehensive income: breakdown

Asset/Amounts	Prudential consolidation		Insurance companies		Other businesses		Consolidation cancellations and adjustments		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	132,651	(388)	-	-	-	-	-	-	132,651	(388)
2. Equity instruments	24,906	(17,910)	-	-	-	-	-	-	24,906	(17,910)
3. Loans	-	-	-	-	-	-	-	-	-	-
Total 31/12/2020	**157,557**	**(18,298)**	**-**	**-**	**-**	**-**	**-**	**-**	**157,557**	**(18,298)**
Total 31/12/2019	**147,575**	**(150,290)**	**-**	**-**	**-**	**-**	**-**	**-**	**147,575**	**(150,290)**

B.3 Valuation reserves for financial assets measured at fair value through other comprehensive income: annual changes

	Debt securities	Equity instruments	Loans
1. Opening balance	**47,305**	**(50,020)**	**-**
2. Positive changes	**118,070**	**239,283**	**-**
2.1 Fair value increases	103,891	6,560	-
2.2 Credit impairment losses	797	X	-
2.3 Reclassification to income statement of negative reserves from disposal	13,382	X	-
2.4 Transfers to other shareholders' equity components (equity instruments)	-	232,723	-
2.5 Other changes	-	-	-
3. Negative changes	**(33,112)**	**(182,267)**	**-**
3.1 Fair value decreases	(6,200)	(132,684)	-
3.2 Credit recoveries	(1,309)	-	-
3.3 Reclassification to income statement of positive reserves: from disposal	(25,603)	X	-
3.4 Transfers to other shareholders' equity components (equity instruments)	-	(49,583)	-
3.5 Other changes	-	-	-
4. Closing balance	**132,263**	**6,996**	**-**

B.4 Valuation reserves for defined benefit plans: annual changes

	31/12/2020
1. Opening balance	**(102,350)**
2. Positive changes	**24,153**
2.1 Gains from changes in financial assumptions	3,099
2.2 Other actuarial gains	17,989
2.3 Other changes	3,065
3. Negative changes	**(16,979)**
3.1 Losses from changes in financial assumptions	(10,612)
3.2 Other actuarial losses	(575)
3.3 Other changes	(5,792)
4. Closing balance	**(95,176)**

Section 2 - Own funds and capital ratios

Please see the information on own funds and capital adequacy found in the document "Disclosure to the public by entities (Pillar III)", available on the website www.gruppo.bancobpm.it.

PART G–BUSINESS COMBINATIONS REGARDING COMPANIES OR DIVISIONS

Section 1 - Transactions carried out during the year

1.1 Business combinations

During the year, no business combinations occurred involving companies external to the Group.

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

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

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

As described in the section dedicated to events subsequent to the reporting date, set out in Part A of these Notes, the Parent Company’s Board of Directors’ meeting of 9 February 2021 approved the plan for merger by incorporation of the subsidiaries ProFamily S.p.A. and Bipielle Real Estate S.p.A.

Both of these mergers will be carried out in the simplified forms envisaged for wholly-owned companies. Subject to authorisation from the ECB, their execution is expected to be finalised by July 2021.

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

Section 3 - Retrospective adjustments

It was not necessary to recognise any retrospective adjustments.

PART H – TRANSACTIONS WITH RELATED PARTIES

1. Information on compensation to directors and executives with strategic responsibilities

This information relates to those who, directly or indirectly, have the power and the responsibility to plan, manage and control the business activities of Group companies.

The table below summarises the compensation paid to directors, statutory auditors and executives with strategic responsibilities (general managers and other executives meeting the above characteristics).
In total, 172 assignments were entrusted to 131 people (including 16 executives).

(thousands of euro)	**2020**
Total gross compensation	**13,863**
of which:	
Non-executive directors and Statutory auditors	3,426
Non-employee executive directors	2,572
Employees	7,865
Short-term benefits (e.g., car, lodging, accident insurance policy, medical assistance) (*)	**195**
Post-employment benefits (e.g., pension fund, supplementary pension scheme) (*)	**187**
Employee termination benefits (e.g. provisions for employee severance pay, other benefits)	**-**

(*) The figure represents the taxable amount of the benefits.

2. Information on transactions with related parties

In accordance with the requirements established by accounting standard IAS 24, the paragraphs below illustrate the criteria applied by Banco BPM Group to identify related parties, expressed in specific company regulations:

a) companies subject to significant influence and joint control: namely the entities in which the Parent Company Banco BPM or the Subsidiary entities exercise significant influence pursuant to IAS 28 or joint control pursuant to IFRS 11. In particular, these are the "Interests in companies subject to joint control and subject to significant influence" indicated under Part B - Section 10 "Interests in associates and joint ventures" in these Notes to the consolidated financial statements;

b) executives with strategic responsibilities: the members of the Board of Directors, the acting members of the Board of Statutory Auditors, the General Manager and the Joint General Managers of the Parent Company and the Group companies are classified as such, as well as the top operations and management executives of Banco BPM, identified by a dedicated board resolution, the Manager responsible for preparing the Company's financial reports, the Head of the Compliance function, the Head of the Internal Audit function of Banco BPM, any additional structure heads identified by the Board of Directors of Banco BPM and any extraordinary liquidators;

c) close family members of executives with strategic responsibilities: only family members that are able to influence (or be influenced by) the party concerned in the relationship between the latter and Banco BPM or Group companies. The following are presumed to be as such, unless otherwise declared in writing by the executive, under the latter's own responsibility and containing adequate and analytical justification of the reasons that exclude any possible influence: spouses, common law spouses (including cohabitants whose status is not indicated in the family status certificate), offspring of the party, of the spouse or common law spouse, individuals dependent on the party, the spouse or common law spouse. Any other individual, which the party believes may influence them (or be influenced by them) in their dealings with Banco BPM or the other Group companies, is also a related party;

d) equity interests attributable to executives with strategic responsibilities and their close relatives: the following entities are considered to be related parties, those in which executives with strategic responsibilities or their close relatives have control pursuant to art. 2359, paragraph 1 of the Italian Civil Code, or joint control or exercise significant influence which is presumed when they hold, directly or indirectly, at least 20% of the voting rights which can be exercised during ordinary shareholders' meetings, or 10% if the company has shares listed on organised markets;

e) Group pension funds: the Pension Funds for employees of the Group and of any other related entity;
f) holders of a significant interest: shareholders and the relative corporate groups (legal entities which are parent companies, subsidiaries or subject to joint control) which control the Parent Company, even jointly, or which exercise significant influence over Banco BPM, are considered related parties. As a minimum, a situation of significant influence is deemed to exist when the shareholder holds an interest with voting rights exceeding 10% of the share capital of Banco BPM. Parties not belonging to the Group who hold an interest in other Group companies greater than 20% of the voting rights that may be exercised in the ordinary shareholders' meeting, or 10% if the company has shares listed in organised markets, are also considered to be related parties;
g) parties who themselves are in a position to appoint members of the Board of Directors by virtue of the articles of association or shareholders' agreements.

Financial and commercial transactions between subsidiaries and companies subject to significant influence and joint control.

Financial and commercial transactions with related parties fall within the sphere of ordinary operations and have been conducted as arm's length transactions.

The tables below indicate the balance sheet and income statement transactions as at 31 December 2020 with the companies subject to significant influence, the joint ventures, management with strategic responsibilities (which include audit bodies) and other related parties.

(thousands of euro)	Entities exercising significant influence (1)	Associated companies	Joint ventures	Executives with strategic responsibilities	Other related parties	Total	% of consolidated total
Financial assets held for trading	-	9,539	-	-	1,327	10,866	0.15%
Other financial assets mandatorily measured at fair value	-	422,229	-	-	-	422,229	23.52%
Loans to customers	-	3,256,220	-	12,783	197,564	3,466,567	3.24%
Other assets	-	10,602	-	-	-	10,602	0.05%
Due to customers	-	538,368	-	22,701	46,406	607,475	0.59%
Debt securities in issue	-	-	-	637	2,113	2,750	0.02%
Financial liabilities held for trading	-	2,198	-	-	114	2,312	0.02%
Financial liabilities designated at fair value	-	-	-	1,008	-	1,008	0.11%
Other liabilities	-	2,684	-	160	5,705	8,549	0.15%
Commitments and guarantees given	-	409,835	-	2,272	77,469	489,576	0.85%

(1) Authorised parties who possess a shareholding greater than 10% of the share capital.

(thousands of euro)	Entities exercising significant influence (1)	Associated companies	Joint ventures	Executives with strategic responsibilities	Other related parties	Total	% of consolidated total
Net interest income	-	20,792		73	3,002	23,867	1.22%
Net fee and commission income	-	446,882	-	19	659	447,560	27.26%
Administrative expenses/recoveries of expenses	-	1,228	-	(11,421)	(156)	(10,349)	0.36%
Other costs/revenues	-	1,735	-	-	-	1,735	0.24%

(1) Authorised parties who possess a shareholding greater than 10% of the share capital.

Other related party transactions

The table below discloses other transactions (supplies of goods and services and transactions on real estate) entered into with the related parties shown in the above table under "executives with strategic responsibilities" and "other related parties".

	Purchases and sales of goods and services	Rental income	Rental expense
a) Directors	-	-	-
b) Executives with strategic responsibilities	-	-	-
c) Close family members of the parties in letters a) and b)	-	-	-
d) Subsidiary, associated company or subject to significant influence by the parties in letters a) and b)	697	256	-

Other Information

With regard to paragraph 8 of art. 5 "Disclosures to the public on related party transactions" of the CONSOB Regulation containing provisions for related-party transactions (adopted by
CONSOB with resolution no. 17221 of 12 March 2010 and then amended with resolution no. 17389 of 23 June 2010), the following paragraphs illustrate the most important transactions conducted in 2020, as well as those that are less important yet particularly significant.

Framework resolution relating to the issue of "special-purpose bonds" by Banco BPM S.p.A., to be subscribed by Banca Akros S.p.A., using the liquidity from funding activities through the issue of certificates of Banca Akros S.p.A. to be placed by Banco BPM S.p.A., Banca Aletti & C. S.p.A. and third-party networks

At the meetings held on 16-17 December 2019 and on 10 March 2020, the Board of Directors approved (i) for 2020, issues of "special-purpose" bonds, to be offered entirely in subscription to the subsidiary Banca Akros S.p.A. for a maximum total amount of up to 1.2 billion (of which up to 800 million relating to placements by the Group's Network to be made in the first half of 2020 and up to 400 million relating to placements by third-party networks to be made in the entire 2020 financial year), without prejudice to the powers of the Chief Executive Officer regarding the approval of the properties, conditions and amount of the individual bond issues made, within the limits of said ceilings and (ii) the placement in the first half of 2020 by Banco BPM and Banca Aletti & C. S.p.A. of the certificates issued by Banca Akros S.p.A., with reference to which a fee and commission flow is expected (i) in favour of Banco BPM, for a total amount of up to 21.9 million, set at a 3% commission and (ii) in favour of Banca Aletti & C. S.p.A., for a total amount of up to 1.7 million, set at a 2.50% commission.
In the reference period of the framework resolution (first half of 2020), Banco BPM S.p.A. issued 11 "special-purpose bonds" for a total of 414.5 million against the ceiling of 1.2 billion. In the same period, Banco BPM and Banca Aletti placed certificates amounting to 320.4 million with their customers, generating a total commission income of 9.3 million.

Issuing of certificates by Banco BPM for 2020 and 2021, to be placed through the Parent Company and Banca Aletti & C. S.p.A. Network: review of the roles of the companies involved in the product governance and structuring process.
Framework resolution for 2020 and 2021, regarding the fee and commission flow relating to the outsourcing to Banca Akros S.p.A. of the structuring of the certificates that will be issued by Banco BPM and the management, by Banca Akros S.p.A., of the full hedging of the financial risks resulting from the issue of the certificates by Banco BPM.
Framework resolution for 2020 and 2021 regarding the fee and commission flow for issues and placements of Banco BPM certificates through the Network of the Parent Company and of Banca Aletti & C. S.p.A.

At its meeting on 7 May 2020, the Board of Directors approved (i) the issue of certificates by Banco BPM, in place of Banca Akros, for a maximum total amount, for the second half of 2020, of up to 1,018 million, of which 991 million to be placed through Banco BPM's network and 27 million to be placed through its subsidiary Banca Aletti & C. S.p.A.; (ii) the recognition for Banca Aletti & C. S.p.A., for the placement mentioned in the previous point, of a fee and commission flow, in the form of a framework resolution, for a total amount of up to 810 thousand, set at a 3% commission; (iii) the new operating structure and, in particular:

- the outsourcing to Banca Akros S.p.A. of the structuring of the certificates that will be issued by Banco BPM and the management, by Banca Akros S.p.A., of the full hedging of the financial risks resulting from the issue of the certificates by Banco BPM (activities for which a fee and commission flow is envisaged in favour of Banca Akros S.p.A., in the form of a framework resolution, for a total amount of up to 20.4 million), as well as the management of market making activities to ensure the liquidity requirement of the certificates, by Banca Akros S.p.A.: for 2020, Banca Akros S.p.A. received a fee and commission flow of 7.1 million;
- the outsourcing to Banca Aletti & C. S.p.A. of product governance and supervision of investment products/services, both on the Manufacturer side (own products and those of Banco BPM) and on the Distributor side, and of consultancy/active advisory service for a total annual amount of approximately 3.8 million.

