Consolidated 2021 Annual Report

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Annual Report

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

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

Banco BPM S.p.A.

Registered office: Piazza F. Meda, 4 - 20121 Milan, Italy
Administrative headquarters: Piazza Nogara, 2 - 37121 Verona, Italy
Fully paid up share capital as at 31 December 2021: Euro 7,100,000,000.00
Tax Code and Milan Companies' Register Enrolment No.: 09722490969
A company representing Banco BPM VAT Group, VAT no. 10537050964
Member of the Interbank Deposit Guarantee Fund and the National Guarantee Fund
Parent Company of Banco BPM Banking Group
Enrolled in the Bank of Italy Register of Banks and the Register of Banking Groups

OFFICERS, DIRECTORS AND INDEPENDENT AUDITORS AS AT 31 DECEMBER 2021

Board of Directors

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

Board of Statutory Auditors

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

General Management

Joint General Manager	Domenico De Angelis
Joint General Manager	Salvatore Poloni

Manager responsible for preparing the Company's financial reports

Gianpietro Val

Independent Auditors

PricewaterhouseCoopers S.p.A.

CONTENTS

NOTICE OF CALL OF ORDINARY AND EXTRAORDINARY SHAREHOLDERS' MEETING

Pursuant to Articles 12 and 13 of the Articles of Association, the ordinary and extraordinary Shareholders' Meeting of Banco BPM S.p.A. is hereby convened on single call on **Thursday, 7 April 2022, at 10:30 am, in Novara, at Banco BPM, Via Negroni no. 12,** to discuss and resolve on the following

AGENDA

Ordinary meeting

1) Approval of the financial statements as at 31 December 2021 of Banco BPM S.p.A. as well as of the companies incorporated in parent company Bipielle Real Estate S.p.A. and Release 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) Resolutions on the allocation and distribution of profits.
3) Supplementation, upon the motivated proposal of the Board of Statutory Auditors, of the compensation due to auditing company PricewaterhouseCoopers S.p.A., which has been entrusted with performing the statutory audit of the accounts for the 2017-2025 period. Pertinent and consequent resolutions.
4) Report on the remuneration policy and on compensation paid of the Banco BPM Group 2022 (section I and section II).

   4.1 Approval of the remuneration policy (section I) pursuant to the legislative provisions in force. Pertinent and consequent resolutions.

   4.2 Approval of the report on compensation paid in 2021 (section II) pursuant to legislative provisions in force. Pertinent and consequent resolutions.
5) 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. Pertinent and consequent resolutions.
6) Compensation Plans based on shares of Banco BPM S.p.A.:

   6.1 Approval of the *short-term incentive plan* (2022). Pertinent and consequent resolutions.

   6.2 Approval of the *long-term incentive plan* (2022-2024) and the raising of the levels of achievement of the performance objectives of the *long-term incentive plan* (2021-2023), in line with the most challenging 2023 objectives of the Strategic Plan. Pertinent and consequent resolutions.
7) Request for authorisation to purchase and dispose of own shares for the Banco BPM S.p.A. stock award plans. Relevant and consequent resolutions.

Extraordinary meeting

1) Proposal to amend Articles 12.1., 12.2., 20.1.2., 20.1.4., 20.1.6., 20.1.7., 20.3.1., 20.3.5., 20.4.2., 20.5.2., 20.6.1., 20.11.2., 23.5.1., 24.1., 24.2.2., 24.4.1, 33.1., 33.2., 33.3., 33.4., 33.5., 34.2., 34.3., 34.8., 35.2.,

35.3., 35.4., 35.8., 35.9., 35.10., 35.11., 35.12., 35.13., 36.7., 36.9., and 41.1. of the Articles of Association of Banco BPM S.p.A.

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 lastly amended by Law no. 15 of 25 February 2022 which converted **Decree Law no. 228 of 30 December 2021** 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 4 April 2022, 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 August 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 (**29 March 2022** – "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 4 April 2022, 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 4 April 2022** 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 4 April 2022**, 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) grant proxy - free of charge (except for transmission expenses) - to Computershare S.p.A. - Via Nizza 262/73, 10126, Turin - in its capacity as "Designated Proxy" 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 6 April 2022.**

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 **5 April 2022** 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.

The participation in the Shareholders' Meeting and the exercise of the right to vote by those entitled to vote will take place exclusively through the Designated Representative, who must be given voting instructions on all or some of the proposed resolutions concerning the agenda items; in consideration of the deadline for the submission of any individual resolution proposals referred to below, the proxy forms will be available, in the manner indicated above, starting on **24 March 2022**.

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 17 March 2022** (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 (23 March 2022).

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 23 March 2022** 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 24 March 2022 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 29 March 2022) 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.

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. As of the date of this notice, the Company owns no. 8,152,151 treasury 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 interalia 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 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 Covid-19 emergency situation.

Milan-Verona, 1° March 2022

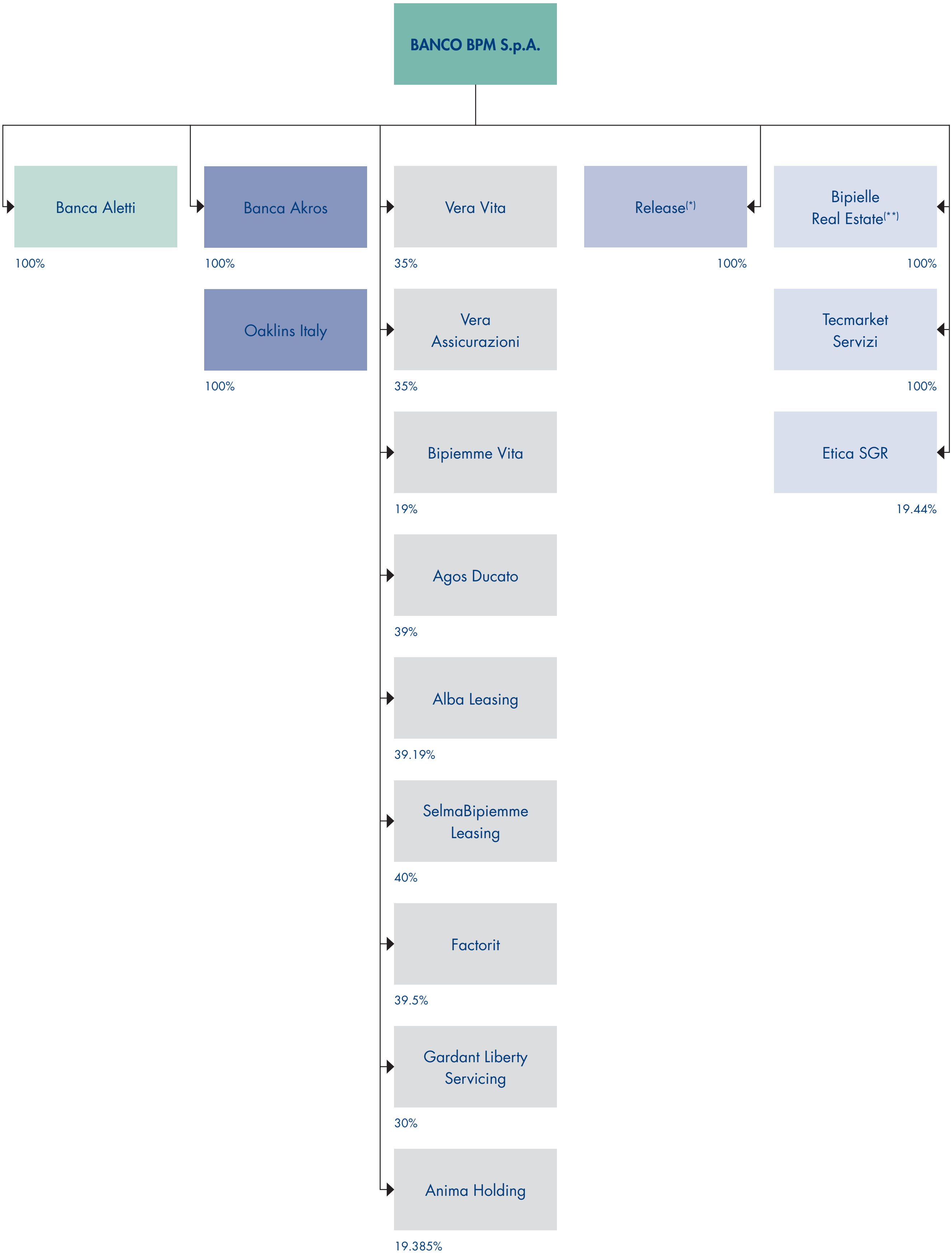
On behalf of the BOARD OF DIRECTORS

The Chairman

(Mr Massimo Tononi)

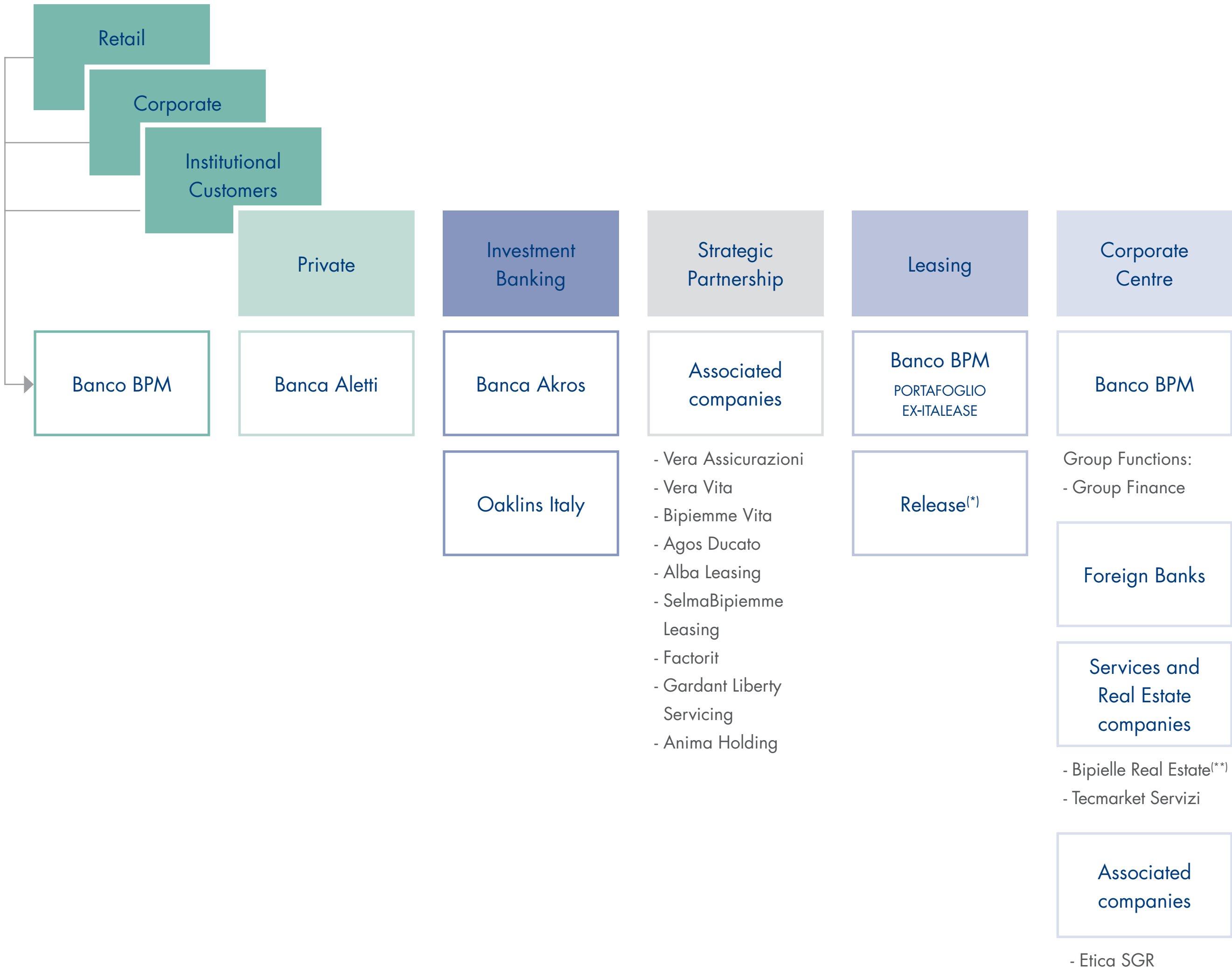
Reports on operations and consolidated financial statements for the year

GROUP STRUCTURE: MAIN COMPANIES



(*) Company incorporated into the Parent Company on 21 February 2022.
(**) Company incorporated into the Parent Company on 1 January 2022.

GROUP STRUCTURE: BUSINESS LINES



(*) Company incorporated into the Parent Company on 21 February 2022.
(**) Company incorporated into the Parent Company on 1 January 2022.

GROUP TERRITORIAL NETWORK

N° BRANCHES

NORTH	1,155
CENTRE	218
SOUTH AND ISLANDS	135
TOTAL	1,508

Banco BPM Group Branches in Italy	Number
Banco BPM	1,452
Banca Aletti	55
Banca Akros	1
Total	**1,508**

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)	2021	2020	Change
Income statement figures			
Financial margin	2,273.6	2,113.4	7.6%
Net fee and commission income	1,911.2	1,663.8	14.9%
Operating income	4,510.7	4,151.8	8.6%
Operating expenses	(2,515.8)	(2,430.1)	3.5%
Profit (loss) from operations	1,995.0	1,721.8	15.9%
Profit (loss) before tax from continuing operations	921.0	306.1	200.9%
Profit (loss) after tax from continuing operations	667.2	292.6	128.0%
Parent Company's profit (loss) for the year	569.1	20.9	not sign.