Subsequently, on 24 November 2020, the Board of Directors resolved to authorise an increase of the placement amount of certificates issued by Banco BPM S.p.A. and placed by Banca Aletti & C. S.p.A. from 27 million to 60 million, with reference to which a fee and commission flow to Banca Aletti & C. S.p.A. is envisaged, amounting in total to 1 million euro from the previous 810 thousand, set at a 1.63% commission.
Note that during 2020, Banco BPM certificates were issued for a total amount of 743 million, which generated fees and commissions for Banca Aletti for placement activities of 0.3 million.
On 14-15 December 2020, the Board of Directors resolved to: (i) approve the issues of certificates by Banco BPM for a maximum total amount of up to 1,110 million for the period of January-December 2021 (of which 1,000 million distributed by the Network of Banco BPM and 110 million distributed by the network of Banca Aletti & C. S.p.A.), to proceed with the placement, through the Network of the Parent Company and that of Banca Aletti & C. S.p.A., of the certificates that will be issued by Banco BPM, recognising in favour of Banca Aletti & C. S.p.A., for the period of January-December 2021, for the placement activities, in the form of a framework resolution, a total amount of up to 1.3 million, set as a 1.20% commission; (ii) to approve for said activities in the same period a fee and commission flow in favour of Banca Akros S.p.A., in the form of a framework resolution, for the structuring of the certificates and the management of the relative financial hedging, a total amount of up to 11.1 million (of which, 10 million for the certificates issued and distributed by Banco BPM and 1.1 million for the certificates issued by Banco BPM and distributed by the Network of Banca Aletti) set as an average commission of 1%.

Framework resolution for the fee and commission flows in 2020 and 2021 relating to the placement and management of the asset portfolios of Banca Aletti & C. S.p.A. by Banco BPM S.p.A.

The Board of Directors, in its meeting of 10 March 2020, approved, with reference to the placement and management of Banca Aletti & C. S.p.A.'s Asset Portfolios, by Banco BPM, the opening of Banca Aletti & C. S.p.A.'s Private catalogue lines to Banco BPM's Retail customers, with the payment for 2020 of a fee and commission flow to the Parent Company for the service rendered of up to 1.7 million. For 2020, Banca Aletti & C. S.p.A. paid fees and commissions of 0.4 million to Banco BPM.
Subsequently, on 14-15 December 2020, the Board of Directors resolved to renew the framework resolution for 2021, envisaging the payment of a maximum fee and commission flow of 0.4 million.

Release S.p.A.: issue of sureties and capital strengthening

On 10 April 2020, the issue by Banco BPM of two sureties for a total amount of 126 million in favour and in the interests of the subsidiary Release S.p.A., to mitigate Large Risks that exceed the limit of 25% of Eligible Capital, envisaged by supervisory regulations.
In addition, to guarantee compliance with the applicable regulatory limits of the Supervisory Authority, a capital strengthening operation was approved for the subsidiary Release S.p.A. by means of a proposed divisible share capital increase against payment, to be offered under option to Shareholders for a maximum amount of 425 million, through the issue of a maximum number of 42,500,000,000 new ordinary shares with no nominal value, at a unit price of 0.01.
Following the above resolution, on 12 October 2020, Banco BPM exercised its option right for the portion corresponding to its interest, corresponding to 85.387% of the share capital, subscribing 36,289,663,227 shares with no nominal value, at the price of 0.01 each, by paying a consideration of 362.9 million.
Subsequently, on 16 October, Banco BPM exercised its right of pre-emption pursuant to art. 2441, paragraph three of the Italian civil code, on the shares that had been unopted by the non-controlling shareholders, subscribing the

remaining 6,210,336,773 shares, at the price of 0.01 each, by paying a further consideration of 62.1 million. Consequently, Banco BPM's interest in the share capital of Release rose to 99.853%.
Subsequently, on completion of the share capital increase, on 15 January 2021, the Parent Company formally purchased the interests of Release's non-controlling shareholders, thus achieving possession of 100% of the share capital.
More specifically:

- on 22 December 2020, Banco BPM finalised the purchase of 22,981,811 ordinary shares of Release from Banca Popolare di Sondrio, at a price of 1.00 euro, obtaining 99.907% of the share capital;
- on 15 January 2021, Banco BPM finalised the purchase of 39,923,532 ordinary shares of Release from BPER Banca, at a price of 1.00 euro, reaching 100% of the share capital.

ProFamily S.p.A.: review of credit facilities and allocation of lending ceilings

At its meeting of 26 May 2020, the Board of Directors approved the review as at 30 June 2021 of the credit lines in place for ProFamily S.p.A. for a total of 1,521.3 million, with the simultaneous allocation of a lending ceiling of 1.6 billion (in addition to a line of evidence for DD collection services retrocession risk of 100 million).

Alba Leasing S.p.A.: increase in the amount of credit lines and new deadline for the review of the ceiling for direct risks

The Board of Directors' meeting of 16 June 2020 approved (i) the increase in the total amount of credit lines outstanding in favour of Alba Leasing S.p.A. from 982.2 million to 1,274.2 million, including 300 million relating to a bridging line expiring on 30 June 2020 to support the investee company in the placement with market counterparties of the securities resulting from the "Alba 11" securitisation; (ii) the increase in the direct risk ceiling for the aforementioned counterparty from 1,055 million to 1,355 million, including 300 million expiring on 30 June 2020 and the remaining 1,055 million with a review date on 30 June 2021.

Agos Ducato: increase of credit lines

Banco BPM, with two successive interventions dated 21 February 2020 and 3 July 2020 respectively, approved an overall increase in the total amount of credit lines granted to Agos Ducato, a 39% owned investee, from 1,693.7 million to 1,758.7 million; these interventions are part of broader agreements signed with the Crédit Agricole group, which holds the remaining 61% of the aforementioned investee.

Vera Vita: capital strengthening

To bring the solvency levels of the associated company Vera Vita S.p.A. above the minimum regulatory thresholds, Banco BPM resolved to support the company's capital strengthening operation, which took the form of a payment to the capital account of Vera Vita made on 29 July 2020, for the portion pertaining to Banco BPM of 17.5 million, and through the subscription of the remaining portion pertaining to Banco BPM of subordinated Tier 2 loans, corresponding to two tranches of 17.5 million each, on 29 July 2020 and 6 October 2020 respectively.

Repurchase of bad loan positions sold under Banco BPM's covered bond issue programmes (BP CB, BPM CB1 and BPM CB2)

On 20 October 2020, the Board of Directors resolved the repurchase '*en bloc*' by Banco BPM of positions classified as bad loans as at 10 October 2020 for the amounts indicated below for each programme: (i) BP CB: maximum 32 million; (ii) BPM CB1: maximum 15 million; BPM CB2: maximum 7 million. The repurchase was finalised on 29 October for the following amounts: (i) BP CB: 27.6 million; (ii) BPM CB1: 12.9 million; BPM CB2: 5.8 million.

Renewal of the framework resolution for 2021 fee and commission flows relating to the performance of trading on own behalf, order execution on behalf of customers, receipt and transmission of orders between Banco BPM, Banca Aletti & C. S.p.A. and Banca Akros S.p.A.

On 14-15 December 2020, the Board of Directors approved: (i) the renewal of the Framework Resolution relating to the performance of trading activities by Banca Akros S.p.A. for which Banco BPM estimates to pay for 2021, and specifically for the period of January - December 2021, a maximum fee and commission flow of 12 million for the assignment to provide trading services on its own behalf, execute orders on behalf of customers, receive and transmit the orders referred to in art. 1, paragraph 5, lett. a), b) and e) of the Consolidated Finance Law (CFL), with regard to the orders transmitted by Banco BPM and relating to investment accounts that have been and/or will be finalised by Banco BPM itself with its customers; (ii) the renewal of the Framework Resolution relating to the performance of trading activities by Banca Akros S.p.A. for which Banca Aletti & C. S.p.A. estimates to pay for 2021, and specifically for the period of January - December 2021, a maximum fee and commission flow of 3.3 million for the assignment to provide trading services on its own behalf, execute orders on behalf of customers, receive and transmit the orders referred to in art. 1, paragraph 5, lett. a), b) and e) of the CFL, with regard to the orders transmitted by Banca Aletti & C. S.p.A. and relating to the investment accounts that have been/or will be finalised by Banca Aletti itself with its customers.

Amendment Agreement between Banco BPM and Crédit Agricole S.A., Crédit Agricole Consumer Finance and Agos Ducato S.p.A.

On 18 December 2020, an Amendment Agreement between the parties was formally signed, with a view to further consolidating the existing partnership related to the consumer finance activities in Italy of Agos Ducato.
Several amendments were made to the agreements signed in 2018, including the amendment of the economic conditions of the current Loan Agreement between Banco BPM and Agos Ducato related to the funding in ProFamily Captive at the time of the sale to Agos, effective 1 January 2021, from a fixed rate of 100 bp to a floating rate corresponding to the 3-month Euribor + 85 bp, in this way aligning the pricing of said loan to the conditions established in the Funding Agreement for loans from Shareholders to Agos Ducato. The amount of said loan as at 1/1/2021 is 168 million and will terminate by 31/12/2024 with a six-monthly shift of around 20 million.

PART I – SHARE-BASED PAYMENT AGREEMENTS

A. QUALITATIVE INFORMATION

1. Description of share-based payment agreements

1.1 Remuneration linked to incentive systems: compensation plans based on shares

As the Parent Company, Banco BPM S.p.A. prepares the annual Policy-on-remuneration report and payouts awarded pursuant to the provisions in force on remuneration and incentive policies and practices of the Bank of Italy (Circular no. 285/2013, 25th update of 23 October 2018, Part I, Title IV, Chapter 2 "Remuneration and incentive policies and practices"), of art. 123-ter of Italian Legislative Decree 58/1998 (Consolidated Finance Law or CFL) as amended and of art. 84-quater of CONSOB resolution no. 11971/1999 as amended (Issuers' Regulation).
The remuneration policies (the "Policies") define, in the interests of all stakeholders, the key principles of the Group's personnel remuneration and incentive systems with a view to favouring the pursuit of long-term strategies, targets and results in line with the general framework of governance and risk management policies and with liquidity and capital levels, while also attracting and retaining in the Group, individuals with adequate professional skills and abilities to meet business requirements, for the benefit of competition and good governance, by pursuing fairness internally and with respect to the external labour market.
The Group's remuneration policies also aim to guarantee adequate remuneration for long-term performance, making it possible to appreciate personnel, recognise individual contributions to the achievement of results and discourage unfair conduct in relationships with customers and in terms of compliance with regulations, or conduct which tends towards excessive risk exposure or results in regulatory violations.
The remuneration of Group employees includes a variable component (incentive) linked to annual incentive systems. The receipt of an incentive is subject to the contextual verification that the predefined access conditions (gateways) have been met, comprised of capital adequacy, liquidity and profitability adequacy indicators. Following verification of the gateways, but prior to any disbursements, the amount of economic resources actually available is determined based on the income statement results achieved (financial adjustment factor) as well as qualitative indicators of a non-financial nature (non-financial adjustment factor). In both cases, conditions are included and monitored, in line with the Group Risk Appetite Framework.

The incentive for key personnel[1] identified for the year is broken down into an up-front portion and deferred portions. The up-front portion, to be assigned by July of the year following the pertinent year, irrespective of the beneficiary, is equal to:

- 60% of the incentive awarded, if it is less than 430 thousand euro;
- 40% of the incentive awarded, if it is equal to or more than 430 thousand euro.

The figure of 430 thousand euro represents for the Group the level of variable remuneration of a particularly high amount, determined in keeping with the criterion established by the Bank of Italy Supervisory Regulations[2].
50% of the up-front portion of the incentive is awarded in Banco BPM ordinary shares.

[1] Parties whose professional activity has or may have a significant impact on the Group's risk profile.
[2] See Part One, Heading IV, Chapter 2, Section III, Paragraph 2: "Particularly high variable remuneration amount means the lower of: i) 25 per cent of the total average remuneration of the Italian high earners, resulting from the most recent report published by the EBA; ii) 10 times the total average remuneration of the bank's employees".

The deferred portions are made up of:

- five annual portions of the same amount deferred in the five-year period following the year of vesting of the up-front portion, to be assigned by July of each year, 55% of which in Banco BPM ordinary shares, for key top-management personnel[1], irrespective of the amount of the incentive awarded, and for the key personnel who report directly to the Chief Executive Officer of Banca Akros and Banca Aletti & C. Banca d'Investimento Mobiliare, if the amount of the incentive granted is equal to or greater than 430 thousand euro;
- three annual portions of the same amount, deferred in the three-year period following the year of vesting of the up-front portion, to be assigned by July of each year, 50% of which in Banco BPM ordinary shares, for the key personnel not indicated in the previous point.

For vested shares, a retention period (selling restriction) of one year is envisaged for both the up-front shares and the deferred shares; for the latter, the retention period starts from the moment in which the deferred remuneration is vested. The vesting of the share portions takes place at the same time as the respective cash portions, while actual transfer of ownership to the beneficiary takes place at the end of the retention period.
Both the up-front shares and the deferred shares are subject to malus and claw-back mechanisms, as set forth in the Policy.

In addition, in line with national banking system practices and in keeping with the spirit of the provisions in force, if the incentive recognised is lower than or equal to the relevant threshold of 50 thousand euro and at the same time lower than or equal to one-third of the fixed component of individual remuneration, it is paid in a lump sum in cash; this provision does not regard high-end key personnel[2] (including top-management) and personnel actually affected[3] by a ratio of variable to fixed remuneration of more than 100%, to whom, therefore, the regulations regarding the deferral and allocation of shares continue to apply in full.
On 4 April 2020, the Ordinary Shareholders' Meeting of Banco BPM approved, pursuant to art. 114-bis of the Consolidated Finance Law and art. 84-bis of the Issuers' Regulation, the share-based compensation plan of Banco BPM S.p.A., as defined in the respective Information Document prepared for this reason by the Board of Directors on 18 February 2020, on the basis of the Policy. The Annual Plan calls for the valuation of a portion of the variable component of the remuneration of the Group's key personnel, to be paid through the assignment of ordinary shares of Banco BPM S.p.A. under the 2020 annual incentive system.

In addition to the compensation plan based on Banco BPM S.p.A. shares, the Ordinary Shareholders' Meeting of Banco BPM held on 4 April 2020 approved:

- the 2020 Remuneration Policy – Section I of the Policy-on-remuneration report and payouts awarded of Banco BPM Banking Group's staff – 2020;
- the criteria for calculating any amount to be granted in the event of early termination of employment of all personnel, including the limits set on said amount in terms of yearly fixed remuneration.

The same Shareholders' Meeting also voted with a non-binding vote on Section II of the Policy-on-remuneration report and payouts awarded of Banco BPM Banking Group's staff - 2020.

For further information refer to the content of the following documents: 2020 Policy-on-remuneration report and payouts awarded (Section I and Section II) and Information Document on the Share-based compensation plan - 2020 Short term incentive, available on the website www.gruppo.bancobpm.it (Corporate Governance - Remuneration Policies section).

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[1] Key top-management personnel refers to, for the Parent Company, the Chief Executive Officer, the General Manager (where appointed), the Joint General Managers and the top operations and management executives, the first-line managers not included among the corporate control functions and reporting directly to the Chief Executive Officer or the Board of Directors, for Aletti & C. Banca d'Investimento Mobiliare and Banca Akros, the Chief Executive Officer.
[2] High-end key personnel, the CEO, General Manager (where appointed), Joint General Managers and first-line Managers of the Parent Company, the CEO, General Manager, Joint General Manager and Deputy General Manager (where present) of Aletti & C. Banca d'Investimento Mobiliare, Banca Akros and ProFamily.
[3] Ex ante.

1.2 Share-based compensation plans of previous years

On 6 February 2020, Banco BPM Board of Directors approved the opening of the access gateways for the 2019 Incentive System, as well as:

- the implementation of the 2019 Plan already approved by the Ordinary Shareholders' Meeting of Banco BPM on 6 April 2019;
- access to the deferred portions of incentives pertaining to the years 2014, 2015, 2016, 2017 and 2018 relating to share-based compensation plans, which are valid and approved on the basis of previous resolutions passed by the shareholders meetings of Banco BPM and of the former Banca Popolare di Milano Scarl.

With reference to the long-term (three-year) 2017-2018-2019 incentive plan, approved by the Shareholders' Meeting on 8 April 2017, the Board of Directors meeting held on 18 February 2020, having noted the opinion of the Remuneration Committee of 17 February 2020, verified the opening of the access gateways to the long-term incentive (LTI) scheme and approved the implementation of the Share-based Compensation Plan of Banco BPM.

In relation to the share portions attributable to previous years, the number of ordinary shares of the former Banca Popolare di Milano recognised was converted into Banco BPM shares — due to the merger with the former Banco Popolare — on the basis of the value established for the share swap equal to 1 Banco BPM share for every 6.386 shares of the former Banca Popolare di Milano; the ordinary shares of the former Banco Popolare recognised were also converted into Banco BPM shares, due to the merger with Banca Popolare di Milano, on the basis of the value established for the share swap equal to 1 Banco BPM share for every share of the former Banco Popolare.

For more details on the procedures and the terms for the allocation of the shares under the above-illustrated Plans, please refer to the respective information documents drawn up in accordance with art. 84-*bis* of the Issuers' Regulation, deposited at the registered office, at Borsa Italiana S.p.A. and also available to the general public on Banco BPM S.p.A.'s website at www.gruppo.bancobpm.it (from 2017: Corporate Governance — Remuneration Policy section; for previous years: Corporate Governance — Shareholders' Meetings — Pre-Merger Shareholders' Meeting section).

1.3 Amounts for early termination of employment

In specific cases of termination of the employment relationship, the Parent Company has the unilateral right to agree — subject to the conditions and in accordance with the methods defined in the Policy — possible amounts for the early termination of employment (for key personnel, golden parachutes), which may be awarded up to the maximum extent of twenty-four months of fixed remuneration (excluding indemnity for lack of notice, determined by legislative provision) and up to the maximum limit of 2.4 million euro (employee gross amount).
The recognition of the amounts for early termination of the employment relationship is subordinate to the positive verification of the conditions, related to the previous financial year, of capital adequacy and liquidity; it is also determined considering any element deemed relevant and in any case:

- the positive results achieved over time;
- the circumstances that led to the termination, taking into account the interests of the company also in order to avoid an error of judgement;
- the tasks performed and/or positions held in the course of the employment relationship, also in the sense of risks assumed by the subject;
- the duration of the employment relationship and of the job;
- the savings resulting from the early termination of the employment relationship.

The disbursement is made according to the same procedures envisaged for the annual incentive scheme, defined in the remuneration policies in force at the time of termination, with reference to the last position for which the granting of the amount is assessed, without affecting the specific features provided for in the Bank of Italy Supervisory Regulations; therefore the disbursement is made:

- for the remaining personnel (namely non-key personnel), in cash in a lump sum;
- for key personnel (golden parachute):
  - an up-front portion, equal to 60%, if the amount is less than the particularly high amount established in the remuneration policies in force at the moment of recognition, or 40%, in the remaining cases;

- five annual deferred portions of the same amount, for key top-management personnel, irrespective of the amount awarded, and for the key personnel who report directly to the Chief Executive Officer of the Italian banking subsidiaries, if the amount recognised is equal to or more than the particularly high amount established in the remuneration policies in force at the moment of recognition, or in three deferred portions in the remaining cases;
- the up-front portion vests on termination of the employment relationship and is allocated within the time limits provided for in the individual agreements; the deferred portions vest annually, the first after twelve months from the date of disbursement of the up-front portion, the subsequent ones at the same interval from the vesting of the previous portion;
- with regard to the up-front portion, 50% in cash and 50% in Banco BPM ordinary shares;
- with regard to each deferred portion, the component in Banco BPM ordinary shares is 55%, if the deferment in five years is applied, or 50%, in the remaining cases;
- there is a retention period (selling restriction) on vested shares of one year. For deferred portions, the retention period starts from the moment deferred remuneration is vested. The vesting of the share portions takes place at the same time as the respective cash portions, while actual transfer of ownership to the beneficiary takes place at the end of the retention period. The carrying value of the allocated shares, both of up-front and deferred portions, will be equal to the "normal value", corresponding to the arithmetic average of official prices recorded in the thirty calendar days preceding the date on which each portion becomes available through transfer to the beneficiary's portfolio. Any rights and/or dividends are only vested with reference to the period following the transfer to the beneficiary's securities portfolio.

The amounts for early termination of the employment relationship, both for key personnel and the remaining personnel, shall only be disbursed in the absence of fraudulent conduct or gross negligence committed by the person who has terminated his/her employment. In the case of directly appointed personnel, the Parent Company's Board of Directors ascertains whether significant misconduct is present; for remaining employees, this assessment is made by the Chief Executive Officer of the Parent Company. If misconduct is determined, the portions that have not yet been paid are cancelled (malus) and any previously paid ones must be returned (clawback). The assessment takes into account a five year period starting from the time of their vesting.

The incentive plans for the key personnel described above, which establish the payment based on shares of Banco BPM, are "equity-settled" plans in accordance with the provisions in IFRS 2. These share-based payments are recorded in the income statement under the item "Personnel expenses" as a balancing entry to an increase in the "Reserves" of consolidated shareholders' equity and the Parent Company's shareholders' equity.
Subsidiaries, on the other hand, in their separate financial statements, record the cost for the period in the income statement item "Personnel expenses" as a balancing entry of an increase in the balance sheet liability item "Provisions for risks and charges", in that the incentive plans for the key personnel establish payment based on the shares of the Parent Company, which will be settled by the individual subsidiaries and, therefore, are considered cash-settled transactions.

B. QUANTITATIVE INFORMATION

1. Annual changes

The balance of the "stock of shares" at 1 January 2020, entirely held by the Parent Company Banco BPM, consisted of 3,657,792 ordinary shares of Banco BPM.
During 2020 - in implementation of the remuneration and incentive policies - a total of 697,133 ordinary shares of Banco BPM S.p.A. were awarded to 73 beneficiaries.

1.1 Own shares purchase programme to service the share allocation plans for Banco BPM Group's key personnel

Following the press release of 6 April 2019, which announced that the Ordinary Shareholders' Meeting of Banco BPM S.p.A. had approved, among other things, the request for authorisation to purchase and dispose of own shares to service share-based compensation plans, it should be noted that - by virtue of the authorisation issued by the European Central Bank in accordance with the applicable provisions of Regulation (EU) no. 575/2013 and Delegated Regulation (EU) no. 241/2014, Banco BPM has implemented the own shares purchase programme to be

allocated to the beneficiaries of the Plans included in the scope of the Group's key personnel, totalling 0.9% of the Group's workforce.
In particular, as part of the above share purchase programme, Banco BPM purchased a total of 3,165,000 own shares (equal to 0.21% of the ordinary shares outstanding) on the Electronic Equity Market (Mercato Telematico Azionario - MTA) during the period from 9 to 11 March 2020, inclusive, at an average unit price of 1.28657, for a total value of 4.1 million.
As a result of the above transactions, the balance of the "stock of shares" as at 31 December 2020 was 6,125,659 ordinary shares of Banco BPM, entirely held by the Parent Company.

2. Other information

With reference to the resolution passed by Banco BPM Board of Directors on 6 February 2020 with regard to the 2019 incentive scheme, a total of 2,528,399 shares were granted to 75 beneficiaries, of which (i) 1,414,136 relating to the up-front portion vested and (ii) 1,114,263 relating to the deferred portions, as appropriate, in the three or five years after 2020, the vesting of which remains subject to positive verification of the malus conditions provided for in the remuneration policies in force at the time.
Note that the Parent Company awarded its beneficiaries 2,124,817 shares, of which 1,175,003 shares relating to the vested up-front portion and 949,814 shares relating to the deferred portions as indicated above.
The same resolution also determined the vesting of deferred shares relating to previous years (2014, 2015, 2016, 2017 and 2018) for a total of 363,183 Banco BPM shares to 61 beneficiaries, of which 285,478 shares vested in favour of Banco BPM beneficiaries.

With reference to the resolution passed by Banco BPM Board of Directors on 18 February 2020 with regard to the 2017-2018-2019 long-term incentive (LTI) scheme, a total of 1,530,074 shares were granted to 39 beneficiaries, of which (i) 612,035 relating to the up-front portion vested and (ii) 918,039 relating to the deferred portions over the three years after 2020, the vesting of which remains subject to positive verification of the malus conditions provided for in the remuneration policies in force at the time.
Note that the Parent Company awarded its beneficiaries 1,096,661 shares, of which 438,668 shares relating to the vested up-front portion and 657,993 shares relating to the deferred portions as indicated above.
With regard to golden parachutes awarded, a total of 4,774 Banco BPM shares vested in 2020, related to the Parent Company only.

2.1 Economic impacts 2020

With regard to Share-based Incentive Systems for key personnel, in 2020 the Group allocated 3.2 million, of which 0.8 million for the short-term incentive plan and 2.4 million for the long-term 2017-2018-2019 incentive plan.
With regard to said Incentive Systems, note that the Parent Company allocated 2.6 million, of which 0.7 million for short-term incentive plans and 1.9 million for long-term ones.

PART L – SEGMENT REPORTING

According to IFRS 8, companies must provide information enabling users of financial statements to assess the nature and the effects on the financial statements of their business activities and the economic contexts in which they operate.
Therefore, it is necessary to highlight the contribution of the various operating segments to the formation of the Group's income.

The identification of the "operating segments" of this Section is consistent with the procedures adopted by Company Management to make operating decisions and is based on internal reporting, used for allocating resources to the various segments and analysing their performance. In that view, also to improve the representation of the Group's profitability, operating segments that are below the quantitative thresholds put forward in paragraph 13 of IFRS 8 are also highlighted.

For 2020, the operating segments taken as a reference to provide the disclosure in question are as follows:

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

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

For a description of the configuration of said operating segments, refer to the disclosure set out in the Section "Results by business segment" of the Report on Operations of the Group.

The tables below provide the detailed income statement and balance sheet figures by segment as at 31 December 2020, compared with the corresponding figures for the previous year, as published in the 2019 Annual Report.
It is noted that the figures for the previous year were adapted to the new format of the Reclassified Income Statement, based on which:

- the economic impact of a change in own credit risk related to the issue of certificates is included in the ad hoc item "Change in own credit risk on Certificates issued by the Group, net of taxes";
- the impacts of reversals of the PPA, recognised following business combinations concluded in previous years are shown in a separate item called "Purchase Price Allocation net of taxes".