(millions of euro)	31/12/2021	31/12/2020	Change
Balance sheet figures			
Total assets	200,489.2	183,685.2	9.1%
Loans to customers (net)	109,383.4	109,335.0	0.0%
Financial assets and hedging derivatives	36,326.4	41,175.6	(11.8%)
Group shareholders' equity	13,095.0	12,225.2	7.1%
Customers' financial assets			
Direct funding	120,213.0	116,936.7	2.8%
Direct funding without repurchase agreements with certificates	123,168.0	120,141.1	2.5%
Indirect funding	102,187.9	94,807.3	7.8%
Indirect funding without protected capital certificates	99,067.3	91,575.9	8.2%
- Asset management	65,347.9	59,599.2	9.6%
- Mutual funds and SICAVs	45,762.8	40,797.6	12.2%
- Securities and fund management	4,135.1	3,945.2	4.8%
- Insurance policies	15,449.9	14,856.4	4.0%
- Administered assets	36,840.1	35,208.1	4.6%
- Administered assets without protected capital certificates	33,719.4	31,976.7	5.5%
Information on the organisation			
Average number of employees and other staff (*)	19,949	20,776	
Number of bank branches	1,508	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

	31/12/2021	31/12/2020
Alternative performance measures		
Profitability ratios (%)		
Return on equity (ROE) (1)	4.54%	0.17%
Return on assets (ROA) (2)	0.28%	0.01%
Financial margin / Operating income	50.40%	50.90%
Net fee and commission income / Operating income	42.37%	40.07%
Operating expenses / Operating income	55.77%	58.53%
Operational productivity figures (thousands of euro)		
Loans to customers (net) per employee (3)	5,483.1	5,262.7
Operating income per employee (3)	226.1	199.8
Operating expenses per employee (3)	126.1	117.0
Credit risk ratios (%)		
Net bad loans / Loans to customers (net)	0.83%	1.34%
Net unlikely to pay / Loans to customers (net)	2.11%	2.55%
Net bad loans / Shareholders' equity	6.92%	11.96%
Other ratios		
Financial assets and hedging derivatives / Total assets	18.12%	22.42%
Total derivatives / Total assets	1.06%	1.45%
- trading derivatives / total assets	1.00%	1.41%
- hedging derivatives / total assets	0.06%	0.04%
Net trading derivatives (4) / Total assets	-0.02%	0.21%
Net loans / Direct funding	90.99%	93.50%
Regulatory capitalisation and liquidity ratios		
Common equity tier 1 ratio (CET1 capital ratio) (5)	14.68%	14.63%
Tier 1 capital ratio (5)	16.52%	15.85%
Total capital ratio (5)	19.59%	18.75%
Liquidity Coverage Ratio (LCR)	209%	191%
Leverage ratio	5.92%	5.66%
Banco BPM stock		
Number of outstanding shares	1,515,182,126	1,515,182,126
Official closing prices of the stock		
- Final	2.640	1.808
- Maximum	3.040	2.456
- Minimum	1.781	1.043
- Average	2.542	1.538
Basic EPS	0.375	0.014
Diluted EPS	0.375	0.014

(1) Calculated as the ratio of net profit (loss) for the year to shareholders' equity excluding the profit (loss) for the year.
(2) Calculated as the ratio of profit (loss) for the year to total assets.
(3) 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.
(4) The aggregate of net trading derivatives corresponds to the mismatch, in absolute terms, between the derivatives included under the Balance Sheet item 20 a) of assets, "Financial assets at fair value through profit and loss - held for trading", and item 20 of liabilities, "Financial liabilities held for trading".
(5) Ratios calculated including the profit (loss) for the year and deducting the amount of the dividend and other allocations.

Group report on operations

ECONOMIC SCENARIO

The evolution of the pandemic

The pandemic's impact on economic activity subsided considerably over the course of 2021, however, Covid-19 directly and indirectly conditioned global recovery, and in particular, that of the EU. Up until the summer, vaccination campaigns continued to improve the underlying situation with the spread of the Delta variant, which was accompanied by a less marked increase in deaths in areas with high vaccination rates. From September, cases gradually fell until they were under the levels recorded at the beginning of July. Mobility continued to resume everywhere, returning to pre-pandemic levels. However, the vaccinations campaigns in areas in which they were at the most advanced stages (USA, United Kingdom and Eurozone) started to slow down, while accelerating significantly in Japan; instead, low-income countries continue to lag far behind. In the last quarter of 2021, the rapid spread of the Omicron variant brought back growing uncertainty, representing a potential obstacle to economic recovery. The wave of new cases in the major industrialised countries triggered fears that restriction would be reintroduced. At the end of November, according to "Our World in Data", 54.2% of the world population had received at least one dose of the vaccination against Covid-19, a percentage that falls to 5.8% in low-income countries.

The international scenario

In 2021, the global economy emerged from the recession provoked by the pandemic. The strong rebound after the collapse in 2020, initially driven by manufacturing, then extended to services, seemingly making a return to previous development trends: in several of the major advanced economies, GDP reached levels that were even higher than those of 2019, particularly in the USA and China, while in others, including Italy, this milestone will be achieved in 2022. In just five quarters, a deep recession was followed by a very fast recovery, with an unprecedented V-shaped economic rebound. However, the rapidity of growth risks causing more damaging effects in the medium-long term than world economy could indirectly inherit from the pandemic: the increase in income inequality, widespread interruptions of supply chains, which started in 2020 and extended into 2021, as well as a healthy recovery of consumer price trends, especially in the advanced economies, facilitated by the unprecedented increase of money supply.
Following the 2.9% collapse in 2020, preliminary results indicate a 5.9% growth of world GDP in 2021 (IMF estimates), thanks to the substantial recovery of domestic demand, especially the services component, and of international trade. Towards the end of the year, a certain inconsistency of the paths towards economic recovery was noted in the industrialised countries, with better performance in Europe than in the United States and China. In fact, the aggregate figure conceals a differentiated scenario, both between the advanced market economies and between emerging countries, which essentially reflects their different vaccination rates.
In this context, the pace of international trade increased considerably, especially in the first half of 2021, despite various obstacles to the full reactivation of value chains and a fall in trade with China in the second half of the year. Average annual growth is estimated to be +8.6% (Source Prometeia in constant USD 2000) against -5.2% in 2020.
Looking more in detail at the individual major economies, in the United States, after a brilliant start at the beginning of the year, also driven by the "Stimulus and Relief Package 4" measures from the end of 2020, in the third quarter, GDP recorded a marked deceleration (GDP of Q3 +2.3% annualised from +6.7% in Q2), mostly due to the slowdown in consumption and in non-residential fixed investments. In the last quarter of 2021, growth picked up pace: +6.9% annualised, driven by the recovery of consumption, +3.3%, but above all by the sustained momentum of gross private investments, +32.0%, also thanks to the component of intellectual property products, +10.6%. Lastly, towards the end of the year, we draw attention to the lack of approval of the "Build Back Better Plan" - the examination of which has been postponed to 2022 - which contains both the measures envisaged by the American Job Plan (to support the world of production) and by the American Family Plan (to support households). Average growth for 2021 stood at +5.7%. The strong recovery had a positive impact on the labour market: unemployment fell to 3.9% in December (6.7% at the end of 2020), while non-agricultural jobs rose by around 6.5 million over 12 months. Despite this, job openings continued to be particularly high: 10.9 million in December 2021 against 6.6 million twelve months earlier, a mismatch that represents one of the significant constraints to aggregated supply. This phenomenon, through pressure on average hourly pay (+4.7% yoy at December 2021), also has a strong influence

on inflation. Consumer prices, measured by the CPI, accelerated substantially in the period: +7.0% in December 2021, compared to +1.4% twelve months earlier.
In China, after a first half of significant recovery, encouraged by the generalised reopening of production activities and by the positive trend in social credit (total social financing), although at a slower rate, from the third quarter, economic activity (GDP +0.2%, +1.2% in the previous three months) suffered from problems in the real estate sector, which represents around one third of China's GDP, weighed down by the significant financial difficulties of the real estate giant, Evergrande, which then went into default. This episode, which had limited financial contagion, was accompanied by a greater weakness of infrastructure investments with respect to the past, and by a tightening of the legislative framework, with a view to slowing down the excess lending to the private sector at a time in which the prices of energy products were rising and new lockdown measures related to the resumption of local cases were being implemented. Overall, China's GDP for 2021 is expected to increase by +8.1%, against a rate of inflation, which recovered in December: +1.5% against +2.3% in November (+0.2% in December 2020).
In the first half of the year, the Japanese economy suffered from an extension of its state of emergency (and of the relative distancing measures), decided by the authorities of the country's largest prefectures given the rise in the number of infectious cases. The recovery of consumption and of investment took place mainly in the second quarter (GDP +1.9% annualised), thanks to activities relating to the Olympics, as well as to corporate spending and investment fuelled by the rapid global economic recovery. However, it was dampened again by the spread of the Delta variant in the summer: GDP in the third quarter was -3.6% annualised. The Japanese manufacturing system, one of the main beneficiaries of the shift of the axis of global growth towards China, also suffered from the slowdown of its large Asian trading partner in the second half of the year, and growth for 2021 overall was +1.6% (against -4.8% in 2020). The new Government, in office from October and headed by Prime Minister Fumio Kishida, launched a package of stimulus measures in November worth USD 490 billion, aimed at increasing the momentum of growth, weakened by the pandemic.

Of the emerging economies, the acceleration of prices interrupted the recovery most abruptly in Russia and Brazil, where consumer price inflation reached 8.1% and 10.7% respectively in October. Nevertheless, both central banks increased interest rates numerous times during the year. The growth rate of producer prices towards the end of the year stabilised in both cases, against some relocations of supply. Estimates indicate for 2021 a growth in Russia's GDP of +3.2%, while the growth of Brazil's GDP was 4.9%.
International inflation recorded an abrupt acceleration during the year, +4.5% against +3.4% in 2020 (Source Prometeia), driven both by the sudden recovery in global demand, and, especially in the second half of the year, by the widespread increase in the prices of commodities and energy. Spot prices for oil exceeded 80 dollars a barrel (both Brent and WTI). The impact on inflation was exacerbated by the widespread difficulties along global supply chains, for example the shortage of semiconductors, which substantially affected the automotive industry, and the staggering increase in the cost of sea freight. At May 2021, the Baltic Dry Index had risen by +670% with respect to 12 months earlier. Expectations for inflation in the medium-term reached 3% in the United States.

The situation in Europe and Italy

Last year, on a par with the other major industrialised countries, the EU's economy was characterised by a decided recovery, which enabled it to make up a significant share of the GDP lost in 2020. After a difficult start to the year, heavily conditioned by the various restrictions still in place, towards the spring, economic activity took off. In fact, in the first quarter, the average GDP of the EMU fell (-0.2% against the previous quarter), particularly in Germany (-1.8% qoq), in the wake of weak domestic consumption. However, in the following months, as the restrictions were relaxed and the critical phase of the health emergency was overcome, the economy entered into a period of robust expansion, driven by domestic demand and in particular by spending on services and tourism. The recovery of consumption was encouraged by the exceptional tax policy measures adopted in all EU countries, to mitigate the effects of the crisis on households and businesses, as well as by the savings accumulated during the pandemic. The confidence of economic operators, of households in particular, rose rapidly, also thanks to the launch of the vaccination campaigns, which accelerated the economic recovery. In the winter months, the GDP should have settled at the levels reached in the third quarter. Various factors contributed to this slowdown, particularly the new wave of cases, which had a devastating effect on the Eurozone and many other countries, especially the USA, following the emergence of the Omicron variant of the virus.
During the year, the institutions of the European Union continued to implement extraordinary initiatives to relaunch growth: the ECB maintained the Pandemic Emergency Purchase Programme (PEPP) unchanged until the end of the year, and the EU finalised the European relaunch plan, known as Next Generation EU (NGEU). The NGEU Plan, approved in July 2020 and ratified at the end of May 2021, makes 800 billion available to Member States to invest

in the economic recovery of the EU, aimed at repairing the economic and social damage caused by the pandemic. The measures contemplated by plan, financed through fundraising in the capital market from 2021 to 2026, include roughly 390 billion in subsidies and around 360 billion in loans to be repaid over a medium-long term time horizon. More specifically, in the third quarter, the last reported figure, the GDP of the Eurozone rose by 2.2% qoq (+2.2% in the previous quarter), and +3.9% against the corresponding quarter of the previous year (+14.4% in Q2 of 2021). The most dynamic component was household consumption (+4.1 qoq) which contributed over 2 percentage points to GDP. Instead, the performance of net exports was more modest, contributing only 0.3 points to GDP in the quarter in question. By contrast, the Eurozone average for gross fixed investment fell by 0.9% against the previous quarter, thus deducting 0.3% from GDP. To a certain extent, this performance reflects the persistent weakness of investment in means of transport, which fell by 8.6% in the period (-5.1% in the second quarter, and -6.2% in the first) which, on the production side, suffers particularly from problems with the global supply chains cited earlier. For the fourth quarter, the preliminary flash estimate, communicated by Eurostat, indicates a fairly modest growth of GDP in the Eurozone compared to the previous quarter, +0.3% qoq, which brings the increase for the whole of 2021 to +5.2%.
In this economic framework, the Eurozone has also seen an abrupt and violent increase in inflation, after many years of moderate price trends. The main reason for this inversion of the trend is the substantial increase in the prices of energy commodities, especially natural gas. In December, the yoy increase of consumer prices reached 5%, compared to -0.3% twelve months earlier, with an average annual figure that settled at around 2.6%.
The performance of the Italian economy reflects this context of strong world recovery. Some aspects of Italy's recovery have far surpassed those of their Eurozone partners. The emergence of the second wave of Coronavirus at the end of 2020, pushed the Government to introduce a new system of restrictions for the Regions, based on colours. Despite the new limits imposed on the circulation of people and of certain businesses, particularly the restaurant and tourism industries, the change in GDP in the first quarter was positive (+0.3% qoq), unlike the average figure for the EMU. The fall in household consumption, in the wake of the above-cited limitations, was in fact more than offset by the robust increase in gross fixed investment and in stock. From the spring onwards, encouraged by receding cases and by the gradual relaxing of restrictions, the recovery gained even more momentum, marking a further two consecutive quarters with growth that was appreciably higher than the Eurozone average. The abundant measures that the government has kept deployed and strengthened to combat the effects of the restrictions have obviously provided robust support to the economy. In the first quarter, the establishment of the Draghi government contributed to reinforcing the expectations of economic operators and favoured a reduction in the BTP-Bund spread. Furthermore, in late April, the government submitted its "National Recovery and Resilience Plan (NRRP)" to the EU Council, which was then approved in mid-July.
More specifically, the qoq change in Italian GDP in the second quarter stood at 2.7% (17.1% yoy), sustained by the consistent increase in household consumption (+5% qoq).[1] The performance of the third quarter, the latest for which final figures are available, confirmed the positive trend enjoyed by Italy's economy, pushing up growth forecasts for the whole year. For the second consecutive quarter, the market services sector recovered considerably, alongside the growth of the industrial sector. Household consumption rose by 3.0% against the previous period, encouraged by a recover of consumer confidence, which led the relative index to return to pre-pandemic levels in the summer. Gross fixed investment also rose (+1.6%), albeit at a slightly slower pace than the first half. Investment in machinery and equipment contributed significantly to this trend, with an increase of 4.5%, while that in housing, following the achievements of the previous quarters, set the pace (+0.4%). The contribution of net exports was positive (0.5%), marking a further increase compared to the first half of the year.
Following the third quarter, which recorded +2.6% qoq (+3.8% yoy), in the fourth quarter, the economic recovery levelled out, due to the effects of the spread of the new Omicron variant of the virus, which has proven to be highly infectious and has provoked another huge wave of cases. However, the widespread implementation of vaccination campaigns contributed to lightening the health emergency, reducing the need for hospitalisation. The success of the vaccination campaigns, the solicitous launch of the administration of third doses, together with the introduction of the so-called green pass, enabled the Government to limit the introduction of distancing measures to tackle the new health crisis. Nevertheless, in the last few weeks of the year, the surge in the number of cases, with the consequent rise in the number of people in quarantine, contributed to greater consumer caution. Based on ISTAT's preliminary estimates, the change in GDP for the last quarter in question stood at +0.6% qoq (+6.4% yoy), enabling the year to close with a growth, for the whole of 2021, of 6.6%, one percentage point more than the Eurozone average.
Part of the merit for this dynamism should be attributed to the manufacturing segment which, despite the difficulties relating to the supply chains and tension over production prices, demonstrated unexpected resilience in certain aspects, given the performance of the past 15 years. Indeed, in the third quarter, Italian industrial production