Segment results - income statement figures

2020	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Net interest income	1,982,561	937,279	455,230	57,223	1,272	73,213	(8,801)	24,358	442,787
Gains (losses) on interests in associates and joint ventures carried at equity	130,799	-	-	-	-	-	129,385	-	1,414
Financial margin	**2,113,360**	**937,279**	**455,230**	**57,223**	**1,272**	**73,213**	**120,584**	**24,358**	**444,201**
Net fee and commission income	1,663,810	1,293,613	214,835	39,526	89,708	41,651	-	(979)	(14,544)
Other net operating income	56,005	9,237	101	3,057	7	253	-	(1,945)	45,295
Net financial result	318,642	14,094	22,874	126	(75)	10,327	11,671	-	259,625
Other operating income	**2,038,457**	**1,316,944**	**237,810**	**42,709**	**89,640**	**52,231**	**11,671**	**(2,924)**	**290,376**
Operating income	**4,151,817**	**2,254,223**	**693,040**	**99,932**	**90,912**	**125,444**	**132,255**	**21,434**	**734,577**
Personnel expenses	(1,581,141)	(1,012,069)	(71,015)	(8,499)	(52,422)	(25,293)	(1,853)	(6,467)	(403,523)
Other administrative expenses	(593,812)	(703,243)	(80,797)	(28,423)	(20,112)	(58,953)	(713)	(26,583)	325,012
Net value adjustments to property, plant and equipment and intangible assets	(255,114)	(128,654)	(4,895)	(879)	(604)	(345)	-	-	(119,737)
Operating expenses	**(2,430,067)**	**(1,843,966)**	**(156,707)**	**(37,801)**	**(73,138)**	**(84,591)**	**(2,566)**	**(33,050)**	**(198,248)**
Profit (loss) from operations	**1,721,750**	**410,257**	**536,333**	**62,131**	**17,774**	**40,853**	**129,689**	**(11,616)**	**536,329**
Net adjustments to loans to customers	(1,336,807)	(690,545)	(497,972)	(24,015)	81	3	-	(106,248)	(18,111)
Fair value gains (losses) on property, plant and equipment	(36,721)	-	-	-	-	-	-	(13,008)	(23,713)
Net adjustments to securities and other financial assets	(1,030)	-	-	-	-	78	-	-	(1,108)
Net provisions for risks and charges	(42,294)	(7,465)	(10,886)	(400)	16	286	(26,000)	(409)	2,564
Gains (losses) on disposal of interests in associates and joint ventures and other investments	1,190	-	-	-	-	-	-	1,340	(150)
Profit (loss) before tax from continuing operations	**306,088**	**(287,753)**	**27,475**	**37,716**	**17,871**	**41,220**	**103,689**	**(129,941)**	**495,811**
Taxation charge related to profit or loss from continuing operations	(13,518)	79,132	(7,555)	(10,372)	(4,914)	(13,495)	10,409	34,540	(101,263)
Profit (loss) after tax from continuing operations	**292,570**	**(208,621)**	**19,920**	**27,344**	**12,957**	**27,725**	**114,098**	**(95,401)**	**394,548**
Charges related to company restructuring, net of taxes	(187,030)	(123,265)	(8,649)	(1,035)	(4,676)	(602)	(226)	(585)	(47,992)
Charges related to the banking system, net of taxes	(138,901)	(89,604)	(9,346)	(9,180)	(1,369)	(2,911)	-	-	(26,491)
Impact of the realignment of tax values to book values	128,324	128,324	-	-	-	-	-	-	-
Goodwill impairment	(25,100)	-	-	-	-	-	-	-	(25,100)
Change in own credit risk on Certificates issued by the Group, net of taxes	(11,739)	-	-	-	-	-	-	-	(11,739)
Purchase Price Allocation net of taxes (*)	(41,492)	(26,186)	98	(22)	(2,887)	-	-	686	(13,181)
Profit (loss) for the year attributable to non-controlling interests	4,248	-	-	-	-	-	-	4,674	(426)
Parent Company's profit (loss) for the year	**20,880**	**(319,352)**	**2,023**	**17,107**	**4,025**	**24,212**	**113,872**	**(90,626)**	**269,619**

2019 (*)	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Net interest income	1,981,069	1,024,519	402,194	55,533	3,483	83,409	(8,915)	35,506	385,340
Gains (losses) on interests in associates and joint ventures carried at equity	131,255	-	-	-	-	-	131,439	-	(184)
Financial margin	**2,112,324**	**1,024,519**	**402,194**	**55,533**	**3,483**	**83,409**	**122,524**	**35,506**	**385,156**
Net fee and commission income	1,794,423	1,464,256	182,828	37,695	89,857	38,821	-	4	(19,038)
Other net operating income	76,024	19,864	295	4,053	8	787	-	(1,837)	52,854
Net financial result	366,847	9,792	(8,181)	(42)	18	19,340	8,948	-	336,972
Other operating income	**2,237,294**	**1,493,912**	**174,942**	**41,706**	**89,883**	**58,948**	**8,948**	**(1,833)**	**370,788**
Operating income	**4,349,618**	**2,518,431**	**577,136**	**97,239**	**93,366**	**142,357**	**131,472**	**33,673**	**755,944**
Personnel expenses	(1,696,531)	(1,069,663)	(77,924)	(7,312)	(54,729)	(29,516)	(1,947)	(5,479)	(449,961)
Other administrative expenses	(638,566)	(778,051)	(84,991)	(28,262)	(15,866)	(56,044)	(624)	(29,591)	354,863
Net value adjustments to property, plant and equipment and intangible assets	(268,949)	(127,251)	(2,926)	(620)	(323)	(1,105)	(200)	(1,288)	(135,236)
Operating expenses	**(2,604,046)**	**(1,974,965)**	**(165,841)**	**(36,194)**	**(70,918)**	**(86,665)**	**(2,771)**	**(36,358)**	**(230,334)**
Profit (loss) from operations	**1,745,572**	**543,466**	**411,295**	**61,045**	**22,448**	**55,692**	**128,701**	**(2,685)**	**525,610**
Net adjustments to loans to customers	(778,530)	(306,009)	(382,067)	(8,917)	(13)	181	-	(95,597)	13,892
Fair value gains (losses) on property, plant and equipment	(158,533)	-	-	-	-	-	-	(78,219)	(80,314)
Net adjustments to securities and other financial assets	5,759	-	-	-	-	664	-	-	5,095
Net provisions for risks and charges	(71,025)	(61,355)	6,205	209	(2,752)	(861)	-	(697)	(11,774)
Gains (losses) on disposal of interests in associates and joint ventures and other investments	333,151	-	-	-	-	80	(775)	(5,187)	339,033
Profit (loss) before tax from continuing operations	**1,076,394**	**176,102**	**35,433**	**52,337**	**19,683**	**55,756**	**127,926**	**(182,385)**	**791,542**
Taxation charge related to profit or loss from continuing operations	(164,153)	(48,115)	(9,788)	(14,383)	(5,667)	(16,744)	3,477	41,690	(114,623)
Profit (loss) after tax from continuing operations	**912,241**	**127,987**	**25,645**	**37,954**	**14,016**	**39,012**	**131,403**	**(140,695)**	**676,919**
Charges related to the banking system, net of taxes	(92,877)	(60,439)	(6,469)	(6,970)	(2,961)	(963)	-	-	(15,075)
Change in own credit risk on Certificates issued by the Group, net of taxes	(23,273)	-	-	-	-	-	-	-	(23,273)
Purchase Price Allocation net of taxes (**)	(14,654)	3,748	(529)	121	(3,053)	-	-	-	(14,941)
Profit (loss) for the year attributable to non-controlling interests	15,564	-	-	-	-	-	-	15,376	188
Parent Company's profit (loss) for the year	**797,001**	**71,296**	**18,647**	**31,105**	**8,002**	**38,049**	**131,403**	**(125,319)**	**623,818**

(*) The figures for the previous year were adapted to the new format of the reclassified income statement, indicating the impacts of the PPA and the change in own credit risk on Certificates issued by the Group in separate items, net of tax effects.

The following tables show the details of fee and commission income of 2020 and the previous year disaggregated by type of service provided and defined with an operating outlook, and by IFRS 8 operating segment, in line with the disclosure requirements introduced by IFRS 15.
It should be noted that the figures for the previous year are not fully comparable with those for 2020 due to a change in the exposure criteria adopted in the internal reporting used for the presentation of results to management.

2020 Service type/Amounts	**Total**	**Retail**	**Corporate**	**Institutional**	**Private**	**Investment Banking**	**Strategic Partnerships**	**Leases**	**Corporate Centre**
Savings products	**653,387**	**560,207**	**924**	**4,732**	**91,175**	-	-	-	**(3,651)**
of which:									
Indirect upfront - Network	*223,579*	*213,390*	*97*	*986*	*9,106*	-	-	-	-
Administered	38,672	37,285	23	93	1,271	-	-	-	-
Portfolio management and funds	153,022	145,379	73	815	6,755	-	-	-	-
Life	31,885	30,726	1	78	1,080	-	-	-	-
Indirect running - Network	*421,222*	*346,817*	*827*	*3,746*	*82,069*	-	-	-	*(12,237)*
Administered	50,696	52,970	211	1,609	8,143	-	-	-	(12,237)
Portfolio management and funds	328,088	257,858	554	1,960	67,716	-	-	-	-
Life	42,438	35,989	62	177	6,210	-	-	-	-
Indirect non-Commercial Network	*8,586*	-	-	-	-	-	-	-	*8,586*
Investment Banking	**73,730**	-	-	-	-	**83,013**	-	-	**(9,283)**
Insurance protection	**38,173**	**37,925**	**25**	**22**	**60**	-	-	-	**141**
Other fees and commissions	**1,019,341**	**749,822**	**219,251**	**35,030**	**2,395**	-	-	**11**	**12,832**
Fee and commission income	**1,784,631**	**1,347,954**	**220,200**	**39,784**	**93,630**	**83,013**	-	**11**	**39**
Fee and commission expense	**(120,821)**	**(54,341)**	**(5,365)**	**(258)**	**(3,922)**	**(41,362)**	-	(990)	**(14,582)**
Net fee and commission income	**1,663,810**	**1,293,613**	**214,835**	**39,526**	**89,708**	**41,651**	**-**	**(979)**	**(14,544)**

2019 Service type/Amounts	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Distribution of savings products, order collection and trading of securities and currencies:	**781,322**	**620,176**	**779**	**4,880**	**90,881**	**90,737**	**-**	**-**	**(26,131)**
- administered assets, trading of securities and currencies and order collection	148,168	88,144	161	1,451	8,813	90,737	-	-	(41,138)
- portfolio management and funds	540,433	450,013	527	3,136	73,923	-	-	-	12,834
- bancassurance	92,721	82,019	91	293	8,145	-	-	-	2,173
Distribution of insurance protection products	**44,577**	**44,188**	**29**	**25**	**96**	**-**	**-**	**-**	**239**
Distribution of consumer credit products	**47,120**	**45,467**	**-**	**8**	**17**	**-**	**-**	**-**	**1,628**
Transactional banking services (emoney, portfolio and collection and payment services)	**323,745**	**281,031**	**29,054**	**15,776**	**1,239**	**22**	**-**	**-**	**(3,377)**
Keeping and management of current accounts and loans:	**705,949**	**480,578**	**192,140**	**21,183**	**1,587**	**549**	**-**	**10**	**9,902**
- cash loans and unsecured loans	459,395	262,862	172,949	14,353	420	136	-	-	8,675
- current accounts, deposits and foreign currency	246,554	217,716	19,191	6,830	1,167	413	-	10	1,227
Other services	**8,039**	**5,573**	**1,311**	**240**	**29**	**2,872**	**-**	**-**	**(1,986)**
Fee and commission income	**1,910,752**	**1,477,013**	**223,313**	**42,112**	**93,849**	**94,180**	**-**	**10**	**(19,725)**
Fee and commission expense	**(116,329)**	**(12,757)**	**(40,485)**	**(4,417)**	**(3,992)**	**(55,359)**	**-**	**(6)**	**687**
Net fee and commission income	**1,794,423**	**1,464,256**	**182,828**	**37,695**	**89,857**	**38,821**	**-**	**4**	**(19,038)**

Segment results - balance sheet figures

31/12/2020	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Loans to customers:	129,827,109	**58,679,546**	**31,109,162**	**6,498,443**	**335,172**	**695,414**	-	**1,639,209**	**30,870,163**
• loans to customers	107,018,483	58,679,546	30,952,448	6,498,443	335,172	694,825	-	1,639,209	8,218,840
• debt securities	22,808,626	-	156,714	-	-	589	-	-	22,651,323

31/12/2019	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Loans to customers:	122,312,599	56,335,048	28,752,403	5,720,739	245,141	827,446	-	2,005,510	28,426,312
• loans to customers	103,343,352	56,335,048	28,601,715	5,720,739	245,141	819,074	-	2,005,510	9,616,125
• debt securities	18,969,247	-	150,688	-	-	8,372	-	-	18,810,187

31/12/2020	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Direct funding	116,936,669	76,407,106	11,471,081	9,945,329	2,796,089	980,502		6,669	15,329,893

31/12/2019	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Direct funding	109,506,299	71,458,273	8,796,052	8,971,719	2,751,218	1,337,763	-	5,570	16,185,704

31/12/2020	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Interests in associates and joint ventures	1,664,772	-	-	-	-	-	1,647,043	-	17,729

31/12/2019	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Interests in associates and joint ventures	1,386,079	-	-	-	-	-	1,368,892	-	17,187

Note that most of the activities and operating income are achieved in Italy, confirming the deep roots throughout the country, considered to be the main area of action of the Group. The weight of activities and operating income achieved abroad is significantly lower than the threshold of 5%.

PART M – DISCLOSURE ON LEASES

Section 1 – Lessee

QUALITATIVE INFORMATION

The IFRS 16 scope of Banco BPM Group includes the lease contracts on the property units mainly intended for commercial activities (branches), which account for more than 99% of the rights of use relating to leases. There was a marginal amount of other contracts, relating to the hiring of the company car fleet and a small number of contracts containing rights of use of technological equipment.

Short-term or low value lease contracts are recorded according to that set out in par. 6 of IFRS 16. The related costs are indicated in table 12.2 “Other administrative expenses: breakdown”.

QUANTITATIVE INFORMATION

According to that set out in Bank of Italy Circular 262, the information required by accounting standard IFRS 16, relating to contracts in which the Group is the lessee, contained in these Notes to the consolidated financial statements, in the sections indicated below:

- the information on rights of use acquired through leases is contained in Part B, Assets – Section 9, Table 9.1 “Property, plant and equipment used in operations: breakdown of assets at cost” and in Table 9.6 bis ”Property, plant and equipment used in operations - Rights of use acquired through leases: annual changes”;
- the information on lease payables is contained in Part B, Liabilities – Section 1, Table 1.6 “Lease payables”;
- the information on interest expense on lease payables is contained in Part C – Section 1 – Table 1.3 “Interest and similar expense: breakdown”;
- the information on the depreciation of the rights of use and the related asset classes is contained in Part B, Assets – Section 9, Table 9.6 bis “Property, plant and equipment used in operations - Rights of use acquired through leases: annual changes”, under item C.2 “Depreciation”.

At the reporting date, the Group has commitments in place for lease contracts that will start in 2021 for 745 thousand euro, of which short-term contracts for 43 thousand euro.

Section 2 – Lessor

QUALITATIVE INFORMATION

The Group has both finance lease contracts and operating lease contracts in force.

Finance lease operations, which include the contracts of the former Banca Italease (transferred to the Parent Company Banco BPM), as well as the contracts of Release, are in run-off as a result of the Group’s decision to no longer directly disburse that type of financing.

Operating lease operations mainly regard commercial leases connected with properties acquired through *datio in solutum* (acceptance in lieu) in relation to previous credit exposures.

QUANTITATIVE INFORMATION

1. Information on the balance sheet and income statement

1. Information on the balance sheet and income statement

According to that set out in Bank of Italy Circular 262, the information required by accounting standard IFRS 16, relating to contracts in which the Group is the lessor, contained in these Notes to the consolidated financial statements, in the sections indicated below:

- the information on loans for leases is contained in Part B, Assets – Section 4, Table 4.1 "Financial assets at amortised cost: breakdown by product for loans to banks" and Table 4.1 "Financial assets at amortised cost: breakdown by product for loans to customers";
- the information on assets granted through operating leases is contained in Part B, Assets – Section 9, at the bottom of Table 9.4 "Property, plant and equipment held for investment purposes: breakdown of assets at fair value through profit and loss", with the related specifics provided at the bottom of that table;
- the information on interest income on loans for leases is contained in Part C – Section 1 – Table 1.1 "Interest and similar income: breakdown";
- the information on income from operating leases is contained in Part C – Section 16, Table 16.2 "Other operating income: breakdown".

2. Finance leases

2.1 Classification of payments to be received by time band and reconciliation with loans for leases posted under assets

Time bands	Total 31/12/2020 Lease payments to be received	Total 31/12/2019 Lease payments to be received
Up to 1 year	351,883	380,996
From over 1 year to 2 years	429,165	312,955
From over 2 years to 3 years	260,118	468,557
From over 3 years to 4 years	139,593	167,125
From over 4 years to 5 years	87,617	140,422
Over 5 years	336,604	415,963
Total lease payments to be received	**1,604,980**	**1,886,018**
Reconciliation with loans		
Financial profits not accrued (-)	(100,071)	(164,381)
Residual non-guaranteed value (-)	-	-
Loans for leases	**1,504,909**	**1,721,637**

The table sets out payments to be received for loans for leases, due from banks and from customers, whether they refer to performing or non-performing exposures.
In relation to performing exposures, payments to be received refer exclusively to rentals falling due after the reporting date. These receivables include:

- Past-due receivables for 0.1 million;
- Portfolio value adjustments for 5.9 million;
- Capital gains for the year for 0.5 million.

Loans for leases recorded a gradual decrease, in relation to the Group's decision to no longer directly disburse that type of financing.

2.2 Other information

There is no other information to report.

3. Operating leases

3.1 Classification by time band of payments to be received

Time bands	Total 31/12/2020 Lease payments to be received	Total 31/12/2019 Lease payments to be received
Up to 1 year	22,027	37,107
From over 1 year to 2 years	18,518	34,206
From over 2 years to 3 years	12,770	31,076
From over 3 years to 4 years	8,566	18,460
From over 4 years to 5 years	6,096	13,883
Over 5 years	22,099	41,787
Total	**90,076**	**176,519**

3.2 Other information

There is no other information to report.

OTHER INFORMATION

Disclosure regarding public disbursements pursuant to art. 1, paragraph 125 of Law 124 of 4 August 2017 ("Annual market and competition law")

In compliance with that stated in art. 1, paragraph 125 of Law 124 of 4 August 2017, below there are the amounts received by the Parent Company and its subsidiaries during 2020, in the form of "subsidies, contributions, paid positions and in any case economic advantages of any type".

Group company	**Type of contributions**	**Granting authority**	**Amounts received in 2020** ***(figures in euro)***
Banco BPM	Aid for personnel training (*)	FBA (Bank and Insurance Fund)	72,931
Terme Ioniche S.r.l.	Agricultural aid (**)	Disbursed by the European Union through ARCEA (Agency of the Region of Calabria for Agricultural Aid), as the paying body	114,702
Sagim S.r.l. Società Agricola	Agricultural aid (**)	Disbursed by the European Union through ARTEA (Tuscan Regional Agency for Agricultural Aid), as the paying body	260,275

(*) Aid for personnel training requested in 2017 and paid in June 2020. To that end, we note that the contributions listed in the national government registry refer to contributions for which the grant date is from January 2018, relative to which no disbursements were made in 2020.
(**) In particular, these are public resources from EU sources, in which the Italian public administration takes on the role of payer.

To that end, note that in the table, in line with the provisions of the law in question, economic advantages of less than the threshold of 10,000 euro are not stated. This threshold should be understood to refer to all the advantages that the Parent Company or each company in the Group received from the same authority in 2020, whether the benefit was disbursed in one tranche or in several tranches.

Declaration of the Chief Executive Officer and the Manager Responsible for Preparing the Company's Financial Reports

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AND SUBSEQUENT AMENDMENTS AND ADDITIONS

1. The undersigned, Giuseppe Castagna, as Chief Executive Officer of Banco BPM S.p.A. and Gianpietro Val, as Manager responsible for preparing the Company's financial reports of Banco BPM S.p.A., hereby certify, also in consideration of the provisions of art. 154-bis, paragraphs 3 and 4, of Italian Legislative Decree no. 58 dated 24 February 1998:
   - the adequacy in relation to the characteristics of the company and
   - the effective application

   of the administrative and accounting procedures for the formation of the consolidated financial statements of Banco BPM S.p.A. in 2020.

2. The assessment of the adequacy and the verification of the effective application of the administrative and accounting procedures for the formation of the consolidated financial statements of Banco BPM S.p.A. as at 31 December 2020 were based on an internal model set in place by Banco BPM S.p.A., developed on the basis of the "Internal Control – Integrated Framework (COSO)" and, for the IT component, the "Control Objectives for IT and related Technology (COBIT)", which represent the standards for the internal audit system generally accepted at international level.

3. We also hereby certify that:

   3.1 the consolidated financial statements of Banco BPM S.p.A. as at 31 December 2020:
   a) were drawn up in compliance with the applicable international accounting standards recognised in the European Community as per EC Regulation no. 1606/2002 of the European Parliament and Council, dated 19 July 2002;
   b) comply with the results of the accounting records and journal entries;
   c) are suitable for providing a true and fair view of the balance sheet, income statement and financial situation of the issuer and of all the companies included within the scope of consolidation.

   3.2 the report on operations includes a reliable analysis of operating performance and results, as well as the situation of the issuer, Banco BPM S.p.A., and of all of the companies included within the scope of consolidation, together with a description of the main risks and uncertainties to which the same are exposed.

Verona, Italy, 9 February 2021

Signed by
Giuseppe Castagna
Chief Executive Officer

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

Independent Auditors’ Report on the consolidated financial statements

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of Banco BPM SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Banco BPM Group (hereinafter the "Group"), which comprise the balance sheet as of 31 December 2020, the income statement, statement of comprehensive income, statement of changes in shareholders' equity, the cash flow statement for the year then ended, and notes thereto, which include a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position as of 31 December 2020 and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of Banco BPM SpA (hereinafter the "Bank") pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon and we do not provide a separate opinion on these matters.

Key audit matters	*Auditing procedures performed in response to key audit matters*

Impairment of loans to customers measured at amortised cost

Notes to the consolidated financial statements:
Part A - Accounting policies
Part B – Information on the consolidated balance sheet – Assets, sections 4 and 12
Part C – Information on the consolidated income statement, section 8
Part E – Information on risks and related hedging policies

Loans to customers as of 31 December 2020 represent the majority of the 40 b) *"Financial assets at amortised cost – Loans to customers"* financial statement line item balance which totals Euro 129,827 million corresponding to 71 per cent of total assets.
Net impairment losses booked in the year totaling Euro 1,049 million represent directors' best estimate of the expected losses of the loan portfolio at the reporting date on the basis of the applicable reporting standards.

Considering the materiality of the balance, the significant percentage of non-performing loans as well as the on-going process of fine-tuning and refinement of the valuation criteria based on historical experience and the specific characteristics of the economic scenario, we considered impairment of loans to customers as a key audit matter.

Impairment processes and criteria require a high degree of professional judgement and complex variables estimation. The use of significant assumptions is particularly relevant to measure the significant increase in credit risk ("*SICR*"), to allocate the loan portfolios to different risk stages ("*Staging*") and to determine assumptions and inputs included in the expected credit loss ("*ECL*") model calculation and, with specific regards to loans assessed on an individual basis (Stage 3), for the assessment of future cash flows, recovery time and the recoverable amount of any collaterals.

In performing our audit procedures, we considered internal controls relevant to the financial reporting process.

Our audit procedures were defined taking into account the changes in the existing methodologies used for the valuation of the loan portfolio in order to properly consider the exceptional scenario resulting from the Covid-19 pandemic.

To address this key audit matter we performed the following relevant procedures, with the support of experts of the PwC network as needed:

- assessment of the adequacy of the IT environment and testing of the operating effectiveness of the applicable key controls over the systems and software applications used for the valuation of loans to customers;
- understanding and evaluation of control design for key controls related to the monitoring, classification and impairment valuation of loans to customers and testing of their operating effectiveness;
- understanding and assessment of the appropriateness of policies, procedures and models used for determining *SICR*, *Staging* and *ECL* both collectively and individually. Special attention was paid to changes introduced during the year to properly factor the effects arising from the Covid-19 pandemic macroeconomic scenario, as well as to the treatment of debtors who have benefited from supporting measures, including, in particular, general payment moratoria;
- understanding and review of the methods used to define the key estimation parameters for models used to determine the ECL and

In the current year, the above processes were even more complex given the need to appropriately take into consideration the exceptional macroeconomic scenario resulting from the Covid-19 pandemic, as well as the related government measures to support the economy, including, general payment moratoria and the granting or renegotiation of loans backed by public guarantees. As mentioned in the communications and recommendations of the Supervisory Authorities as well as the international financial reporting standard Setters, these unprecedented circumstances required a review of the processes and methodologies used for the loans valuation with reference to both the determination of the *SICR* and the determination of the main variables and parameters for estimating the *ECL* (macroeconomic variables, probability of default, etc.).

assessment of the changes and adjustments introduced during the year. In particular, we assessed the reasonableness of the estimates used in the definition of the expected macroeconomic scenarios, the adjustments made to the so-called "satellite" models used in estimating *PD* ("*Probability of Default"*) and *LGD* ("*Loss Given Default"*) parameters in order to properly consider the different risk environment following the Covid-19 pandemic, as well as supporting measures including, for example, public guarantees. Moreover, we performed specific tests aimed to verify the appropriate application of credit conversion factors for off-balance sheet exposures;

- for loans classified as performing (Stage 1 and Stage 2), assessment of the correct application of the defined criteria as well as of the completeness and accuracy of the data used in the *ECL* calculation;
- test, for a sample of loans, of the reasonableness of their classification as performing (Stage 1 and Stage 2) versus non-performing (Stage 3) based on the available information on the debtor's status and other available supporting evidence, including external information, paying special attention to debtors who benefited from general payment moratoria;
- for non-performing loans (Stage 3), test of the reasonableness of the methodology adopted to define potential alternative recovery scenarios (sale or work-out scenarios), their weighting and the estimated future cash flows.

With specific reference to the work-out scenario, in order to assess the reasonableness of directors' conclusions, considering the classification criteria and categories required by the applicable financial and regulatory reporting framework, test, for a sample of loans assessed on a individual basis, of the

reasonableness of the assumptions made to determine future cash flows from work-out activity, collaterals valuation and recovery time estimation. For non-performing loans assessed on a collective basis, test of the correct application of the key estimation parameters used in the model and assessment of completeness and accuracy of related key data inputs.
Finally, where applicable, check of the calculation of the *ECL* on the basis of weighted average estimated cash flows from the work-out and sale scenarios;

- check of the completeness and adequacy of financial statements disclosures in accordance with International Financial Reporting Standards, the applicable regulatory framework and the communications and recommendations issued by the Supervisory Authorities and international financial reporting standard setter following the Covid-19 pandemic.

Measurement of complex financial instruments (debt securities and derivatives) held for trading and not quoted in active markets

Notes to the consolidated financial statements:
Part A - Accounting policies
Part B – Information on the consolidated balance sheet – Assets, section 2, Liabilities, section 2
Part C – Information on the consolidated income statement, section 4

Financial instruments held for trading and not quoted in active markets whose fair values were determined using models with data and parameters both directly observable and not directly observable in the market (instruments with fair value levels 2 and 3 of the fair value hierarchy, respectively) represent assets for a total of Euro 4,415 million and liabilities of Euro 10,635 million, corresponding approximately to 2.4 per cent of total assets and 5.8 per cent of total liabilities.

In performing our audit procedures, we considered internal controls relevant to the financial reporting process. Specifically, to address this key matter, we performed the following relevant procedures with the support of experts of the PwC network as needed:

- assessment of the adequacy of the IT environment and testing of the operational effectiveness of key controls over the systems and software applications used for the valuation of financial instruments;
- understanding and evaluation of the design of controls relevant to the identification, measurement and monitoring of the risk related to valuation, recognition and

The financial instruments carrying amounts, which represent directors' best estimate of the fair value of the instruments at the reporting date determined in accordance with the applicable reporting standards, are primarily originating from the portfolio of the subsidiary Banca Akros SpA.