[1] The preliminary figures illustrated in this paragraph are consistent with the forecasts and the scenarios used in the valuation processes implemented by the Group.

returned to pre-Covid levels, marking an exception with respect to its main Eurozone partners: in December, yoy growth was 4.4%.
The recovery led to an appreciable improvement in the labour market. In fact, employment rose during the year with a rate of employment that rose by 1.9%. The rate of employment as at December 2021 stood at 9.0% (9.8% as at December 2020). The use of pay integration instruments - CIG (temporary redundancy fund) and solidarity funds - remained high, although to a lesser extent than in 2020.
At the same time, inflation reared its head in Italy as well for the same reasons as the Eurozone. In December, consumer prices for the whole community (NIC index) rose by 3.9% yoy. On average, in 2021, inflation was +1.9% (-0.2% in the previous year). The increase in consumer prices, net of energy ones, was +0.7%, the same change as in 2020, confirming the significant impact that energy prices have on inflationary trends, also in Italy.
The liveliness of the economic scenario contributed to substantially containing the budget deficit with respect to the forecasts of the Economic and Financial Document (DEF) in April. In September, the net debt of the public administrations recorded a yoy increase of 9.4% against an initial forecast for 2021 of 11.8% (final figure for 2020 was 9.6%). According to several estimates, the final figure could be around 1% lower. This improvement is the result of a significant increase in tax revenue, which at the end of October recorded a 12% increase yoy. By virtue of these trends, and of the robust increase in nominal growth, the debt/GDP ratio should fall, following the maxi-increase in 2020: the update note of the DEF in September envisaged a reduction of over 2 percentage points, from 155.6% to 153.5%.

Monetary policy and the financial markets

At the beginning of 2021, the financial markets were still highly impacted by news concerning the evolution of the pandemic and vaccination campaigns. After a positive start, the half-year period recorded greater volatility due to the discovery of new virus variants and the accumulation of delays in vaccine deliveries, which were combined with uncertainty as regards the timing of the fiscal stimulus in the United States.
The continuation of the pandemic with the development of the third wave indeed required governments to renew their income support measures, which initially should have expired in 2021.
From mid-February, there was a strong increase in inflationary expectations in Europe and especially in the United States, which translated into a sudden increase in nominal and real rates, in the presence of actual inflation which continued to hover at low levels. The rate of inflation in the United States accelerated between February and June (to 5.3%) and between September and November, closing the year at 7.1%. The price jump in certain sectors (e.g. energy, used cars), sustained the general index, but this increase is likely to be temporary in part, considering the base effect and post-crisis return of consumer preferences in the past few months. In Europe, price trends were more contained, despite the growing pressure of the energy sector linked to the dependence on supplies from Russia: the HICP index (Harmonised Index of Consumer Prices) closed the year at 5%.
The steepening of the curves in the USA further harmed the investment grade bond classes, while the high yield sector showed greater stability, as the good outlooks for an economic recovery continued to support demand for new issues which offered still appealing returns in absolute terms. The progress made in the vaccination campaigns were taken as a positive sign for the strengthening of the US dollar and the British pound.
The figures and expectations for inflation together with the presumed or actual responses of the central banks, were the main drivers in 2021.
For Italy, the new high-profile and highly European-oriented government which took office, guided by former ECB President Mario Draghi, contributed to the good performance of the Italian sovereign market. Also strengthened expectations regarding inflation, which translated into a considerable sell-off on government bonds of core countries (starting with the United States), stimulated the over-performance of peripheral countries (particularly Italy) in terms of credit risk.
The Government bond market in Europe recorded modest fluctuations of spreads in the first six months of the year, against a rise in the yields of the 10-year German bond, which reached a maximum of -0.1% in May and October; as regards Italy, the BTP/Bund spread rose from 110 bps to 132 bps at the end of the year, a level close to the maximum of the period during two times of tension: at the time of the fall of the Conte bis Government in January, and the announcement by the ECB of the end of the Pandemic Emergency Purchase Programme (PEPP) in March 2022. Following the establishment of the Draghi Government, market performance almost exclusively reflected the expectations regarding the evolution of ECB monetary policy, rather than the political affairs of the new government, apart from started a more marked expansion towards the end of the year in view of the Presidential elections.
Western stock markets were sustained up until September by optimism relating to the vaccination campaigns and by excellent macroeconomic data: an early end to the pandemic appeared certain, around 6 months ahead of Europe.

Concerns regarding inflation, however, generated market volatility on several occasions, particularly in early May and October, despite the continuation of accommodating responses on the part of the central banks.
All of the world's major stock markets, with the striking exception of those linked to Chinese shares, closed the year with very positive performance, particularly technological securities, which however, in the second half of the year recorded a substantial slowdown.
The financial stock market sector (both European and Italian banks) recorded an average performance of 24% in the first half, closing the year at +34%. Instead, the performance of the insurance segment was visibly different, up 37% in Italy against +15% in Europe. The trend of the Asset Management segment in Italy was positive, with stock market performance estimated at 23.4%, on the basis of an index weighted by the capitalisation of listed issuers.
The average spread of credit default swaps (CDS) relating to European banking issuers did not record significant changes after the re-rating that took place in fall 2020 after the announcement of the first anti-Covid vaccines, closing the year at around 59 bps. CDSs marked similar performance for the two main Italian banks.
In the bond market, the European financial sector recorded a strong appreciation in relative terms with respect to the other sectors: the Iboxx BBB spread between the two segments fell to 7.2 bps over the year, closing at 14.6 bps, an exceptionally low level even for pre-Covid years. The spread between subordinated and senior securities (Itraxx 5Y) remained at low levels, around 50 bps, closing the year at 57 bps.
In Europe, the credit market continued to be supported by outlooks for an economic recovery, while in Italy it appeared to benefit primarily from outlooks for bank M&A transactions and expectations concerning the implementation of the Next Generation EU programme.
Although off and on, Covid was perceived by the financial markets as a problem being rapidly overcome: with investor attention primarily back on company accounts and the fundamentals, which were measured with respect to pre-Covid consensus levels.
The two main share and credit market corrections were made in September, when the difficulties of international logistics systems and the marked increase in energy commodity prices (oil, natural gas) raised concerns as to economic growth and substantiated the hypothesis that inflation might be less transitory than expected, and in the second half of November, following the reduction in purchases by the FED and the statements of central banks in Australia and Canada, in a month which culminated in a strong correction related to the announcement of the Omicron variant in South Africa.
Monetary policy took on an increasingly important role over the course of 2021: initially confirming, as in the case of the FED, or recalibrating and extending, as in the case of the ECB, the instruments set in motion in the previous 12 months; it then started to establish the timing and the intensity of a normalisation process, made more pressing by the rise in inflation, which quickly surpassed expectations, resulting in unprecedented price trends. However, no significant changes took place until June when for the first time, the FED hinted at a reduction in the monthly pace of its bond buying programme (compared to USD 120 billion), while projections on the policy rate level revealed that the majority of the Federal Reserve Board members expected two rate increases in the course of 2023. This resulted in a decisive change in inflationary expectations, the steepness of curves and medium-long term returns were also rapidly reflected by the European market.
The FED continued to adopt a cautious approach, even in August at Jackson Hole, where it was clarified that any possible reduction of monetary stimulus (known as tapering) would have been progressive and gradual, with schemes to support economic growth in the presence of inflation considered transitory. Only at the end of November, after the confirmation of Jerome Powell, did the Central Bank's tone appear more concerned about the price trends, echoing an issue that was gaining political importance.
At the beginning of November, US monetary policy took a decisive step, with the announcement of tapering, marking the start of monetary policy normalisation. The tapering will end in June 2022 to reduce the risk of a wage-price spiral, while the first intervention on FED Funds had been envisaged in May.
Looking now at Europe, it is important to remember how the mix of instruments set in motion by the European Central Bank has remained stable. Banking system liquidity was guaranteed by the third series of TLTRO which was subject to an important revision at the 10 December 2020 session, and was then implemented as of January 2021:

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

It is important to add that the ECB adopted an ambitious programme for fighting against climate change, which calls for the inclusion of climate variables in the monetary policy framework with an extension of the level of analysis, modelling and disclosure. Climate variables will also be assessed as regards the banking sector risk assessment, collateral and the corporate sector purchase programme (CSPP).

At the end of March 2022, the Governing Council will suspend net asset purchases under the PEPP, the amount of which had been increased in December 2020 by 500 billion, bringing it to 1,875 billion, after having reduced the monthly amount from September. The Governing council also decided to extend the reinvestment horizon of the PEEP to the end of 2024, well beyond the end of purchases at the end of March. In any event, the future roll-off of the PEEP portfolio will be managed to avoid interference with the appropriate monetary policy orientation.

Domestic banking activity

Up until mid-2021, domestic banking activity benefited from the gradual improvement of the economic scenario. In the second half of the year, the stabilisation of growth caused a decisive slowdown in the increase of bank assets. With regard to non-financial companies, the slower trend was the result of both the huge amounts of available liquidity set aside during the pandemic and the recovery of cash flows due to the improvement in economic activity. These two factors also led to a lower demand for loans with state guarantees. Residual corporate demand was mostly driven by the need to renegotiate debt and, partly, by the recovery in fixed investment. Lastly, the trend was also influenced by the extension, albeit with limited changes, from 30 June to 31 December of the measures envisaged by the temporary framework of State aid, in particular the state guarantee on loans and a greater flexibility in insuring export credit.

As regards households, loans maintained a strong growth rate, reflecting the rise in mortgages for the purchase of a home, the demand for which was stimulated by prospects of an improvement in real estate prices and by the continuation of interest rates at record lows. This uptrend was facilitated by the increase in income, due to the improvement of the economic cycle and lower saving propensity. Instead, consumer credit recorded a substantially stable trend.

More specifically, according to ABI figures, total loans (private sector and the Public Administration) closed 2021 with an increase of 2.0%, while those of households and businesses were up by 2.6%. Looking more closely by type of borrower, according to Bank of Italy figures, loans to non-financial companies recorded a +1.6% yoy, marking a net slowdown against 2020 (+5.8%). The slowdown was widespread, affecting all sectors, but was more intense for manufacturing companies. Instead, loans to households rose +3.7%, compared to +1.6% in 2020.

Credit quality continued to improve, along the direction seen at the end of the first half, in several respects. Net bad loans (net of write-downs and provisions made) were down, according to ABI data, to 15.1 billion in December, compared to 20.9 billion twelve months earlier, with a reduction of over 27%, corresponding to -5.8 billion. The ratio of net bad loans to total loans, again at December, was 0.86% (compared to 1.21% twelve months earlier). The rate of default on total loans, based on the Bank of Italy's figures, improved to 1.0%, on lower levels than those recorded prior to the Great Financial Crisis in 2008.

As regards funding, the funding streams originating from the ECB through auctions continued to substantially support the domestic banking system, which also benefited from the capital keys exemption regarding the purchase of Treasury bonds by the Central Bank. Total funding (deposits from resident customers and bank bonds), rose at the end of December by 5.6%, marking a slowdown with respect to the +8.0% recorded in 2020, against a fall in household saving propensity and an increase in the working capital of businesses as the economic recovery gained pace. Breaking down the aggregate figure, deposits continued to rise considerably: +6.9% compared to a year earlier. Instead, medium and long-term bond funding fell over the 12 month period by 4.4%.

The bank interest spread in November 2021, calculated as the difference between the average interest rate on loans and the average interest rate on total funding from households and non-financial companies, fell 11 bps to 169 bps, compared to 180 bps in December 2020. In the same month, the mark-up (calculated as the difference between the average rate on loans to households and non-financial companies and the 3-month Euribor rate) stood at 271 bps, recording the same decrease as the corresponding month of the previous year (-11 bps); while the mark-down (calculated as the difference between the 3-month Euribor rate and the rate on total funding) was substantially stable at 101 bps. Managed funds recorded a very positive trend: in December 2021, the assets of Italian and foreign open-ended funds amounted to 1,263.3 billion, up by +13.2% compared to the end of 2020. Net inflows of open-ended funds amounted to 64.7 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 2021 are described below.

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

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

During 2020, the Covid-19 emergency had led to the introduction of strict generalised restrictive measures, which had a significant impact on economic activity; regulatory measures were adopted for banks, with a view to limiting pro-cyclical aspects in the calculation of capital and liquidity requirements.
Following the first measures taken in response to the emergency and the revision of operating procedures, the opportunity had arisen to implement a structured reaction and coordination mechanism to respond to the changing operating context as effectively as possible. Banco BPM Group had therefore launched a structured initiative called the "Reaction Project", with a Steering Committee, chaired by the CEO and with the involvement of top management, focused on three areas, entrusted to dedicated working groups:

- 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;
- Costs: with the objective of drawing up a plan to curb operating costs to counterbalance, wherever possible, the fall in revenue;
- Balance Sheet: with the objective of managing and mitigating the impact of the crisis on asset quality, capital and the funding/liquidity situation.

Project activities also continued in 2021, focusing on the "Commercial" area, while those relating to "Costs" were completed in 2020 and those relating to the "Balance Sheet", in the first few months of 2021, with the update of three-year income statement and balance sheet forecasts, strictly observing the recommendations of the Supervisory Authorities and with the full involvement of the Management Bodies.
With regard to the first area, "Commercial", measures were implemented and further enhanced to guarantee personal physical safety and to redirect customer relations towards the use of digital channels, with particular attention on the topic of the IT safety of transactions: stronger 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).
Efforts continued to fully implement the government measures to support the economy, such as for example, granting moratoria 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 speed up the stages of credit approval and disbursement and to simplify operations, 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.

Overall, based on management data, as regards the measures to support the economy during the Covid emergency, the disbursements secured with state guarantees in 2021 amounted to around 7 billion, bringing the total stock of these secured loans as at 31 December 2021 to 16.8 billion; instead, as regards the moratoria envisaged by the Heal Italy Decree and by the ABI Protocol, at the beginning of 2022, they have all expired, with a default rate which, also including the payments charged in January 2022, stood at 1.5%.