Throughout the course of our audit we paid special attention to the valuation of these financial instruments held by Banca Akros SpA, focusing primarily on those characterised by a high degree of complexity (structured securities and derivatives).

This was considered a key audit matter due to the materiality of the amounts, the number and complexity of the valuation models used and the significant estimates and assumptions required. The valuation models used are numerous and different based on the type of instrument requiring specific qualitative and quantitative assumptions that could determine significantly different outcomes.

Furthermore, the valuation models used, even if well known and acknowledged in the practice, could be extremely sensitive to inputs and assumptions and, given their nature, incorporate a risk of incorrect valuation.

measurement of financial instruments, as well as the operational effectiveness of those controls;

- understanding and critical assessment of the policies adopted to determine the fair value of financial instruments;
- review of the valuation techniques and models used as well as of the criteria applied to determine significant assumptions and data inputs, and verification of their consistency with the market practice and financial sector literature;
- specific substantive procedures on the related accounting balances, including independent fair values assessment for a sample of level 2 and level 3 financial instruments, to verify the reasonableness of directors' valuations. Special attention was paid to qualitative and quantitative assumptions and inputs used (interest rate curves, credit and liquidity spreads, adjustments for credit rating, volatility parameters, other market information);
- check of the completeness and adequacy of disclosures closely related to this key matter also considering requirements of the applicable financial reporting standards.

Recoverability of the carrying amounts of intangible assets with an indefinite life originating from business combinations

Notes to the consolidated financial statements:
Part A - Accounting policies
Part B – Information on the consolidated balance sheet – Assets, section 10
Part C – Information on the consolidated income statement, section 19
As of 31 December 2020, the carrying amount of intangible assets with an indefinite life originating from business combinations was equal to Euro 555 million, whereof Euro 51 million relating to goodwill and Euro 504 million relating to trademarks.

In performing our audit procedures, we considered internal controls relevant to the financial reporting process.

In order to define auditing procedures appropriate to the circumstances, we also considered the exceptional macroeconomic scenario resulting from the Covid-19 pandemic.

Specifically, to address this key matter, we performed the following relevant procedures with the support of experts of the PwC network, as needed:

An impairment of some Euro 25 million was booked during the e year to adjust the goodwill recorded for e the *Cash Generating Unit* ("*CGU*") Bancassurance Vita.

Directors assess the recoverable amounts of intangible assets with an indefinite life ("*impairment test*") at least annually. In accordance with IAS 36 "Impairment of assets", the assessment is made by comparing the carrying amount with the higher of the fair value less costs to sell and the value in use of each *CGU* to which the intangible assets are allocated. The recoverable amount of each *CGU* was determined by the directors using the Dividend Discount Model, "Excess capital" version, for those *CGUs* that require regulatory capital, and using the royalty rate method for the Banca Akros SpA trademark.

These methods, which are well known and acknowledged in the best practice, require the use of information, parameters and assumptions, which entail a high degree of complexity in the estimation processes, with particular reference to future cash flows.

For the current year the estimation process was made even more complex by the exceptional nature of the macroeconomic scenario resulting from the Covid-19 pandemic. In order to reflect the changed environment and the consequent higher degree of uncertainty, directors adjusted the estimated future cash flows by formulating, in certain instances, alternative scenarios with associated different specific probabilities of occurrence.

For the reason set out above we considered the recoverability of the carrying amount of intangible assets with an indefinite life originating from business combinations a key matter in our audit of the Group's consolidated financial statements as of 31 December 2020.

- understanding and evaluation of the processes and methodologies adopted by directors to perform the impairment test of the *CGUs*;
- assessment of the compliance of the valuation methodologies adopted with the provisions of IAS 36 "Impairment of assets", taking into account industry best practices, distinctive features of the individual *CGUs* as well as recent communications and recommendations issued by Supervisory Authorities following the Covid-19 pandemic;
- test of the completeness of the perimeter of *CGUs* assessed for impairment;
- assessment of the reasonableness of the main qualitative and quantitative assumptions (cash flows, alternative macroeconomic scenarios, cost of capital, growth rates, royalty rates), also by comparison with external data, where available, and taking into account the uncertainties resulting from the Covid-19 pandemic;
- check of the consistency of the macroeconomic scenarios assumed and cash flows estimated with those used for other relevant valuation processes and, in particular, for *ECL* calculation and for the assessment of the recoverability of deferred tax assets;
- check of the mathematical accuracy for the valuation models used and of the accuracy of calculations performed;
- development of independent valuations based on different quantitative assumptions (cost of capital and growth rates) in order to evaluate the sensitivity of outcomes to changes in the main valuation assumptions;
- assessment of outcomes of sensitivity analyses to changes in the key valuation assumptions prepared by directors;

- analysis of the supporting valuations provided to the directors by the independent advisor appointed (“*fairness opinion”*);
- check of the completeness and adequacy of disclosures provided by the directors in the notes to the consolidated financial statements considering requirements of International Financial Reporting Standards and of the applicable regulatory framework, as well as of recent communications and recommendations issued by Supervisory Authorities following the Covid-19 pandemic.

Recoverability of deferred tax assets

Notes to the consolidated financial statements:
Part A - Accounting policies
Part B – Information on the consolidated balance sheet – Assets, section 11
Part C – Information on the consolidated income statement, section 21

As of 31 December 2020 item 110 b) *“Tax assets - Deferred”* includes deferred tax assets (“*DTA*”) other than those governed by Law No. 214/2011, whose recoverability is guaranteed by specific law provisions, for Euro 1,891 million, whereof Euro 1,042 million relating to prior years’ tax losses that can be carried forward with no time limit and Euro 849 million relating to other temporary differences.

Directors periodically assess the recoverability of *DTAs* by performing a specific estimation process (“probability test”) designed, in accordance with IAS 12 “Income taxes”, to verify that sufficient taxable profits will be generated in the future to recover *DTAs*.
DTAs recoverability assessment, in addition to a correct interpretation of the applicable tax regulations, requires the use of information, parameters and assumptions that entail a high degree of judgement and complexity, with particular reference to the estimation of future taxable profits.

In performing our audit procedures, we considered internal controls relevant to the financial reporting process.
In order to define auditing procedures appropriate to the circumstances, we also considered the high level of uncertainty resulting from the Covid-19 pandemic.

Specifically, to address this key matter, we performed the following relevant procedures with the support of experts of the PwC network, as needed:

- understanding and assessment of the process and method used by the directors to perform the probability test;
- check of the compliance of the methodologies used with the provision of IAS 12 “Income taxes”, taking into account professional best practices, as well as recent communications and recommendations issued by Supervisory Authorities following the Covid-19 pandemic;
- assessment of the reasonableness of the main qualitative and quantitative assumptions (income flows, alternative macroeconomic scenarios, discounts rate and growth rate), comparing external data where

For the current year this process resulted to be even more complex given the higher degree of uncertainty of the macroeconomic scenario resulting from the Covid-19 pandemic. Consequently, directors adjusted the estimated future taxable incomes by formulating alternative scenarios to which specific probabilities of occurrence were associated.

For the reasons set out above we considered the recoverability of *DTAs* other than those governed by Law No. 214/2011, a key matter in our audit of the Group's consolidated financial statements as of 31 December 2020.

available and taking into account the uncertainties resulting from the Covid-19 pandemic;

- assessment of the reasonableness, of the assumptions used to perform the probability test, on the basis of the applicable tax regulations;
- check of the consistency of the macroeconomic scenarios assumed and income flows estimated, with those used for other relevant valuation processes, in particular for *ECL* calculation and for the impairment test of intangible assets with an indefinite life;
- check of the mathematical accuracy of the calculations underlying the probability test and the accuracy of calculations performed;
- check of the completeness and adequacy of disclosures included by directors in the notes to the consolidated financial statements considering requirements of International Financial Reporting Standards and the applicable regulatory framework as well as recent communications and recommendations issued by Supervisory Authorities following the Covid-19 pandemic.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern.
In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate the parent company Banco BPM SpA or to cease operations or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report

Additional Disclosures required by Article 10 of Regulation (EU) No. 537/2014

On 15 October 2016 the shareholders of Banco Popolare Società Cooperativa and Banca Popolare di Milano Scarl in general meeting engaged us to perform the statutory audit of the Bank's and the consolidated financial statements for the years ending 31 December 2017 to 31 December 2025.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Bank in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter and), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

The directors of Banco BPM SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of Banco BPM Group as of 31 December 2020, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of Banco BPM Group as of 31 December 2020 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of Banco BPM Group as of 31 December 2020 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter and), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Statement in accordance with article 4 of Consob's Regulation implementing Legislative Decree No. 254 of 30 December 2016

The directors of Banco BPM SpA are responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016.

We have verified that the directors approved the non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Milan, 24 March 2021

PricewaterhouseCoopers SpA

Signed by

Pierfrancesco Anglani
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

Attachments

List of IAS/IFRS endorsed by the European Commission as at 31 December 2020

Accounting standards		Endorsement Regulation	
			amendments
IAS 1	Presentation of Financial Statements	1126/2008	1274/2008; 53/2009; 70/2009; 494/2009; 243/2010; 149/2011; 475/2012; 1254/2012; 1255/2012; 301/2013; 2113/2015; 2406/2015; 1905/2016; 2067/2016; 1986/2017; 2075/2019; 2104/2019
IAS 2	Inventories	1126/2008	70/2009; 1255/2012; 1905/2016; 2067/2016; 1986/2017
IAS 7	Statement of Cash Flows	1126/2008	1260/2008; 1274/2008; 70/2009; 494/2009; 243/2010; 1254/2012; 1174/2013; 1986/2017; 1990/2017
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	1126/2008	1274/2008; 70/2009; 1255/2012; 2067/2016; 2075/2019; 2104/2019
IAS 10	Events After the Reporting Period	1126/2008	1274/2008; 70/2009; 1142/2009; 1255/2012; 2067/2016; 2104/2019
IAS 12	Income Taxes	1126/2008	1274/2008; 495/2009; 475/2012; 1254/2012; 1255/2012; 1174/2013; 1905/2016; 2067/2016; 1986/2017; 1989/2017; 412/2019
IAS 16	Property, Plant and Equipment	1126/2008	1260/2008; 1274/2008; 70/2009; 495/2009; 1255/2012; 301/2013, 28/2015; 2113/2015; 2231/2015; 1905/2016; 1986/2017
IAS 19	Employee Benefits	1126/2008	1274/2008; 70/2009; 475/2012; 1255/2012; 29/2015; 2343/2015; 402/2019
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance	1126/2008	1274/2008; 70/2009; 475/2012; 1255/2012; 2067/2016
IAS 21	The Effects of Changes in Foreign Exchange Rates	1126/2008	1274/2008; 69/2009; 494/2009; 149/2011; 475/2012; 1254/2012; 1255/2012; 2067/2016; 1986/2017
IAS 23	Borrowing Costs	1126/2008	1260/2008; 70/2009; 2113/2015; 2067/2016; 1986/2017; 412/2019
IAS 24	Related Party Disclosures	1126/2008	1274/2008, 632/2010; 475/2012; 1254/2012; 1174/2013; 28/2015
IAS 26	Accounting and Reporting by Retirement Benefit Plans	1126/2008	
IAS 27	Separate Financial Statements	1126/2008	1274/2008; 69/2009; 70/2009; 494/2009; 1254/2012; 1174/2013; 2441/2015
IAS 28	Investments in Associates and Joint Ventures	1126/2008	1274/2008; 70/2009, 494/2009, 495/2009; 1254/2012; 1255/2012; 2441/2015; 1703/2016; 2067/2016; 182/2018; 237/2019
IAS 29	Financial Reporting in Hyperinflationary Economies	1126/2008	1274/2008; 70/2009
IAS 32	Financial Instruments: Presentation	1126/2008	1274/2008; 53/2009; 70/2009, 494/2009; 495/2009; 1293/2009; 149/2011; 475/2012; 1254/2012; 1255/2012; 1256/2012; 301/2013; 1174/2013; 1905/2016; 2067/2016; 1986/2017
IAS 33	Earnings per Share	1126/2008	1274/2008; 494/2009; 495/2009; 475/2012; 1254/2012; 1255/2012; 2067/2016
IAS 34	Interim Financial Reporting	1126/2008	1274/2008; 70/2009; 495/2009; 149/2011; 475/2012; 1255/2012; 301/2013; 1174/2013; 2343/2015; 2406/2015; 1905/2016; 2075/2019; 2104/2019
IAS 36	Impairment of Assets	1126/2008	1274/2008; 69/2009; 70/2009; 495/2009; 243/2010; 1254/2012; 1255/2012; 1374/2013; 2113/2015; 1905/2016; 2067/2016
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	1126/2008	1274/2008; 495/2009; 28/2015; 1905/2016; 2067/2016; 1986/2017; 2075/2019; 2104/2019
IAS 38	Intangible Assets	1126/2008	1260/2008; 1274/2008; 70/2009; 495/2009; 243/2010; 1254/2012; 1255/2012; 28/2015; 2231/2015; 1905/2016; 1986/2017; 2075/2019
IAS 39	Financial Instruments: Recognition and Measurement (with the exception of several provisions relating to accounting for hedging transactions) (*)	1126/2008	1274/2008; 53/2009; 70/2009; 494/2009; 495/2009; 824/2009; 839/2009; 1171/2009; 243/2010; 149/2011; 1254/2012; 1255/2012; 1174/2013; 1375/2013; 28/2015; 1905/2016; 2067/2016; 1986/2017; 34/2020; 25/2021 (**)
IAS 40	Investment Property	1126/2008	1274/2008; 70/2009; 1255/2012; 1361/2014; 2113/2015; 1905/2016; 1986/2017; 400/2018
IAS 41	Agriculture	1126/2008	1274/2008; 70/2009; 1255/2012; 2113/2015; 1986/2017
IFRS 1	First-time Adoption of International Financial Reporting Standards	1126/2008	1260/2008; 1274/2008; 69/2009; 70/2009; 254/2009; 494/2009; 495/2009; 1136/2009; 1164/2009; 550/2010; 574/2010; 662/2010; 149/2011; 1205/2011; 475/2012; 1254/2012; 1255/2012; 183/2013; 301/2013; 313/2013; 1174/2013; 2173/2015; 2343/2015; 2441/2015; 1905/2016; 2067/2016; 1986/2017; 182/2018; 519/2018; 1595/2018
IFRS 2	Share-based Payments	1126/2008	1261/2008; 495/2009; 243/2010; 244/2010; 1254/2012; 1255/2012; 28/2015; 2067/2016; 289/2018; 2075/2019
IFRS 3	Business Combinations	1126/2008	495/2009; 149/2011; 1254/2012; 1255/2012; 1174/2013; 1361/2014; 28/2015; 1905/2016; 2067/2016; 1986/2017;