The following paragraphs illustrate the main initiatives implemented by the Group for its Private and Business segment customers.

Support to private customers - moratoria

In 2021, Banco BPM applied what was set forth in Decree Law no. 73 of 25 May 2021 ("Sostegni bis" [Support two] Decree), converted into Law no. 106 of 23 July 2021, which renewed the majority of that envisaged by Art. 54 of the Cura Italia ("Heal Italy") Decree, which expired on 17 December 2020.
With the 2022 Budget Law, the subsidies envisaged were further extended to 31 December 2022.
The decree provides for a moratorium on the payment of first home mortgages by making recourse to the "First home mortgage solidarity fund" (referred to as the Gasparrini Fund or the CONSAP Fund), with a suspension of instalments for up to 18 months.
This solution envisages the payment of a benefit corresponding to 50% of the interest accrued during the suspension period.

The main subsidies confirmed are illustrated below:

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

In 2021, Banco BPM processed 1,516 applications for CONSAP moratoria for 145 million in expiring debt.
Furthermore, Banco BPM granted other types of moratorium to private customers that did not meet the requirements to access the solidarity fund, processing 9,354 applications, broken down as follows:

- commercial moratorium, which envisages the suspension of the entire instalment for a maximum period of 12 months. As at 31 December 2021, 9,252 suspensions had been agreed, for a total of 885 million in expiring debt;
- ABI consumers moratorium, expired 31 March 2021: as at 31 December 2021, 102 suspensions had been agreed, for a total of 9.3 million in expiring debt.

Support to business customers

Support to business customers - moratoria

With regard to the topic of moratoria, in 2021, Banco BPM worked in compliance with the government provisions, which resulted in subsequent automatic extensions, unless the customer waived said right, of moratoria pursuant to Art. 56 of the "Heal Italy" Decree Law to 30 June 2021. In total, in the "Business" segment, around 5,434 moratoria were extended for a principal amount of 1.7 million.

Support to business customers - loans

The activity to support business customers continued through the significant use of the facilitation instruments made available by the "Liquidity" Decree Law of 8 April 2020, which was subsequently converted into Law no. 40 of 5 June 2020 and the relative possibility to access specific loans guaranteed by the Guarantee Fund for SMEs and by SACE.
During the period, requests for extensions were also followed up, in particular for the transactions referred to in the "Liquidity" Decree Law - Article 13, paragraph 1, letter m).

Other forms of customer support

Furthermore, already since last year, Banco BPM has been 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.
More specifically, Banco BPM's performance indicators continuously increased during 2021:

- remote transactions reached 83% of the total (74% in 2019), backed by a significant increase in transactions from mobile phones: +124% in 2021 compared with 2019;
- customer's operations through digital channels reached a level much higher than the market average (+7 percentage points for payment transactions through digital channels, based on specific market research);
- over 400 thousand customers have already adopted the new Digital Identity solution, which enables sales deeds to be managed remotely, and permits a "paperless" approach in branches.

Thanks to the continuous development of tools and models for advanced analytics and for marketing engineering, the contribution of customer journeys to sales rose by almost 10 percentage points, reaching over 20% of total retail customer sales (private and businesses), encompassing over 400,000 sales deeds.
Lastly, in the fourth quarter, a new application for SMEs was launched, which in just a few weeks recorded over 10 thousand downloads, boasting very positive comments from users right from the beginning.

Derisking activities

During 2021, the Group further accelerated the derisking process, conducted by means of disposal transactions with respect to that envisaged in the 2020 financial statements.
More specifically, in June 2021, a transactions entailing the assignment of bad loans was carried out (Project Rockets) for a gross value of around 1.5 billion. More specifically, the transaction was finalised in the form of a securitisation, with the assignment of the loans to the special purpose vehicle Aurelia SPV S.r.l., which issued three classes of Notes (Senior, Mezzanine and Junior). 95% of the Mezzanine and Junior notes were purchased by subsidiaries of Elliott funds, while 5% is held by the Group. The Senior notes are backed by a State guarantee (so-called GACS), and are wholly held by the Group. For further details on the transaction in question, please refer to the content of "Part A - Accounting policies" of the Notes to the Consolidated Financial Statements.
On 19 October 2021, the Board of Directors of Banco BPM, also considering the impacts of the "Calendar Provisioning", resolved to amend the management strategy for non-performing loans by increasing the target of likely disposals to around 650 million, against the residual target of 150 million related to ordinary disposal transactions of so-called small ticket bad loans.
Given the above management strategy, the 2021 financial statements reflect the economic effects of the alignment of adjusting provisions, calculated on the basis of a multi-scenario model, to take into account the expected lower amounts recoverable through disposal with respect to internal management activities (so-called workout).
Also considering the ordinary internal workout activities, the expected overall derisking exercise for 2022 amounts to around 1 billion.

Partnership agreements in the bancassurance sector

In March 2021, the Group signed an important agreement with Cattolica Assicurazioni, which regulates the terms and methods of continuation of the partnership in the bancassurance sector.
More specifically, the agreement provides, in exchange for Banco BPM's waiving of the call already exercised[2], for the recognition to it of a right of early exit from the partnership, originally due to end in 2033, which can be exercised in the period between 1 January and 30 June 2023. In particular, the parties agreed to grant Banco BPM an unconditional purchase option on the 65% stake held by Cattolica in the joint ventures Vera Vita and Vera Assicurazioni.

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

The agreement provides for protection mechanisms for both parties linked to the exercise price of the call and to the price adjustments for any retained profits, distributions of reserves or extraordinary dividends or share capital increases or capital payments in regard to the joint ventures.

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

For additional details on the partnership agreements, please refer to the section "Interests in associates and joint ventures - Item 70 of the assets" contained in "Part B – Information on the Consolidated Balance Sheet" and section 3 - Scope of consolidation and methods in "Part A - Accounting policies" in the Notes to the consolidated financial statements.

The new Strategic Plan

At the meeting held on 4 November 2021, the Board of Directors of Banco BPM approved the Group's 2021-2024 Strategic Plan.
The new Plan[3], which aims to provide significant remuneration to shareholders, with a view to achieving a sustainable growth in profitability, was developed on the basis of a full set of assumptions, which incorporate the new macroeconomic forecasts and changes in the regulatory context.
The development of the Plan is also based on a series of strategic priorities that meet the expectations of the main stakeholders, including customers, investors, staff and supervisory authorities:

- gradual development of the service model from a digitalisation perspective;
- opportunities offered by the NRRP;
- options for developing Bancassurance in light of the renegotiations of the "Cattolica" and "Covéa" partnerships;
- contribution to cutting costs, stemming from the recent agreement on the redundancy fund and rationalisation of the network of branches;
- normalisation of the cost of risk, made possible by having achieved improvements on the Asset Quality front, already above the targets which the Group set for 2023 in the former plan.

The Plan is based on 3 key pillars, which envisage a new digital-driven commercial model, aimed at growing the core business by leveraging the potential of the product factories.
More specifically, the first pillar: the implementation of the new digital-driven service model, will be addressed to the continuous evolution of daily banking, from a "mobile-first" perspective, which will lead to:

- an increase in digital customers to a share of over 80%, and in transactions made remotely to over 90%;
- an improvement in the customer experience with the implementation of new smart assistance solutions;
- the adoption of Digital Identity by over 90% of customers, with the gradual transformation of operations to paperless.

With regard to commercial activities, the new service model envisages reducing cashiers by over 30%, developing a digital branch which could, over the course of the plan, sell products and services online, and strengthening the omnichannel approach to offer a range of diversified online Retail products and services (this is already under way as part of the .DOT programme ("Digital and Omnichannel Transformation").

[3] Note that in March 2020, the 2020-2023 Strategic Plan was approved which, as it is based on assumptions and objectives established prior to the adoption of the restrictive measures relating to the Coronavirus emergency, could no longer be considered current.

Instead, the second pillar is focused on increasing the volumes and the profitability of the core business, with specific reference to:

- Family Banking: with the objective to seize the growth opportunities in loans for families and young people, plus the constant growth of the consumer credit sector and strengthening of activities in the non-life bancassurance sector;
- Wealth Management: with the objective to sustain the growth of the segment, by focusing on management of customer investments, turning new direct funding acquired in the last few years into asset management, and leveraging both the Bank's omnichannel strategy and the implementation of asset management and life bancassurance solutions;
- SME Segment: the growth targets will be pursued by improving the cross-selling of commercial and investment banking products and services, focusing in particular on areas where there is little presence. Furthermore, various forms of credit will be available to SME customers, which envisage the use of government and supranational incentives; specific focus also on loans, tax bonuses and services connected to the NRRP;
- Corporate/Institutional Segments and Investment Banking activities: the Group's aim is to increase the support it provides to Corporate customers through growth in business areas with high added value (structured finance and foreign activities). A further segment to be developed is the already active presence in the business of the so-called "ecobonus & superbonus", as well as promoting opportunities relating to the implementation of the NRRP with specific focus on the Private Banking Services of Banca Aletti and the Investment Banking services of Banca Akros.

Lastly, the third pillar leverages the potential of the product factories. More specifically, through the redefinition of the bancassurance partnership agreements with Cattolica Assicurazioni and Covéa, respectively, the Group guaranteed itself a purchase option on the shares in the Companies held by the respective partners, which will enable it to reach a stake of 100%. The rationale behind the insourcing of the insurance business within Banco BPM Group and the associated consolidation of the insurance companies lies in the significant room for growth in terms of the productivity of the Life segment, exploiting the capacity of the Group's commercial network in the overall placement of investment products, and, in the Non-life segment, by seizing, in particular, the growth opportunities in the Italian market.
In addition, thanks to the partnerships with Anima and Agos, asset management and consumer credit activities are expected to grow, with increased synergies over the course of the plan.

Achieving the objectives illustrated will enable the Group to create significant value (net profit of over 1 billion forecast for 2024; strong focus on improving operating profitability and careful cost control) and to maintain solid liquidity and capitalisation levels, as well as further boosting derisking and reducing the cost of credit.
The milestones envisaged by the new plan are driven by a strong "risk control culture" applied to credit management, funding and the bond portfolio, by a policy to exploit the talents and the diversity of human resources and the digital transformation of the organisation and processes, as well as by the full integration of the ESG strategy (Environmental, Social and Governance) into the Group's business model.

Streamlining of the Group's corporate and organisational structure

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

On 10 May 2021, the subsidiary Banca Akros entered into the deed for the purchase of shares representing 80% of the share capital of Oaklins Italy S.r.l., a company operating in the "Mergers & Acquisitions" advisory services segment, for consideration of 2.8 million.
The remaining 20% of the share capital was acquired on 28 May, for an equivalent value of 0.7 million. The sale price of 3.8 million includes the final adjustment based on an earn-out mechanism agreed by the parties.
The deeds of purchase for the two transactions were registered with the competent Companies' Register on 18 May 2021 and 11 June 2021, respectively.

Said acquisition enabled Banca Akros to access an international network operating in M&A, complementary to the domestic investment banking already conducted by the Bank, thereby enhancing its offering to its customers of M&A and financial advisory services.
The new subsidiary has been included within the Banco BPM Banking Group.

For further details on the transaction described above, please refer to Part G – Business combinations regarding companies or divisions in the Notes to the consolidated financial statements.

Merger of subsidiaries

Consistent with the initiatives to streamline the Group's corporate and operational structure, to simplify the structure, to optimise and enhance resources and to reduce costs, on 9 February 2021, the Parent Company's Board of Directors approved the proposed mergers by incorporation into the Parent Company of the subsidiaries ProFamily S.p.A. and Bipielle Real Estate S.p.A..

More specifically, on 19 July 2021, the merger by incorporation of the subsidiary ProFamily S.p.A. into the Parent Company was finalised.
This transactions 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.
The merger took place according to the simplified form established for wholly-owned companies, with no exchange ratio or adjustment in cash; the accounting and tax effects were recognised in the financial statements of the incorporating company as of 1 January 2021.

Instead, on 20 December 2021, the deed of incorporation of Bipielle Real Estate S.p.A. into the Parent Company was signed, registered with the relevant Companies' Register on 21 December 2021. As illustrated in the section dedicated to events occurring after the reporting date, Part A of the Notes to the consolidated financial statements, the merger was finalised with effect from 1 January 2022 and was completed according to the simplified procedures envisaged for wholly owned companies.
The aim of this transaction is to concentrate the overall ownership of real estate assets directly in the Parent Company, which will also control the complex of organisational structures responsible for managing said real estate.

Lastly, on 20 July 2021, the Banco BPM and Release Boards of Directors approved the plan for the merger by incorporation of the subsidiary Release into the Parent Company.
This transaction was also carried out according to the simplified forms established for wholly-owned companies as, in January 2021, Banco BPM acquired full control over the investee Release, by acquiring 39,923,532 ordinary shares of the investee from BPER Banca S.p.A.
As illustrated in the section dedicated to events occurring after the reporting date, Part A of the Notes to the consolidated financial statements, the merger transaction, which obtained ECB authorisation on 13 October 2021, was finalised on 21 February 2022, with accounting and tax effect from 1 January 2022.

The transactions described do not have any impact on the capital ratios or on the Group's balance sheet or income statement.

Sale of interests in subsidiaries

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

This transaction did not have any significant impact on the Group's balance sheet or the income statement.

Liquidation of subsidiaries

In early July 2021, the liquidation procedure of the subsidiary FIN.E.R.T. S.p.A. was concluded, with no allotment between the shareholders. The company was then struck off from the Companies' Register and removed from the Banking Group. In October, the liquidation of the subsidiary Milano Leasing S.p.A. was also completed, and cancelled from the Company Register in November.
The above transactions did not have any impact on the Group's balance sheet or the income statement.

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

Lastly, on 25 October 2021, the shareholders' meeting of BP Trading Immobiliare S.r.l. (a company that is part of the Banking Group, wholly owned through Bipielle Real Estate) approved the early dissolution and the start of voluntary liquidation with legal effect from 1 November 2021.
As illustrated in the section dedicated to events occurring after the reporting date, Part A of the Notes to the consolidated financial statements, on 21 January 2022, the shareholders' meeting approved the final liquidation statements as at 30 November 2021, and on 16 February 2022, the company was removed from the relevant Companies' Register.

Rationalisation of the structure and of the commercial network

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

Lastly, during the year, the reorganisation and streamlining plan on the commercial network was completed, with the closure of around 300 small branches.

Other events during the year

Important funding operations completed

In January 2021, the Parent Company finalised the issue of an Additional Tier 1 perpetual instrument for the amount of 400 million, intended for institutional investors.
The securities, issued at par, may be called by the issuer from 19 January 2026 and subsequently every six months; the fixed six-monthly coupon, non-cumulative, was set at 6.50% and the payment of the same is fully discretionary and subject to certain limitations.
The investors that participated in the transaction are asset managers, hedge funds and banks, and are mostly foreign.
The transaction is part of the drive to render the capital structure more efficient and enables the Tier 1 capital target to be achieved, further strengthening the Group's capital position.