Accounting standards		Endorsement Regulation	
			amendments
			412/2019; 2075/2019; 551/2020
IFRS 4	Insurance Contracts	1126/2008	1274/2008; 494/2009; 1165/2009; 1255/2012; 1905/2016; 2067/2016; 1986/2017; 1988/2017; 2097/2020 (**); 25/2021 (**)
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1126/2008	1274/2008; 70/2009; 494/2009; 1142/2009; 243/2010; 475/2012; 1254/2012; 1255/2012; 2343/2015; 2067/2016
IFRS 6	Exploration for and Evaluation of Mineral Resources	1126/2008	2075/2019
IFRS 7	Financial Instruments: Disclosures	1126/2008	1274/2008; 53/2009; 70/2009; 495/2009; 824/2009; 1165/2009; 574/2010; 149/2011; 1205/2011; 475/2012; 1254/2012; 1255/2012; 1256/2012; 1174/2013; 2343/2015; 2406/2015; 2067/2016; 1986/2017; 34/2020; 25/2021 (**)
IFRS 8	Operating Segments	1126/2008	1274/2008; 243/2010; 632/2010; 475/2012; 28/2015
IFRS 9	Financial Instruments	2067/2016	1986/2017; 498/2018; 34/2020; 25/2021 (**)
IFRS 10	Consolidated Financial Statements	1254/2012	313/2013; 1174/2013; 1703/2016
IFRS 11	Joint Arrangements	1254/2012	313/2013; 2173/2015; 412/2019
IFRS 12	Disclosure of Interests in Other Entities	1254/2012	313/2013; 1174/2013; 1703/2016; 182/2018
IFRS 13	Fair Value Measurement	1255/2012	1361/2014; 2067/2016; 1986/2017
IFRS 15	Revenue from Contracts with Customers	1905/2016	1986/2017; 1987/2017
IFRS 16	Leases	1986/2017	1434/2020; 25/2021(**)

(*) With the entry into force of IFRS 9 "Financial Instruments", only the portion of IAS 39 regarding accounting for fair value hedging transactions remains in force.

(**) Regulations endorsed at the date of approval of the financial statements, but applicable following 1 January 2021.

Interpretations		Endorsement Regulation	
			Amendments
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	1126/2008	1260/2008; 1274/2008; 1986/2017
IFRIC 2	Members' Shares in Co-operative Entities and Similar Instruments	1126/2008	53/2009; 1255/2012; 301/2013; 2067/2016
IFRIC 4	Determining whether an Arrangement Contains a Lease	1126/2008	254/2009; 1255/2012
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1126/2008	1254/2012; 2067/2016
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	1126/2008	
IFRIC 7	Applying the Restatement Approach under IAS 29 - Financial Reporting in Hyperinflationary Economies	1126/2008	1274/2008
IFRIC 10	Interim Financial Reporting and Impairment	1126/2008	1274/2008; 2067/2016
IFRIC 12	Service Concession Arrangements	254/2009	1905/2016; 2067/2016; 1986/2017; 2075/2019
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1263/2008	1274/2008; 633/2010; 475/2012
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	460/2009	243/2010; 1254/2012; 2067/2016
IFRIC 17	Distributions of Non-Cash Assets to Owners	1142/2009	1254/2012; 1255/2012
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	662/2010	1255/2012; 2067/2016; 2075/2019
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1255/2012	2075/2019
IFRIC 21	Levies	634/2014	
IFRIC 22	Foreign Currency Transactions and Advance Consideration	519/2018	2075/2019
IFRIC 23	Uncertainty over Income Tax Treatments	1595/2018	
SIC 7	Introduction of the Euro	1126/2008	1274/2008; 494/2009
SIC 10	Government Assistance – No Specific Relation to Operating Activities	1126/2008	1274/2008
SIC 15	*Operating Leases* – Incentives	1126/2008	1274/2008
SIC 25	Income Taxes – Changes in the Tax Status of an Entity or its Shareholders	1126/2008	1274/2008
SIC 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	1126/2008	1905/2016; 2067/2016
SIC 29	Service Concession Arrangements: Disclosures	1126/2008	1274/2008; 254/2009; 1986/2017
SIC 32	Intangible Assets – Web Site Costs	1126/2008	1274/2008; 1905/2016; 1986/2017; 2075/2019

Reconciliation between the items in the consolidated income statement and the reclassified consolidated income statement schedule for 2020

2020	Income statement	Reclassifications		Reclassified income statement
Net interest income				**1,982,561**
10. Interest and similar income	2,416,605	25,961	(a)	
20. Interest and similar expense	(460,005)			
Gains (losses) on interests in associates and joint ventures carried at equity				**130,799**
250. Gains (losses) of associates and joint ventures		130,799	(b)	
Financial margin				**2,113,360**
Net fee and commission income				**1,663,810**
40. Fee and commission income	1,765,869	18,762	(c)	
50. Fee and commission expense	(123,996)	3,175	(d)	
Other net operating income				**56,005**
230. Other operating expenses/income	329,188	(272,156)	(e)	
		(1,027)	(f)	
Net financial result				**318,642**
70. Dividends and similar income	42,015			
80. Net trading income	16,912	(18,762)	(c)	
		(3,175)	(d)	
		17,537	(g)	
90. Fair value gains/losses on hedging derivatives	(7,657)			
100. Gains (losses) on disposal or repurchase	(149,126)	287,151	(h)	
110. Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss	133,747			
Other operating income				**2,038,457**
Operating income				**4,151,817**
Personnel expenses				**(1,581,141)**
190 a) Personnel expenses	(1,836,216)	(2,952)	(i)	
		257,000	(l)	
190 b) Other administrative expenses		1,027	(f)	
Other administrative expenses				**(593,812)**
190 b) Other administrative expenses	(1,060,962)	2,952	(i)	
		272,156	(e)	
		192,042	(m)	
Net value adjustments to property, plant and equipment and intangible assets				**(255,114)**
210. Depreciation and impairment losses on property, plant and equipment	(165,437)	(13,580)	(l)	
220. Amortisation and impairment losses on intangible assets	(112,122)	36,025	(a)	
230. Other operating expenses/income				
Operating expenses				**(2,430,067)**
Profit (loss) from operations				**1,721,750**
Net adjustments to loans to customers				**(1,336,807)**
130 a) Net credit impairment losses/recoveries relating to financial assets at amortised cost	(1,049,211)	(210)	(n)	
		(154)	(o)	
		1,175	(p)	
		(287,151)	(h)	
140. Gains (losses) from contractual modification without derecognition	(1,256)			
Fair value gains (losses) on property, plant and equipment				**(36,721)**
260. Fair value gains (losses) on property, plant and equipment and intangible assets	(36,721)			

2020	Income statement	Reclassifications		Reclassified income statement
Net adjustments to securities and other financial assets				**(1,030)**
130 b) Net credit impairment losses/recoveries relating to financial assets measured at fair value through other comprehensive income	(219)	210	(n)	
		154	(o)	
		(1,175)	(p)	
Net provisions for risks and charges				**(42,294)**
200. Net provisions for risks and charges	(57,625)	15,331	(l)	
Gains (losses) on disposal of interests in associates and joint ventures and other investments				**1,190**
250. Gains (losses) of associates and joint ventures	130,799	(130,799)	(b)	
280. Gains (losses) on disposal of investments	1,190			
Profit (loss) before tax from continuing operations				**306,088**
Taxation charge related to profit or loss from continuing operations				**(13,518)**
300. Taxation charge related to profit or loss from continuing operations	265,960	(53,141)	(m)	
		(20,494)	(a)	
		(5,798)	(g)	
		(71,721)	(l)	
		(128,324)	(p)	
Profit (loss) after tax from continuing operations		**250,838**		**292,570**
Charges related to company restructuring, net of taxes		(187,030)	(l)	**(187,030)**
Charges related to the banking system, net of taxes		(138,901)	(m)	**(138,901)**
Impact of the realignment of tax values to book values		128,324	(p)	**128,324**
Goodwill impairment				**(25,100)**
270. Value adjustments to goodwill	(25,100)			
Change in own credit risk on Certificates issued by the Group, net of taxes		(11,739)	(g)	**(11,739)**
Purchase Price Allocation net of taxes		(41,492)	(a)	**(41,492)**
Profit (loss) for the year attributable to non-controlling interests				**4,248**
340. Profit (loss) for the year attributable to non-controlling interests	4,248			
Parent Company's profit (loss) for the year	**20,880**	**-**		**20,880**

The letters shown in the column "Reclassifications" are provided for easier understanding of the reclassifications made.
With regard to the above statement of reconciliation, it is noted that:

- the item **"Net interest income"** is represented by the algebraic balance of interest and similar income (item 10) and interest and similar expense (item 20), net of the PPA relating to loans to customers, amounting to 26.0 million (a), classified within the reclassified income statement item "Purchase Price Allocation net of taxes";
- the item **"Gains (losses) on interests in associates and joint ventures carried at equity"** shows the portion of profits (losses) pertaining to investee companies carried at equity (included in item 250) totalling 130.8 million (b), and together with the net interest income, the aggregate is defined as the **"Financial margin"**;
- the item **"Net fee and commission income"** is represented by the algebraic balance of fee and commission income (item 40) and fee and commission expense (item 50). It also includes the reclassification of the upfront fees relating to the placement of Certificates through the Group network (18.8 million (c)) from item 80 of the official schedule "Net trading income", while fee and commission expense relating to placement carried out by third party networks (3.2 million (d)) has been transferred to net trading income;
- the item **"Other net operating income"** is represented by the financial statement item "230 Other operating expenses/income", with the recoveries on indirect taxes, legal fees and other expenses, totalling 272.2 million (e), separated out, which, for reclassification purposes are shown in the item "Other

administrative expenses" and with the recovery of training costs of 1.0 million (f), classified in "Personnel expenses", also separated out;

- the income statement item **"Net financial result"** includes "Dividends and similar income" (item 70), "Net trading income" (item 80), net of both the reclassification of the amount of upfront fees on the placement of Certificates for a total of 21.9 million (letters (c) and (d)), re-attributed to net fee and commission income, and the impact deriving from the change in own credit risk on issues of Certificates for 17.5 million (g), re-attributed to the customised item of the reclassified income statement called "Change in own credit risk on Certificates issued by the Group, net of taxes". The aggregate in question also includes "Fair value gains/losses on hedging derivatives" (item 90), "Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss" (item 110) and "gains/losses on disposal or repurchase" (item 100) net of gains on disposal of loans not represented by debt securities, equal to 287.2 million (h), re-attributed to the managed aggregate "Net adjustments to loans to customers";
- the item "**Personnel expenses**" is represented by the financial statement item "190 a) Personnel expenses" and by several charges functionally related to personnel, amounting to 3.0 million (h), recognised in the financial statements under item 190 b) "Other administrative expenses" and by the recovery of training costs of 1.0 million (f), recorded under item "230 Other operating expenses/income", as described above. This aggregate excludes charges totalling 257.0 million (l), which are expected to be incurred for early retirement incentives, also through the voluntary use of the extraordinary benefits of the Solidarity Fund for the sector, shown in a separate item of the reclassified income statement called "Charges related to company restructuring, net of taxes";
- the item "**Other administrative expenses**" is represented by the financial statement item 190 b), net of recoveries on indirect taxes, legal fees and other expenses, totalling 272.2 million (e), included in the item "230 Other operating expenses/income", as described above, and of several charges connected to personnel, recognised in the reclassified item "Personnel expenses" for 3.0 million (i). Ordinary and extraordinary charges totalling 192.0 million (m) introduced for banks under the single and national resolution funds (SRF and NRF) are also excluded and are shown, net of the related tax effect, in the separate item "Charges related to the banking system, net of taxes";
- the item "**Net value adjustments to property, plant and equipment and intangible assets**" corresponds to the accounting items 210 and 220, net of adjustments to intangibles with a finite useful life (client relationships), allocated to the reclassified income statement item "Purchase price allocation net of taxes", amounting to 36.0 million (a). Moreover, the aggregate in question does not include the amount of recoveries recognised as a result of the renegotiation of several real estate lease contracts for 13.6 million (l), connected with the branch closing plan to be carried out in 2021, and shown in the separate item of the reclassified income statement called "Charges related to company restructuring, net of taxes";
- the total of "**Net adjustments to loans to customers**" and "**Net adjustments to securities and other financial assets**" starts from income statement items 130 "Net credit impairment losses/recoveries" and 140 "Gains (losses) from contractual modification without derecognition". Specifically, "Net adjustments to loans to customers" include adjustments to exposures classified in the portfolio of financial assets at amortised cost - loans to customers - loans (amounting to 1,049.2 million), the negative result of disposals of loans, amounting to 287.2 million (h) (included in item 100), as well as gains (losses) from contractual modification without derecognition (item 140 of the income statement). Instead, this excludes net impairment losses on exposures classified in the portfolio of financial assets at amortised cost represented by debt securities, totalling 1.2 million (p), as well as net impairment losses on exposures classified in the portfolio of financial assets at amortised cost – loans to banks – loans and securities (n) and (o) totalling 0.4 million, all fully presented in the item of the reclassified income statement "Net adjustments to securities and other financial assets";
- "**Fair value gains (losses) on property, plant and equipment**" correspond to item 260 of the official income statement;
- the aggregate of "**Net adjustments to securities and other financial assets**" includes net impairment losses on exposures classified in the portfolio of financial assets at amortised cost – loans to banks - loans and securities (n) and (o) totalling 0.4 million, as well as net impairment losses on exposures classified in the portfolio of financial assets at amortised cost consisting of debt securities (included in item 130) issued by customers (p) totalling 1.2 million;
- "**Net provisions for risks and charges**" correspond to item 200 in the official income statement, separating out the portion of charges allocated under the plan to reorganise the Group's network, mentioned above, equal to 15.3 million (l), identified in the separate item of the reclassified income statement called "Charges related to company restructuring, net of taxes";

- "**Gains (losses) on disposal of interests in associates and joint ventures and other investments**" correspond to item 280 of the official income statement and to the net income on the disposal of interests in associates and joint ventures carried at equity (item 250 of the official income statement), net of the portion of income (losses) of the investees carried at equity, overall a positive 130.8 million (b) included in the reclassified aggregate "Gains (losses) on interests in associates and joint ventures carried at equity";
- the item "**Taxation charge related to profit or loss from continuing operations**" corresponds to item 300 of the official income statement, separating out the negative tax effects relating to "banking industry charges" for 53.1 million (m), the PPA for 20.5 million (a), the impact of the change in credit risk on Certificates issued for 5.8 million (g) and restructuring charges for 71.7 million (l). The item in question is also shown net of the positive impact of 128.3 million (p) deriving from the realignment of tax values to book values of certain intangible assets, shown in a separate item of the reclassified income statement called "Impact of the realignment of tax values to book values";
- the item "**Charges related to company restructuring, net of taxes**" records the amount of costs expected to be incurred for early retirement incentives and the streamlining of the branch network, shown in the official income statement under item 190 a) for -257 million, in item 200 for -15.3 million and in item 210 for 13.6 million, net of the related tax effect, equal to 71.7 million (l);
- the item **"Charges related to the banking system, net of taxes"** includes the ordinary and extraordinary charges for a total of 192.0 million (m) recognised in the accounts in item 190 b) of the official income statement, net of the related tax effect, amounting to 53.1 million (m);
- the item "**Impact of the realignment of tax values to book values**" shows the amount recognised in item 300 of the official income statement, positive for 128.3 million (p), deriving from the exercise of the option to realign the tax values of certain intangible assets to their book values;
- the item "**Goodwill impairment**" corresponds to item 270 of the official income statement;
- the item "**Change in own credit risk on Certificates issued by the Group, net of taxes**" shows the economic impact of a change in own credit risk related to the issue of Certificates, recognised in the accounts in item 80 of the official income statement for -17.5 million (g), net of the related tax effect, amounting to 5.8 million (g);
- lastly, the item "**Purchase Price Allocation net of taxes**" includes the effects of the PPA relating to loans, amounting to -26.0 million (a) and the client relationship, amounting to -36.0 million (a), net of the relative tax effects, amounting to 20.5 million (a).

Reconciliation between the items in the consolidated balance sheet and the reclassified consolidated balance sheet as at 31 December 2020

Asset items *(thousands of euro)*		**31/12/2020**
10.	Cash and cash equivalents	8,858,079
	Cash and cash equivalents	**8,858,079**
40. a)	Financial assets at amortised cost: loans to banks	11,974,822
	minus: debt securities due to banks at amortised cost	(854,141)
	Loans at AC: loans to banks	**11,120,681**
40. b)	Financial assets at amortised cost: loans to customers	129,827,109
	plus: senior securities relative to disposal of "Red Sea" and "Leviticus" (GACS)	2,316,502
	minus: debt securities due to customers at amortised cost	(22,808,626)
	Loans at AC: loans to customers	**109,334,985**
20.	Financial assets at fair value through profit and loss	9,043,525
50.	Hedging derivatives	75,046
	Financial assets and hedging derivatives at FV through Profit and Loss	**9,118,571**
30.	Financial assets measured at fair value through other comprehensive income	10,710,796
	Financial assets at FV through OCI	**10,710,796**
	plus: debt securities due to banks and customers at amortised cost	23,662,767
	minus: senior securities relative to disposal of "Red Sea" and "Leviticus" (GACS)	(2,316,502)
	Financial assets at AC	**21,346,265**
70.	Interests in associates and joint ventures	1,664,772
	Interests in associates and joint ventures	**1,664,772**
90.	Property, plant and equipment	3,552,482
	Property, plant and equipment	**3,552,482**
100.	Intangible assets	1,218,632
	Intangible assets	**1,218,632**
110.	Tax assets	4,704,196
	Tax assets	**4,704,196**
120.	Non-current assets and disposal groups held for sale	72,823
	Non-current assets and disposal groups held for sale	**72,823**
60.	Fair value change of financial assets in macro fair value hedge portfolios (+/-)	52,288
130.	Other assets	1,930,612
	Other assets	**1,982,900**
	Total assets	**183,685,182**

	Liability items *(thousands of euro)*	31/12/2020
10. b)	Financial liabilities at amortised cost: due to customers	102,915,666
	minus: lease payables due to customers	(753,205)
10. c)	Financial liabilities at amortised cost: debt securities in issue	14,560,630
30.	Financial liabilities designated at fair value	955,781
	minus: protected capital certificates	(742,203)
	Direct funding	**116,936,669**
10. a)	Financial liabilities at amortised cost: due to banks	33,944,598
	minus: lease payables due to banks	(7,075)
	Due to banks	**33,937,523**
	plus: lease payables due to banks	7,075
	plus: lease payables due to customers	753,205
	Lease payables	**760,280**
20.	Financial liabilities held for trading	12,687,544
	plus: protected capital certificates	742,203
40.	Hedging derivatives	585,680
	Other financial liabilities designated at fair value	**14,015,427**
90.	Provisions for employee severance pay	369,498
100.	Provisions for risks and charges	1,045,975
	Liability provisions	**1,415,473**
60.	Tax liabilities	464,570
	Tax liabilities	**464,570**
50.	Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	130,912
80.	Other liabilities	3,797,227
	Other liabilities	**3,928,139**
	Total liabilities	**171,458,081**
190.	Non-controlling interests (+/-)	1,894
	Non-controlling interests	**1,894**
120.	Valuation reserves	310,412
140.	Equity instruments	695,417
150.	Reserves	4,112,500
170.	Share capital	7,100,000
180.	Own shares (-)	(14,002)
200.	Profit (loss) for the year (+/-)	20,880
	Group shareholders' equity	**12,225,207**
	Total liabilities and shareholders' equity	**183,685,182**

Country by Country Reporting

The regulations for country by country reporting, introduced with art. 89 of Directive 2013/36/EU (CRD IV), implemented in Italy with the 4th update to Bank of Italy Circular 285 of 17 December 2013 (Part One, Title III, Chapter 2), involves an annual obligation to publish the information set out in letters a), b), c), d), e) and f) of art. 89 of CRD IV.

To that end, the required information is provided, broken down by individual letter.

(A) Name of companies and nature of business

The activities carried out by Banco BPM Group are indicated in the following table, which refers to that indicated in art. 317 of Regulation 575/2013 of the European Parliament and Council (CRR), integrated with additional specific business activities.
These activities are grouped, based on criteria of prevalence, with the “business segments” which, in brief, refer to the Group’s internal management structure and are referred to in the Report on Operations (section “Results by business segment”, as well as in “Part L - Segment Reporting” in the Notes to the Consolidated Annual Report as at 31 December 2020).

Taken from the CRR: par. 4, Art. 317, Table 2		**Banco BPM Group business segments**							
Business line	**List of activities**	**Retail**	**Corporate**	**Institutional**	**Private**	**Investment Banking**	**Strategic Partnerships**	**Leases**	**Corporate Centre**
Corporate Finance	Underwriting commitments of financial instruments or placement of financial instruments on the basis of an irrevocable commitment		✔			✔			
	Services associated with underwriting commitments		✔			✔			
	Investment advisory		✔			✔			
	Investment research and financial analysis and other forms of general advisory activities involving transactions in financial instruments		✔			✔			
Trading and sales	Own account trading					✔			✔
	Receipt and transmission of orders regarding one or more financial instruments	✔			✔	✔			
	Execution of orders for customers	✔			✔	✔			
	Placement of financial instruments without irrevocable commitments	✔			✔	✔			
	Management of multilateral trading facilities								
Retail brokerage (with natural persons or SMEs meeting the criteria set under art. 123 for the retail exposures class)	Receipt and transmission of orders regarding one or more financial instruments	✔			✔	✔			
	Execution of orders for customers	✔			✔	✔			
	Placement of financial instruments without irrevocable commitments	✔			✔	✔			
Commercial banking	Collection of deposits or other repayable funds	✔	✔	✔					
	Lending transactions	✔	✔	✔					
	Finance leases						✔	✔	
	Issuing of guarantees and unsecured guarantees	✔	✔	✔					
Retail banking (with natural persons or SMEs meeting the criteria set under art. 123 for the retail exposures class)	Collection of deposits or other repayable funds	✔			✔				
	Lending transactions	✔					✔		
	Finance leases	✔					✔	✔	
	Issuing of guarantees and unsecured guarantees	✔							
Payment and settlement	Payment services	✔	✔						

Taken from the CRR: par. 4, Art. 317, Table 2		Banco BPM Group business segments							
Business line	**List of activities**	**Retail**	**Corporate**	**Institutional**	**Private**	**Investment Banking**	**Strategic Partnerships**	**Leases**	**Corporate Centre**
	Issuing and management of means of payment	✔	✔						
Agency services	Custody and administration of financial instruments for customers, including custody and associated services such as management of cash/collateral					✔			✔
Asset management	Portfolio management						✔		
	UCITS management								✔
	Other forms of portfolio management						✔		
Other services and support activity	Treasury management and own account funding								✔
	Equity interest portfolio management								✔
	IT asset management								✔
	Real estate asset management and maintenance								✔

With reference to the main content, the business segment:

- **"Retail"** includes management, marketing and sale of banking and financial products/services and credit brokering mainly aimed at private individuals and small businesses. These activities are for the most part carried out by the Parent Company's Commercial Network;
- **"Corporate"** includes management, marketing and sale of banking and financial products/services and credit brokering aimed at medium and large businesses. These activities are for the most part carried out by the Parent Company's Commercial Network;
- **"Institutional"** includes management, marketing and sale of banking and financial products/services and credit brokering aimed at entities and institutions (UCITs, SICAVs, insurance companies, pension funds, banking foundations). These activities are for the most part carried out by the Parent Company's Commercial Network;
- **"Private"** includes management, marketing and sale of banking and financial products/services and credit brokering aimed at private individuals with assets which, individually and/or at the level of the commercial hub, total at least 1 million. These activities are carried out by Banca Aletti;
- **"Investment banking"** includes activities to structure financial products, access to regulated markets, support and development of specialised financial services. These activities are carried out by Banca Akros;
- **"Strategic Partnerships"** includes shareholdings in certain companies (Vera Assicurazioni, Vera Vita, Bipiemme Vita, Agos Ducato, Alba Leasing, SelmaBipiemme Leasing, Factorit, CF Liberty Servicing and Anima Holding);
- **"Leases"** includes management and administration of finance lease contracts established by the Parent Company Banco BPM and the subsidiary Release;
- **"Corporate Centre"** includes activities falling within the context of the process used to govern the various entities within the Group and for business support. These activities are mainly performed by the centralised structures of the Parent Company and the Group's real estate companies.

To a marginal extent with respect to the Group's total volumes, certain retail activities included in the above classifications are also conducted by the foreign subsidiary Banca Aletti & C. (Suisse) S.A. (specialised financial services for private customers). With reference to 31 December 2020, the impact of foreign business can be considered negligible, both in terms of total consolidated assets and total consolidated income.

(B) Turnover

Turnover refers to Operating income, as under item 120 of the consolidated income statement, which amounted to 3,634.4 million as at 31 December 2020 (4,081.0 million as at 31 December 2019). Please see the Consolidated Income Statement schedule for 2020.

(C) Number of FTE employees

In terms of full-time equivalent employees, the figure as at 31 December 2020 totalled 20,616, including Co.Co.Pro. (temporary contract) and internship contracts (20,909 as at 31 December 2019).

(D) Profit or loss before tax

The Group's profit (loss) before tax corresponds to the sum of items 290 and 320 of the consolidated income statement, which is -249.3 million (+846.1 million as at 31 December 2019). Please see the Consolidated Income Statement schedule for 2020.

(E) Taxes on profit or loss

The tax on the Group's profit for 2020 corresponds to the amount shown in item 300 of the consolidated income statement, which is a positive negative figure of +265.9 million (-64.7 million as at 31 December 2019). Please see the Consolidated Income Statement schedule for 2020.

(F) Public grants received

During 2020, Banco BPM Group received public grants to provide personnel training courses totalling 73 thousand euro (5.2 million as at 31 December 2019).

To that end, note that in the listing of these grants, in compliance with the provisions established for preparing the disclosure in question, transactions carried out with central banks for the purposes of financial stability are excluded, as are operations with the objective of facilitating the mechanism used to transmit monetary policy.

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