In June 2021, the placement of a 300 million 10-year Tier 2 subordinated bond issue for institutional investors was also concluded, which is included within the Group's Euro Medium Term Notes Programme.
The bond, primarily subscribed by foreign investors, provides for a fixed coupon of 2.875% for the first five years.

Lastly, in early July 2021, Banco BPM successfully concluded the placement of its first senior preferred Social Bond issue intended for institutional investors for an amount of 500 million, maturing in 2026.
The bond, issued within the sphere of the Green, Social and Sustainability Bond Framework under the 25 billion EMTN programme, is intended to finance a selected portfolio of SMEs that have been granted disbursements covered by the public guarantee envisaged by the Liquidity Decree to address the Covid-19 emergency.
For the entire duration of the bond, Banco BPM will publish an annual report to ensure transparency on the allocation of the proceeds of the issue and the social benefits for the purpose of safeguarding the jobs of SMEs affected by the health emergency.
The security is listed on the Luxembourg Stock Exchange, has a five-year duration and an annual coupon of 0.875%.
The issue was subscribed by institutional investors, primarily banks and Italian funds.
The transaction is part of the Group's ESG strategy and represents the effective implementation of the environmental and social sustainability objectives that will increasingly guide and characterise the Bank's various business areas.

Furthermore, as illustrated in more detail in the section dedicated to significant events occurring after the end of the financial year in the Notes to the consolidated financial statements, in January 2022, Banco BPM completed a new subordinated Tier 2 bond issue, with a 10-year maturity and fixed coupon of 3.375%, for the amount of 400 million.
The bond, intended for institutional investors, is part of the Group's Euro Medium Term Notes Programme.

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

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

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

The total capital benefit recognised as at 31 December 2021 is 202.9 million, of which 81.7 million against the income statement and 121.2 million against valuation reserves.

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

Please refer to Part A of the Notes to the financial statements - section "Other significant aspects relating to Group accounting policies", the paragraph entitled "Realignment of mismatches between the tax value and the higher book value (DL 14 August 2020)" for an exhaustive description of the effects of this realignment.

Change in company officers

The Shareholders' Meeting on 15 April 2021, appointed Silvia Muzi as standing auditor and Francesca Culasso as alternate auditor to the Board of Statutory Auditors, who shall remain in office until the Shareholders' Meeting called to approve the financial statements for the year that will end on 31 December 2022.
As a result of the above-mentioned appointments, Wilmo Carlo Ferrari will stop acting as Standing Auditor and also, in accordance with gender balance laws, will return to acting as an Alternate Auditor.

EU-Wide Stress Test 2021: Banco BPM achieves better results than in the previous stress tests (2018)

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

Banco BPM achieved significant results, highlighting:

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

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

In the months between the dates of approval of the 2020 draft financial statements and the 2021 draft financial statements, new claims were limited both in number and as a total additional relief (corresponding to around 12.5

million). As at 31 December 2021, due to settlements reached by negotiation or final rulings, claims and disputes for total relief figure exceeding 593 million were settled against claims that on the same date amounted to a total of around 716 million.
For further details, refer to section 10 "Liability provisions - Items 90 and 100" contained in "Part B – Information on the Consolidated Balance Sheet" in the Notes to the consolidated financial statements.

Inspections and proceedings of the Supervisory Authorities

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

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

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

<u>Inspections by the ECB</u>

a) on internal models relating to credit risk for the following exposure classes: Corporate - Other; Corporate - SME; Retail - Other non-SME; Retail - Other SME; Retail - Qualifying revolving; Retail - Secured by real estate non-SME; Retail - Secured by real estate SME. The inspection follows an application made by Banco BPM to the ECB for material changes to the internal models used to calculate capital requirements for credit risk, made also following the transposition of the EBA Guidelines on the topic, which became effective on 1 January 2022. The afore-mentioned inspection, to be conducted off-site, is expected to start around mid-February;
b) to assess the adequacy of the first pillar capital requirement calculation, including all accessory aspects; the on-site phase started on 25 October 2021 and ended on 23 December 2021;
c) on credit and counterparty risk concerning the asset quality review, with reference to the Commercial Real Estate ("CRE") portfolio, including the review of commercial real estate repossessed by the Group subject to registration ("Foreclosed Assets") and the assessment of the credit risk management procedures and control and governance systems ("Credit and counterparty risk – Credit Quality Review of CRE portfolio and assess selected credit risk processes"). The off-site inspection phase started on 26 April 2021 and its completion was notified on 24 December 2021;
d) for the assessment of the Bank's request for authorisation to adopt the new definition of prudential default (entailing a substantial amendment of the internal model to estimate credit risk pursuant to Delegated Regulation (EU) 529/14 of the Commission): the off-site phase started on 14 September and concluded on 13 November 2020. Banco BPM received the Final Decision on 7 May 2021 and on 15 June 2021 sent the corrective action plan, which is currently under way;
e) for the approval of the internal model relating to credit risk (Credit Conversion Factor, "CCF"/Exposure at Default, "EAD"; Expected Loss Best Estimate, "ELBE"; Loss Given Default, "LGD" for non-performing assets; Probability of Default, "PD") for the following exposure classes: Corporate - Other; Corporate - Small and Medium Enterprise, "SME"; Retail - Other SME; Retail - Retail - Secured by real estate non-SME; Retail -

Secured by real estate SME. The on-site phase started on 14 October 2019 and ended - in off-site mode due to the Covid-19 health emergency - on 19 March 2020. In a letter dated 4 March 2021, the ECB sent its final decision concerning that inspection. The measure confirms the authorisation to adopt modifications to the models, establishing several qualitative measures for the most part aimed at regulatory improvements, as well as prudential - concerning the estimate of margins of conservatism and the methods for calculating LGD - in the application of such models, effective for supervisory reporting as of 31 March 2021. The Bank's activity plan to implement the remedial actions is currently under way; the majority of the recommendations will be closed as part of the "model change" activities included in the application for the change to the internal models referred to in the inspection of point a);

f) regarding Internal Governance Remuneration: the on-site phase started on 9 October 2019 and ended on 13 December 2019; Banco BPM received the Final Follow-up letter on 16 December 2020 and, on 13 January 2021, sent the corrective action plan, which was completed on 30 July 2021;
g) for the validation of the Internal model for market risk (Value at Risk, "VaR", Stressed Value at Risk, "sVaR", Incremental Risk Charge, "IRC") for the following risk categories: "debt instruments – specific risk; Forex Risk": the on-site phase ended on 19 July 2019. On 16 November 2020, Banco BPM received the Final Decision (with the relative authorisation to use the new model) and on 16 December 2020 sent the corrective action plan, currently under way; the completion of said action plan (which, inter alia, included the results of the supplementary decision sent by the ECB in December 2020 on completion of the additional horizontal analysis conducted on the outcomes of the previous TRIMIX inspection in 2018) is envisaged following a specific application to the ECB, entailing a substantial change to the model to calculate market risk;
h) on liquidity risk and funding risk (Liquidity, Funding Risk and Interest Rate Risk Banking Book, "IRRBB"): the on-site phase ended on 17 May 2019. On 4 February 2020, Banco BPM received the Final Decision and on 3 March 2020 it sent the corrective action plan, which concluded on 30 June 2021 in compliance with the deadline;
i) 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; the recommendations, which are currently at an advanced stage of completion, will be closed with the application to amend internal models referred to in point a);
j) as regards credit risk, the credit quality review, with reference to the corporate, asset based and project finance portfolios: the on-site phase ended on 3 October 2018. Banco BPM received the Final Decision on 21 October 2019, and the corrective action plan, sent on 7 November 2019, was completed on 30 June 2021;
k) 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 point e) above.

<u>Inspections by the Bank of Italy</u>

a) with regard to combating money laundering in online transactions set in place through digital channels: the on-site phase ended on 2 August 2019. On 6 November 2019, the outcome of the inspection was presented; on 17 December 2019, Banco BPM submitted the concluded corrective action plan, in compliance with the deadline, on 31 March 2021;
b) as regards the prevention of money laundering, with a view to confirming compliance with the obligations envisaged by Legislative Decree no. 231/2007, also through an assessment of the legislative, procedural and control structure at the Verona Offices: the inspection phase (initially on-site) which started on 4 October 2021, was completed off-site on 21 December 2021, the date on which the conclusion of the proceeding was notified;
c) as regards transparency, with a view to assessing fulfilment of the obligations deriving from the implementing provisions of Directive 2014/92/EU, the "Payment Accounts Directive". The off-site inspection started on 11 November 2021, and from 22 November 2021 it continued on-site at several Bank branches and is still in progress.

Inspections by CONSOB

a) with regard to product governance and procedures to assess the adequacy of transactions arranged by customers: the inspection started in April 2019 and ended on 3 December 2019. On 30 July 2020, Banco BPM received a technical note in which, without starting any penalty proceeding, the Authority drew the Bank's attention to several aspects. On 16 October 2020, the Bank submitted the relative plan of corrective action to the Authority, to be implemented progressively, which is currently under way;
b) on 18 February 2021, CONSOB initiated a penalty procedure concerning the assessment due to the Bank's failure to meet the disclosure obligation pursuant to Art. 16 of the European Market Abuse Regulation no. 596/2014 (MAR), on orders and transactions suspected of constituting market abuse or attempted market abuse, carried out by two Bank customers. On 9 November 2021, CONSOB notified the Bank of a monetary administrative fine of 70 thousand euro;
c) on 20 July 2021, CONSOB initiated a penalty procedure regarding "Charges pursuant to Articles 193-quater and 195 of Legislative Decree 58/1998 for the infringement of Art. 9 of Regulation EU 648/2012 (EMIR) on OTC derivatives, central counterparties and trade repositories" following assessments conducted as part of inspection activities on data quality reported to the Trade Repository relating to derivative contracts; the proceeding is current ongoing, awaiting the response of the Authority on the counter-arguments made by the Bank to the proposed fine, which amounts to 70 thousand euro.

RESULTS

Introduction

The balance sheet and income statement are shown below in reclassified format, according to operating criteria, in order to 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 includes the portion of product profitability that remunerates the placement activities performed by the Group. Moreover, fee and commission expense relating to placement services carried out by third party networks are included in the net trading income;
- 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 "Net value adjustments to property, plant and equipment and intangible assets";
- 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)***	**2021**	**2020**	**Change**
Net interest income	2,041,628	1,982,561	3.0%
Gains (losses) on interests in associates and joint ventures carried at equity	231,940	130,799	77.3%
Financial margin	**2,273,568**	**2,113,360**	**7.6%**
Net fee and commission income	1,911,203	1,663,810	14.9%
Other net operating income	75,280	56,005	34.4%
Net financial result	250,695	318,642	(21.3%)
Other operating income	**2,237,178**	**2,038,457**	**9.7%**
Operating income	**4,510,746**	**4,151,817**	**8.6%**
Personnel expenses	(1,667,799)	(1,581,141)	5.5%
Other administrative expenses	(601,151)	(593,812)	1.2%
Net value adjustments to property, plant and equipment and intangible assets	(246,825)	(255,114)	(3.2%)
Operating expenses	**(2,515,775)**	**(2,430,067)**	**3.5%**
Profit (loss) from operations	**1,994,971**	**1,721,750**	**15.9%**
Net adjustments to loans to customers	(887,199)	(1,336,807)	(33.6%)
Fair value gains (losses) on property, plant and equipment	(141,633)	(36,721)	285.7%
Net adjustments to securities and other financial assets	(328)	(1,030)	(68.2%)
Net provisions for risks and charges	(26,039)	(42,294)	(38.4%)
Gains (losses) on interests in associates and joint ventures and other investments	(18,768)	1,190	
Profit (loss) before tax from continuing operations	**921,004**	**306,088**	**200.9%**
Taxation charge related to profit or loss from continuing operations	(253,828)	(13,518)	not indicated
Profit (loss) after tax from continuing operations	**667,176**	**292,570**	**128.0%**
Charges related to company restructuring, net of taxes	-	(187,030)	
Charges related to the banking system, net of taxes	(144,995)	(138,901)	4.4%
Impact of the realignment of tax values to book values	81,709	128,324	(36.3%)
Goodwill impairment	-	(25,100)	
Change in own credit risk on Certificates issued by the Group, net of taxes	4,354	(11,739)	
Purchase Price Allocation net of taxes (*)	(39,460)	(41,492)	(4.9%)
Profit (loss) for the year attributable to non-controlling interests	**284**	**4,248**	**(93.3%)**
Parent Company's profit (loss) for the year	**569,068**	**20,880**	**not indicated**

(*) PPA relating to receivables and client relationships, net of related tax effects.

Reclassified consolidated income statement – Quarterly changes

***Reclassified* income statement items**	**2021**				**2020**			
(thousands of euro)	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Net interest income	506,005	516,427	522,367	496,829	509,019	519,921	479,507	474,114
Gains (losses) on interests in associates and joint ventures carried at equity	87,066	46,795	56,535	41,544	23,729	36,768	48,036	22,266
Financial margin	**593,071**	**563,222**	**578,902**	**538,373**	**532,748**	**556,689**	**527,543**	**496,380**
Net fee and commission income	485,821	475,308	478,679	471,395	429,225	417,651	376,371	440,563
Other net operating income	9,066	26,296	21,747	18,171	12,731	11,675	14,855	16,744
Net financial result	(1,443)	35,878	116,533	99,727	77,845	157,325	82,712	760
Other operating income	**493,444**	**537,482**	**616,959**	**589,293**	**519,801**	**586,651**	**473,938**	**458,067**
Operating income	**1,086,515**	**1,100,704**	**1,195,861**	**1,127,666**	**1,052,549**	**1,143,340**	**1,001,481**	**954,447**
Personnel expenses	(413,937)	(409,823)	(417,135)	(426,904)	(407,212)	(356,950)	(397,954)	(419,025)
Other administrative expenses	(149,106)	(144,012)	(153,903)	(154,130)	(125,341)	(159,797)	(154,094)	(154,580)
Net value adjustments to property, plant and equipment and intangible assets	(61,610)	(61,762)	(60,603)	(62,850)	(67,229)	(64,796)	(61,710)	(61,379)
Operating expenses	**(624,653)**	**(615,597)**	**(631,641)**	**(643,884)**	**(599,782)**	**(581,543)**	**(613,758)**	**(634,984)**
Profit (loss) from operations	**461,862**	**485,107**	**564,220**	**483,782**	**452,767**	**561,797**	**387,723**	**319,463**
Net adjustments to loans to customers	(213,978)	(200,643)	(255,513)	(217,065)	(536,225)	(324,340)	(262,999)	(213,243)
Fair value gains (losses) on property, plant and equipment	(96,927)	(7,817)	(36,964)	75	(30,989)	(316)	(5,094)	(322)
Net adjustments to securities and other financial assets	(1,098)	242	939	(411)	7,249	104	(3,728)	(4,655)
Net provisions for risks and charges	2,255	(15,489)	(5,615)	(7,190)	(35,587)	907	(9,809)	2,195
Gains (losses) on interests in associates and joint ventures and other investments	(18,726)	395	(393)	(44)	(354)	1,324	129	91
Profit (loss) before tax from continuing operations	**133,388**	**261,795**	**266,674**	**259,147**	**(143,139)**	**239,476**	**106,222**	**103,529**
Taxation charge related to profit or loss from continuing operations	(37,228)	(83,274)	(50,628)	(82,698)	47,946	(22,464)	(13,293)	(25,707)
Profit (loss) after tax from continuing operations	**96,160**	**178,521**	**216,046**	**176,449**	**(95,193)**	**217,012**	**92,929**	**77,822**
Charges related to company restructuring, net of taxes	-	-	-	-	(187,030)	-	-	-
Charges related to the banking system, net of taxes	(4,792)	(61,650)	(19,309)	(59,244)	(10,216)	(53,001)	(18,169)	(57,515)
Impact of the realignment of tax values to book values	81,709	(79,220)	79,220	-	128,324	-	-	-
Goodwill impairment	(79,220)	79,220	-	-	(25,100)	-	-	-
Change in own credit risk on Certificates issued by the Group, net of taxes	12,320	3,954	(5,105)	(6,815)	(41,116)	2,194	(110,739)	137,922
Purchase Price Allocation net of taxes (*)	(9,251)	(10,172)	(9,705)	(10,332)	(11,543)	(11,422)	(11,962)	(6,565)
Profit (loss) for the period attributable to non-controlling interests	144	28	78	34	220	2,520	1,537	(29)
Parent Company's profit (loss) for the period	**97,070**	**110,681**	**261,225**	**100,092**	**(241,654)**	**157,303**	**(46,404)**	**151,635**

(*) PPA relating to receivables and client relationships, net of related tax effects.

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

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

- the results of the sale transactions of all the fixed assets (interests in associates and joint ventures, property, plant and equipment excluding the financial assets in the Hold to Collect ("HtC") portfolio, which can be sold in compliance with the materiality and frequency thresholds set out in IFRS 9);
- gains and losses on non-current assets and asset disposal groups held for sale;
- adjustments/recoveries on receivables (both due to valuation and actual losses) deriving from a change in the NPE Strategy approved during the year by the Board of Directors consisting of an amendment in the objectives and/or type of receivables subject to assignment with respect to those set forth previously;
- the income statement items of significant amounts connected with streamlining, restructuring, etc. (e.g. expenses for use of the redundancy fund, early retirement incentives, merger/integration expenses);
- 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);

- the economic impacts deriving from the fair value measurement of properties and other tangible assets (works of art);
- tax effects connected with the income statement impacts set out in the previous points.

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

In light of the criteria set out above, the income statement for 2021 includes the following non-recurring components:
- “Gains (losses) on interests in associates and joint ventures carried at equity” includes the positive impact of 42.1 million, deriving from realignment of the tax value of goodwill recorded by an investee;
- “Personnel expenses” includes savings on one-off components of remuneration, constituting an indirect effect of the pandemic, for 14.4 million;
- “Net value adjustments to property, plant and equipment and intangible assets” includes write-downs due to impairment of fixed assets for a total of 2.0 million;
- the item “Net adjustments to loans to customers” includes the amount relating to losses linked to the sale of receivables finalised as part of the “Rockets” project and the additional impact deriving from the increase in the targets for the sale of non-performing receivables decided by the Board of Directors, for a total of 194 million;
- “Fair value gains (losses) on property, plant and equipment” includes net value adjustments of 141.6 million;
- “Gains (losses) on interests in associates and joint ventures and other investments” includes the effect, of 18.8 million resulting from the impairment made against the interest held in Factorit;
- the “Taxation charge related to profit or loss from continuing operations” includes the tax impacts of the aforementioned non-recurring items amounting to 96.5 million;
- “Charges related to the banking system, net of taxes” includes additional contributions paid to the National Resolution Fund amounting to 19.3 million (equal to 28.6 million gross of the related tax effect of 9.3 million);
- the item “Impact of the realignment of tax values to book values” includes the income of 81.7 million, resulting from the exercise of the right of realignment of the tax values of the Group’s operating properties to book values.

Overall, the net impact on the profit for 2021 of non-recurring items was a negative 141.0 million.

With regard to 2020, the non-recurring components determined using equivalent criteria to those indicated above were the following:
- the item “Personnel expenses” included 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” included write-downs due to impairment of fixed assets for a total of 2.2 million;
- the item “Net adjustments to loans to customers” included 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;
- capital losses of 36.7 million deriving from the fair value adjustment of investment properties following the annual update of the appraisals were recorded in the item “Fair value gains (losses) on property, plant and equipment”;
- “Net provisions for risks and charges” included 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 interests in associates and joint ventures and other investments" by definition non-recurring, was positive by 1.2 million;
- the "Taxation charge related to profit or loss from continuing operations" included the tax impacts of the aforementioned non-recurring items amounting to 77.0 million;
- the item "Charges related to company restructuring, net of taxes" amounting to 187.0 million, included 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" included 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 income of 128.3 million deriving from the decision to avail of the option to realign the tax values to the book values of intangible assets were recognised in the item "Impact of the realignment of tax values to book values";
- the impairment tests conducted on intangible assets with an indefinite life had 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 had a net negative impact on the profit (loss) for the year amounting to 309.6 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

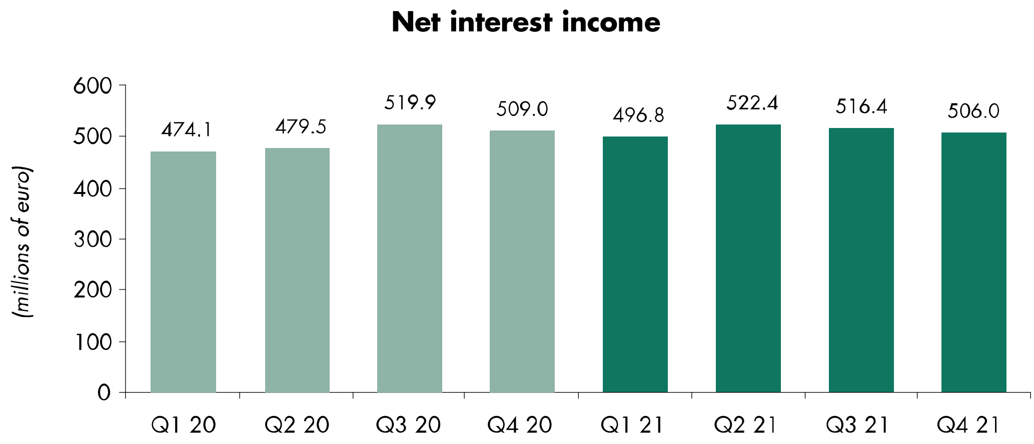
The main income statement items for 2021 are illustrated below.

Operating income

Net interest income

(thousands of euro)	2021	2020	Abs. Change	% Change
Financial assets (securities)	413,712	440,191	(26,479)	(6.0%)
Net interest due to customers	1,686,905	1,792,551	(105,646)	(5.9%)
Net interest due to banks	(4,735)	(32,492)	27,757	(85.4%)
Securities issued and other financial liabilities at fair value	(251,662)	(318,163)	66,501	(20.9%)
Hedging derivatives (net balance) (*)	(97,077)	(73,383)	(23,694)	32.3%
Net interest on other assets/liabilities	294,485	173,857	120,628	69.4%
Total	**2,041,628**	**1,982,561**	**59,067**	**3.0%**

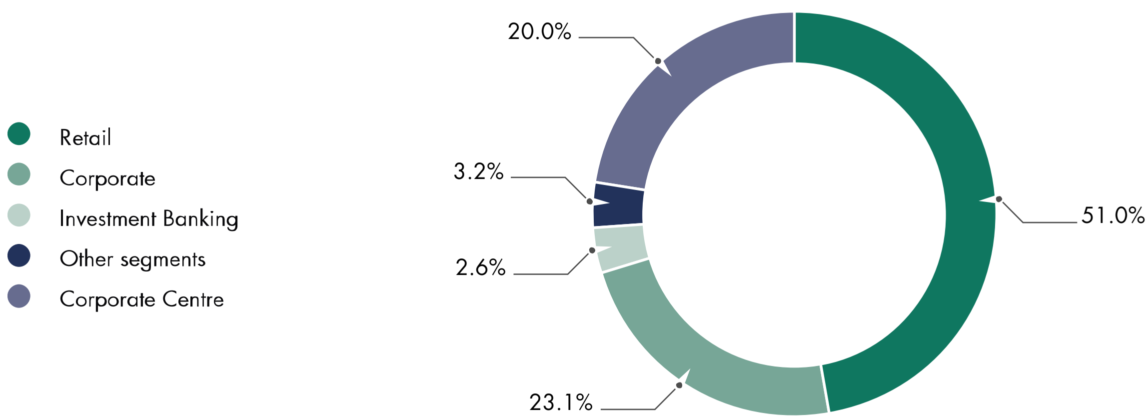
(*) The item includes the spreads pertaining to the year on derivative contracts hedging financial assets (securities held) and financial liabilities issued.



Net interest income was equal to 2,041.6 million, a 3.0% increase on 2020 (1,982.6 million) due to the greater contribution from TLTRO III financing operations which, given the achievement of net lending objectives, starting from 24 June 2020, envisage payment of a special interest rate, equal to -0.50%, in addition to the rate applied (-0.50%) for the entire duration of the loan[1].
Note that in the year, write-downs were made to the interest on several tax receivables recorded in accounts of previous years, amounting to 5.8 million.

(thousands of euro)	**2021**	**2020 restated (*)**	**2020**	**Reclassifications**	**Abs. change on restated balances**	**% Change**
Retail	1,041,503	921,288	937,279	(15,991)	120,215	13.0%
Corporate	472,599	463,178	455,230	7,948	9,421	2.0%
Institutional	51,219	56,662	57,223	(561)	(5,443)	(9.6%)
Private	(2,557)	1,131	1,272	(141)	(3,688)	
Investment Banking	53,830	73,213	73,213	-	(19,383)	(26.5%)
Strategic Partnerships	(4,919)	(9,777)	(8,801)	(976)	4,858	(49.7%)
Leases	22,228	23,928	24,358	(430)	(1,700)	(7.1%)
Corporate Centre	407,725	452,938	442,787	10,151	(45,213)	(10.0%)
Total	**2,041,628**	**1,982,561**	**1,982,561**	**-**	**59,067**	**3.0%**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the profiling criteria used for 2021.



[1] For the period from 24 June 2020 to 23 June 2021 (special interest period), the Bank was able to benefit from a special interest rate on TLTRO III refinancing operations equal to -0.50% in addition to the average rate applicable to Deposit facilities (currently -0.50%), given that, as at 31 March 2021, the amount of eligible loans significantly exceeded the amount of those loans as at 1 March 2020. The aforementioned -0.50% special interest rate will also be applied to the 24 June 2021-23 June 2022 period, provided that the amount of eligible loans as at 31 December 2021 is at least equal to their amount as at 1 October 2020. In this case, too, the total eligible loans as at 31 December 2021 was higher than the aforementioned threshold.

In terms of sector of economic activity, the growth recorded by net interest income compared to the previous year was due to the good performance of the Commercial Network, especially the Retail segment (+120.2 million). Even though the profit margin of loans fell, where the growth of assets did not fully offset the fall in rates, the latter benefited from the significant reduction in the cost of funding, in particular due to the progressive reduction of assets relating to loans underlying the certificates issued by Banca Akros.
A significant contribution was also made by the allocation of part of the benefit generated by the TLTRO III (around 178.8 million) to the commercial segments, partly balanced by the greater negative effect due to the so-called liquidity buffer cost (108.4 million), namely the share of the cost allocated to the Network due to the Group's need to hold a liquidity buffer to cover unexpected cash outflows. The greatest impacts were recorded on the Retail business line, where they were -53.7 million and +117.3 million respectively.
The profit margin of Investment Banking, represented by Banca Akros and the subsidiary Oaklins Italy, was down (-19.4 million), reflecting the decrease in the contribution from the securities portfolio, both due to the general drop in yields and to the trend of the intragroup component, mainly composed of bonds underlying certificates, issued by the Parent Company and subscribed by Banca Akros. In fact, from the second half of last year, the certificates placed by the Commercial Network of the Group were no longer issued by Banca Akros, but directly by the Parent Company which, in this way, did not issue the related underlying bonds.
Lastly, the Corporate Centre's results were down (-45.2 million). Like last year, the securities portfolio continued to see yields eroded, offset by the lower cost (46.3 million) of institutional bond issues, which progressively fell. The contribution of the share of TLTRO III pertaining to the Corporate Centre (+79.2 million against last year) was positive, also given the increase in stock, which reached 39.2 billion. The contribution of the ALM centre fell significantly, reflecting the positive impact of the funding liquidity spread on the Commercial Network, namely the figurative interest rate of re-employing liquidity.

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

(thousands of euro)	2021	2020	Abs. Change	% Change
Agos Ducato	156,033	89,158	66,875	75.0%
Anima Holding	43,226	11,992	31,234	260.5%
Vera Vita	9,207	8,010	1,197	14.9%
Vera Assicurazioni	2,684	8,802	(6,118)	(69.5%)
Bipiemme Vita	7,430	5,612	1,818	32.4%
Factorit	6,386	3,146	3,240	103.0%
Other investee companies	6,974	4,079	2,895	71.0%
Total	**231,940**	**130,799**	**101,141**	**77.3%**

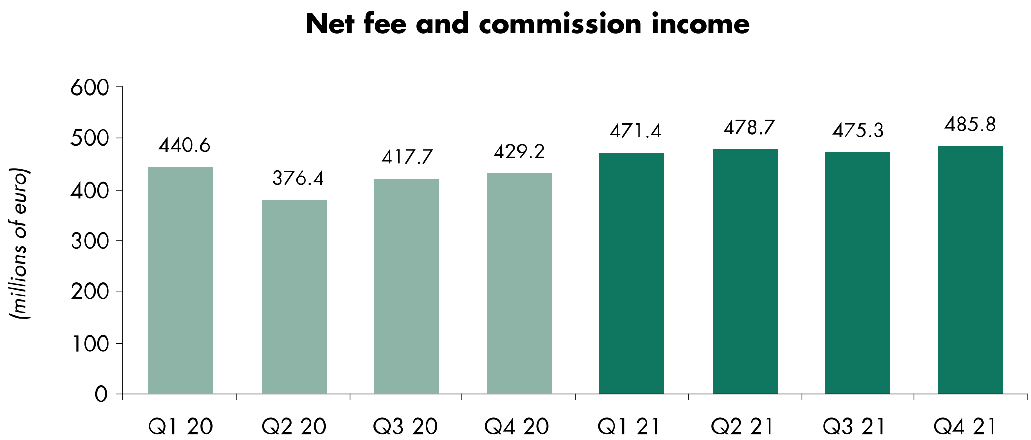
The **result of the investee companies carried at equity** was positive for 231.9 million, up compared to the figure for last year (130.8 million) and includes the positive impact of 42.1 million, resulting from the realignment of the tax value of goodwill made by the associated company Agos Ducato. The 2021 figure includes the contribution of the associate Anima Holding (equal to 43.2 million), measured at equity since the second quarter of 2020[1].
The main contribution to the item in question is provided by consumer credit channelled from the interest held in Agos, equal to 156.0 million, up compared to 89.2 million in 2020.

In terms of sector of economic activity, the performance of the Strategic Partnerships sector made a decisive contribution to the positive performance of the item in question, in particular Agos Ducato of 156.0 million (+66.9 million, also thanks to the positive impact resulting from the exemption of goodwill) and Anima Holding of 43.2 million.
The contribution of the other interests in associates and joint ventures that are part of the Corporate Centre was substantially stable.

[1] The contribution of the associated company Anima Holding, carried at equity from 1 April 2020, to the consolidated income statement for 2021, does not include the profit (loss) recorded by the investee company in the fourth quarter of 2021, while it does record the pertinent profit (loss) recorded by the investee in the last quarter of 2020, of 9.8 million. This depends on the fact that Anima Holding approved its draft 2020 financial statements and will approve its draft 2021 financial statements following the approval of the results by Banco BPM.

Net fee and commission income

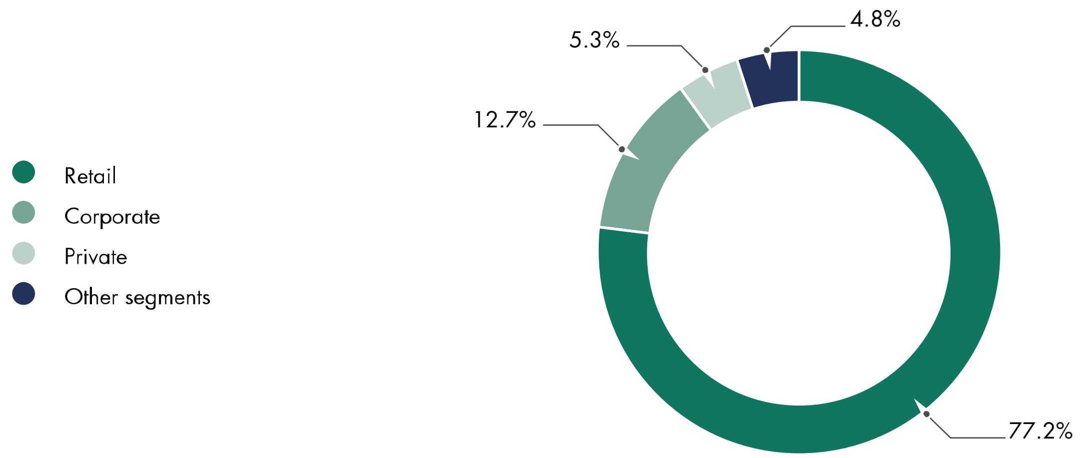
(thousands of euro)	2021	2020	Abs. Change	% Change
Management, brokerage and advisory services	939,038	787,855	151,183	19.2%
Savings products and policies	781,911	657,033	124,878	19.0%
- Placement of financial instruments	19,849	52,298	(32,449)	(62.0%)
- Distribution and portfolio management	624,866	490,346	134,520	27.4%
- Distribution of insurance products	137,196	114,389	22,807	19.9%
Consumer credit	34,672	26,693	7,979	29.9%
Credit cards	48,354	38,086	10,268	27.0%
Trading of securities and currencies and order collection	65,822	63,720	2,102	3.3%
Other	8,279	2,323	5,956	256.4%
Keeping and management of current accounts and loans	644,419	583,556	60,863	10.4%
Collection and payment services	169,206	147,910	21,296	14.4%
Guarantees given and received	69,343	64,990	4,353	6.7%
Other services	89,197	79,499	9,698	12.2%
Total	**1,911,203**	**1,663,810**	**247,393**	**14.9%**



Net fee and commission income for the year totalled 1,911.2 million, marking significant growth (+14.9%) compared to the previous year.
This change is attributable to the contribution from management, brokerage and advisory services (+19.2% compared to 31 December 2020), due to major growth in the running component, and from the commercial banking services segment (+11.0% compared to 2020), linked mainly to the disbursement of new loans and payment services.
The positive trend was observed for all quarters of 2021, compared with the performance of the previous year, which had suffered considerably from the start of the pandemic.

(thousands of euro)	2021	2020 restated (*)	2020	Reclassifications	Abs. change on restated balances	% Change
Retail	1,475,885	1,292,761	1,293,613	(852)	183,124	14.2%
Corporate	243,007	215,379	214,835	544	27,628	12.8%
Institutional	42,585	40,024	39,526	498	2,561	6.4%
Private	100,394	89,708	89,708	-	10,686	11.9%
Investment Banking	43,424	41,651	41,651	-	1,773	4.3%
Leases	(362)	(979)	(979)	-	617	(63.0%)
Corporate Centre	6,270	(14,734)	(14,544)	(190)	21,004	
Total	**1,911,203**	**1,663,810**	**1,663,810**	**-**	**247,393**	**14.9%**

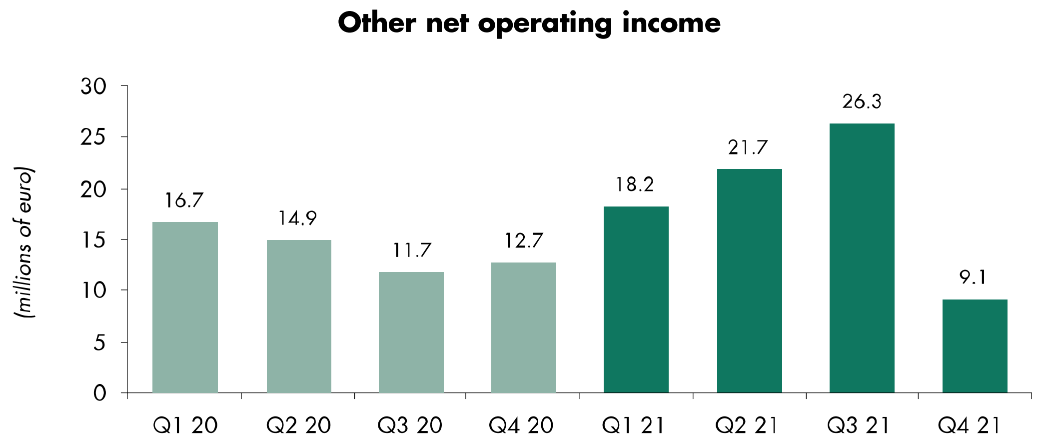
(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the profiling criteria used for 2021.



The increase recorded by net fee and commission income (+247.4 million) against last year, which had been impacted by the economic crisis due to the Covid-19 pandemic, was mainly due to the Commercial Network which, especially in the Retail segment, positively reflected the rise in fees and commissions from asset management (+130.1 million), from current accounts and deposits (+52.7 million) and from fees and commissions resulting from e-money and collection and payment services (+31.1 million). The Corporate business line also performed well (+27.6 million), due to higher disbursements made to businesses, and Private customers (+10.7 million), due to the increase in placements of asset management products.

Other net operating income

(thousands of euro)	2021	2020	Abs. Change	% Change
Income on current accounts and loans	5,309	9,898	(4,589)	(46.4%)
Rental income	33,885	39,508	(5,623)	(14.2%)
Expenses on leased assets	(26,173)	(14,775)	(11,398)	77.1%
Other income and charges	62,259	21,374	40,885	191.3%
Total	**75,280**	**56,005**	**19,275**	**34.4%**



Other net operating income was 75.3 million, up by 19.3 million compared to 2020, mainly due to the positive outcome of several legal disputes, which enabled part of the provisions for risks and charges previously allocated, to be released.

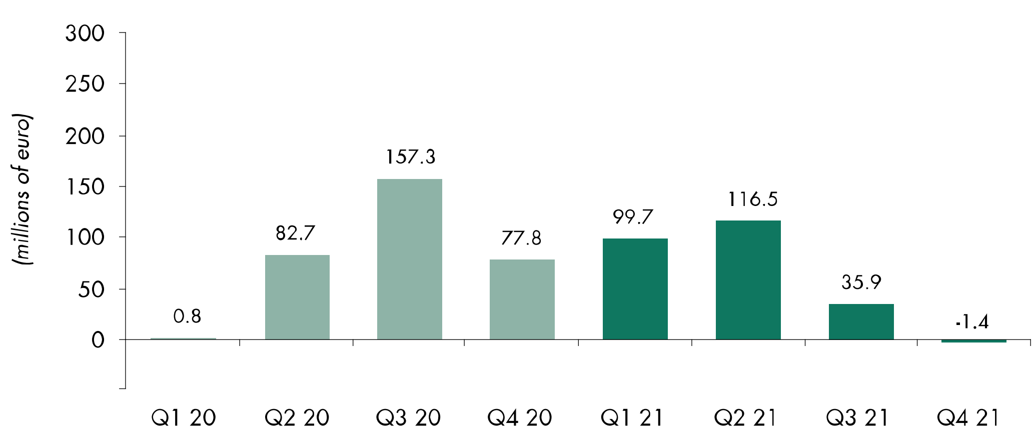
(thousands of euro)	2021	2020	Abs. Change	% Change
Retail	5,167	9,237	(4,070)	(44.1%)
Corporate	61	101	(40)	(39.6%)
Institutional	3,504	3,057	447	14.6%
Private	5	7	(2)	(28.6%)
Investment Banking	1,126	253	873	345.1%
Leases	(15,985)	(1,945)	(14,040)	721.9%
Corporate Centre	81,402	45,295	36,107	79.7%
Total	**75,280**	**56,005**	**19,275**	**34.4%**

Even given a significant fall in fast track fees (*commissioni da istruttoria veloce*, CIV), particularly in the Retail sector (-4.1 million), and the increasingly small contribution of Leases (-14.0 million), the item in question nevertheless recorded an increase, due to the presence of the above indicated positive components, recorded in the Corporate Centre, totalling 20.6 million.

Net financial result

(thousands of euro)	2021	2020	Abs. Change	% Change
Net trading income	111,728	39,450	72,278	183.2%
Gains/losses on disposal of financial assets	119,046	139,928	(20,882)	(14.9%)
Dividends and similar income on financial assets	13,091	24,556	(11,465)	(46.7%)
Gains/losses on repurchase of financial liabilities	(74)	(1,903)	1,829	(96.1%)
Fair value gains/losses on hedging derivatives	(848)	(7,657)	6,809	(88.9%)
Other income/expense	7,752	124,268	(116,516)	(93.8%)
Total	**250,695**	**318,642**	**(67,947)**	**(21.3%)**

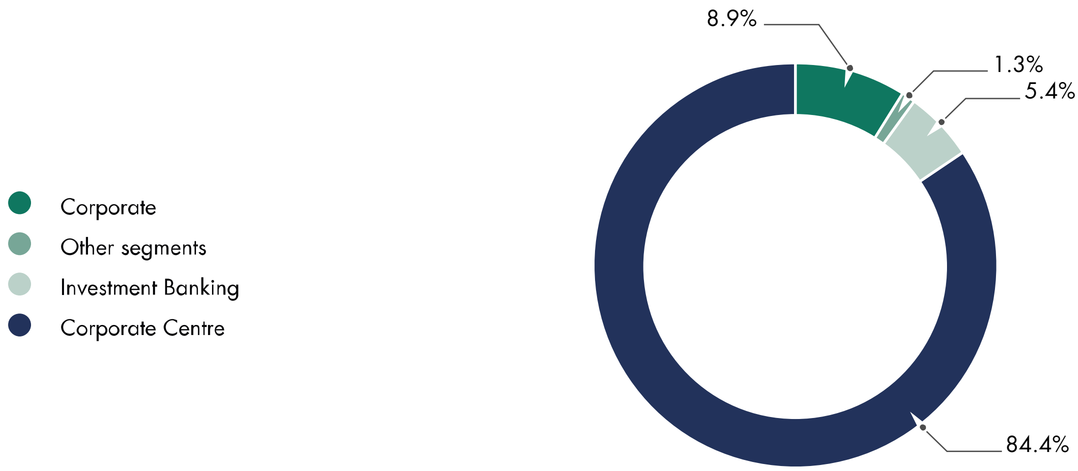
Net financial result



The **net financial result**[1] as at 31 December 2021 was positive at 250.7 million, compared to 318.6 million recorded in the previous year; particularly important are the excellent results originating from capital gains on security disposals for 119.0 million and trading income of 111.7 million.
The quarterly change of the item in question for the two years compared were affected by fluctuations in the values of equity instruments. In particular, the overall effect related to Nexi shares was negative for -25.8 million in 2021, compared to a positive 158.6 million in 2020.

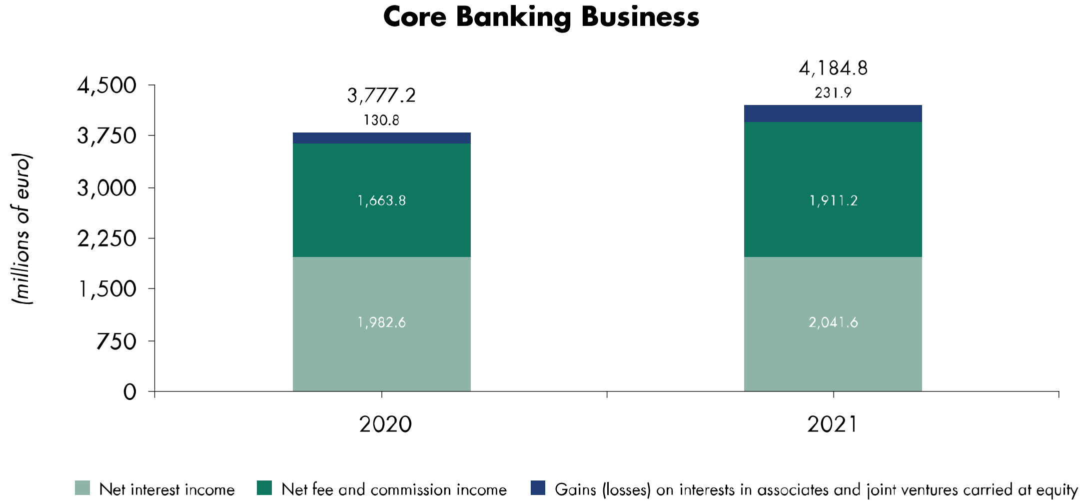
[1] The item does not include the accounting effect, shown in a separate item of the reclassified income statement, of the change in the credit risk of the Group in regard to the fair value measurement of its own certificate issues, which led to the recognition of 6.5 million in income for the year, compared to the negative impact of -17.5 million recorded as at 31 December 2020.

(thousands of euro)	2021	2020	Abs. Change	% Change
Retail	4,010	14,094	(10,084)	(71.5%)
Corporate	22,373	22,874	(501)	(2.2%)
Institutional	(420)	126	(546)	
Private	(283)	(75)	(208)	277.3%
Investment Banking	13,414	10,327	3,087	29.9%
Strategic Partnerships	-	11,671	(11,671)	
Corporate Centre	211,601	259,625	(48,024)	(18.5%)
Total	**250,695**	**318,642**	**(67,947)**	**(21.3%)**



The decrease in the net financial result (-67.9 million), which recorded 250.7 million, was mainly due to the performance of the Corporate Centre (-48.0 million), where, although gains were recorded from the sale of a portion of the securities portfolio and higher trading income, the component related to the values of FVTOCI securities was particularly significant. The latter was impacted by the decrease recorded for the values of the Nexi share which, against last year, recorded a drop of 184.4 million. The contribution of the Commercial Network was also negative, particularly the Retail segment (-10.1 million), following lower transactions in hedging derivatives with customers, and the business line of the Strategic Interests in associates and joint ventures, which last year had benefited from the dividends disbursed by Anima Holding S.p.A. (which, from 30 June 2020, has been consolidated at equity). Investment banking recorded an increase, although it suffered from the lower contribution resulting from product structuring, but benefited from the progressive run-off of certificates, following the transfer of the majority of the issues of these funding instruments to the Parent Company.

By virtue of the dynamics described, total **operating income** amounted to 4,510.7 million, up 8.6% compared with 4,151.8 million in 2020.

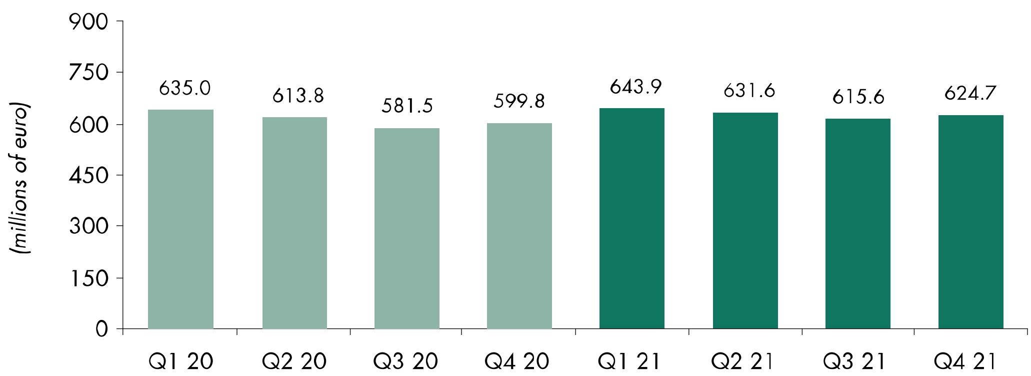


Taking only revenues from "core banking business" into account, represented by the sum of the aggregates relating to the net interest income, to net fee and commission income, and to the result of interests in associates and joint ventures carried at equity, the 2021 figure reached 4,184.8 million, up 10.8% compared to the figure for the previous year.

Operating expenses

(thousands of euro)	2021	2020	Abs. Change	% Change
Personnel expenses	**(1,667,799)**	**(1,581,141)**	**(86,658)**	**5.5%**
Other administrative expenses	**(601,151)**	**(593,812)**	**(7,339)**	**1.2%**
- Taxes and duties	(320,133)	(312,976)	(7,157)	2.3%
- Services and consulting	(289,066)	(268,748)	(20,318)	7.6%
- Property	(66,155)	(60,796)	(5,359)	8.8%
- Postal, telephone and stationery	(22,773)	(26,095)	3,322	(12.7%)
- Maintenance and fees for furniture, machines and systems	(86,709)	(81,292)	(5,417)	6.7%
- Advertising and entertainment	(9,501)	(10,740)	1,239	(11.5%)
- Other administrative expenses	(89,333)	(105,321)	15,988	(15.2%)
- Expense recoveries	282,519	272,156	10,363	3.8%
Value adjustments to property, plant and equipment and intangible assets	**(246,825)**	**(255,114)**	**8,289**	**(3.2%)**
- Value adjustments to property, plant and equipment	(165,990)	(179,011)	13,021	(7.3%)
- Value adjustments to intangible assets	(78,825)	(73,866)	(4,959)	6.7%
- Net write-downs for impairment	(2,010)	(2,237)	227	(10.1%)
Total	**(2,515,775)**	**(2,430,067)**	**(85,708)**	**3.5%**

Operating expenses



Personnel expenses, of 1,667.8 million, rose by 5.5% compared to the 1,581.1 million of 2020, which had benefited from the savings relating to provisions allocated for the incentive system in the previous year and to other cost reductions associated with the effects of the health emergency. As at 31 December 2021, the total number of employees was 20,437, down compared to 21,663 at the end of 2020, due to the exit during the year of around 1,300 resources as part of the programme envisaging use of the Solidarity Fund for the sector.

Other administrative expenses[1], totalling 601.2 million, recorded a slight increase of 1.2% on the 2020 figure of 593.8 million.

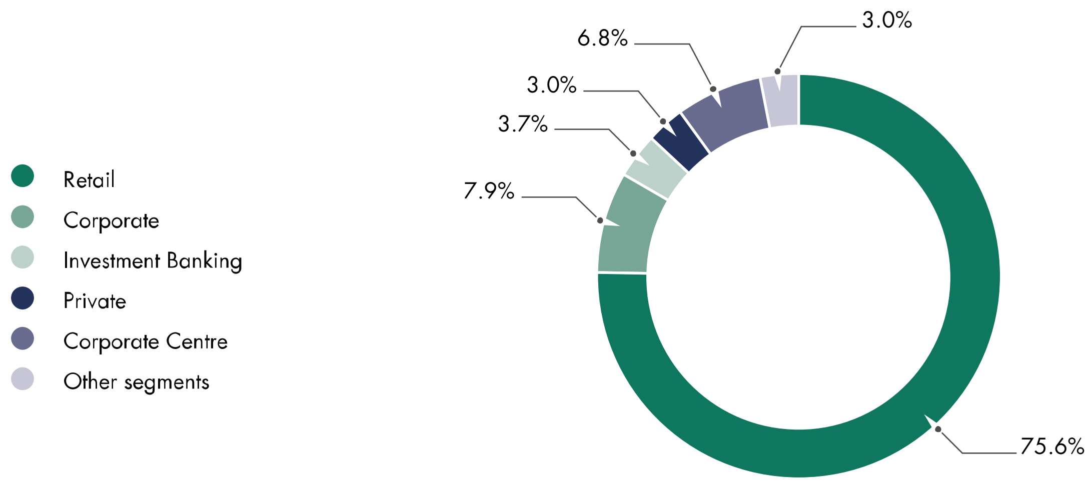
Net value adjustments to property, plant and equipment and intangible assets amounted to 246.8 million and included write-downs of 2.0 million.
The comparison with 2020 shows a fall with respect to the figure of 255.1 million as at 31 December 2020.

Total **operating expenses** therefore amounted to 2,515.8 million, up by 3.5% compared to 2,430.1 million in 2020.

(thousands of euro)	2021	2020 restated (*)	2020	Reclassifications	Abs. change on restated balances	% Change
Retail	(1,901,966)	(1,843,966)	(1,843,966)	-	(58,000)	3.1%
Corporate	(199,363)	(156,707)	(156,707)	-	(42,656)	27.2%
Institutional	(41,907)	(37,801)	(37,801)	-	(4,106)	10.9%
Private	(75,285)	(73,138)	(73,138)	-	(2,147)	2.9%
Investment Banking	(91,922)	(84,591)	(84,591)	-	(7,331)	8.7%
Strategic Partnerships	(2,646)	(2,566)	(2,566)	-	(80)	3.1%
Leases	(31,817)	(33,831)	(33,050)	(781)	2,014	(6.0%)
Corporate Centre	(170,869)	(197,467)	(198,248)	781	26,598	(13.5%)
Total	**(2,515,775)**	**(2,430,067)**	**(2,430,067)**	**-**	**(85,708)**	**3.5%**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the profiling criteria used for 2021.

[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.



Operating expenses showed a substantial increase in personnel expenses (86.7 million), both in the Commercial Network, where the Retail segment recorded higher costs of 57.6 million, and in the Investment banking one (8.2 million), insofar as 2020 had benefited from savings on the incentive system and other cost reductions relating to the health emergency (contributions from the Solidarity Fund of the sector were down from 31.6 million to 14.4 million).
Other administrative expenses and value adjustments to property, plant and equipment and intangible assets were stable overall at consolidated level. More specifically, the Corporate segment of the Commercial Network recorded a significant increase in Other administrative expenses (37.9 million), following a redefinition of the recharges of costs between the same and the Retail segment. Following the afore-mentioned benefit, the latter recorded higher costs for several IT projects, which involved the branches. The recharge component relating to the costs of the Corporate Centre towards the various business lines increased.

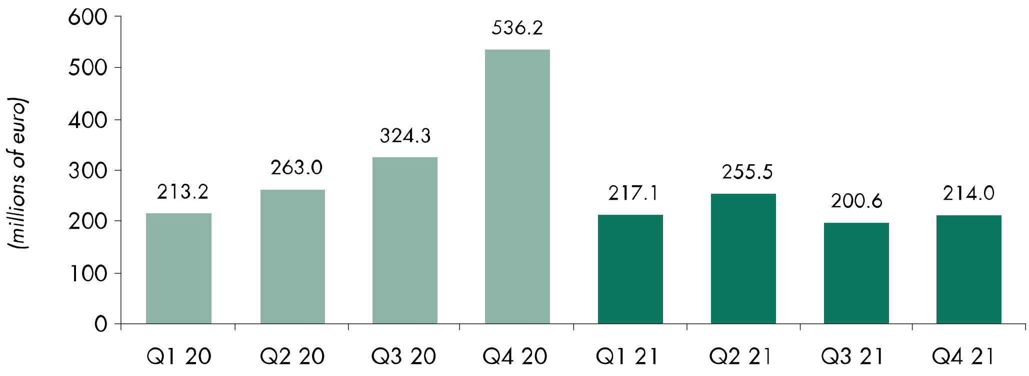
Profit (loss) from operations

The **profit from operations** as at 31 December 2021 stood at 1,995.0 million, up by 15.9% compared to 1,721.7 million in the previous year.

Adjustments and provisions

(thousands of euro)	2021	2020	Abs. Change	% Change
Net adjustments to loans to customers	**(639,147)**	**(1,049,656)**	**410,509**	**(39.1%)**
Specific value adjustments: derecognition	(67,065)	(90,908)	23,843	(26.2%)
Specific value adjustments: other	(1,075,092)	(1,240,351)	165,259	(13.3%)
Specific recoveries	507,737	429,297	78,440	18.3%
Net portfolio adjustments/recoveries	(4,727)	(147,694)	142,967	(96.8%)
Gains (losses) on disposal of loans	**(248,052)**	**(287,151)**	**39,099**	**(13.6%)**
Total	**(887,199)**	**(1,336,807)**	**449,608**	**(33.6%)**

Net adjustments to loans to customers



Net adjustments to loans to customers amounted to 887.2 million, down compared to the previous year (1,336.8 million). The item in question includes the extraordinary charges following the sale of receivables finalised as part of the "Rockets" project and the additional impact deriving from the increase in the targets for the sale of non-performing receivables decided by the Parent Company, for a total of 194 million.
As at 31 December 2021, the cost of credit, measured by the ratio of net value adjustments on loans to net loans, was 81 basis points, decreasing to 55 basis points if non-core components are excluded[1].

The result of **fair value gains (losses) on property, plant and equipment** as at 31 December 2021 reported losses of 141.6 million compared to 36.7 million last year. These adjustments relates to the valuation process conducted annually on properties, with 106.0 million related to owned properties acquired as part of credit collection activities (so-called foreclosed assets).

In 2021, as in the previous year, no significant **net adjustments to securities and other financial assets** were recorded.

Net provisions for risks and charges amounted to 26.0 million; in the previous year, net provisions of 42.3 million were recognised against clawback actions and legal and tax disputes.

Gains (losses) on interests in associates and joint ventures and other investments amounted to -18.8 million and includes the effect of the impairment made of the interest held in Factorit. The figure last year was +1.2 million.

Due to the above performance, **profit before tax from continuing operations** was 921.0 million, compared to 306.1 million as at 31 December 2020.

Other revenue and cost items

The **taxation charge related to profit or loss from continuing operations** was -253.8 million (-13.5 million as at December 2020).

The **profit after tax from continuing operations** therefore amounted to 667.2 million and recorded an increase of 128.0% against the figure of 292.6 million last year.

Charges related to the banking system, net of taxes were charged to the income statement for the year, amounting to 145.0 million (138.9 million in 2020) relating to the ordinary contribution paid to the Single Resolution Fund (SRF) and to the Interbank Deposit Protection Fund, as well as the additional contribution to the National Resolution Fund. The total value of the above-cited charges, before taxes was 214.8 million, compared to 192.0 million as at 31 December 2020.

[1] Management figures that exclude components not considered structural.

The item **Impact of the realignment of tax values to book values** includes the positive impact on the income statement for 81.7 million, resulting from the exercise of the right of realignment of the tax values of the Group's operating properties to book values.

In the year, the **change in own credit risk on Certificates issued by the Group**, net of taxes, generated income of 4.4 million (6.5 million before taxes), compared to the charge recognised in 2020 of -11.7 million (-17.5 million before taxes).

The item **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 relative taxes. In greater detail, this regards the impact on "net interest income" (-25.5 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" (-33.5 million) due to the amortisation of the higher intangible assets recognised. Net of the relative taxes, the total impact on the income statement for 2021 amounted to -39.5 million (-41.5 million for 2020).

Given the share of profit attributable to non-controlling interests, of +0.3 million, 2021 closed with **net profit** of 569.1 million (20.9 million as at 31 December 2020).

The **profit net of non-recurring items** as at 31 December 2021 was 710.1 million, compared to 330.5 million recorded in 2020 (+114.9%).

[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 2021 compared with the balances in the financial statements as at 31 December 2020; the latter have been restated to take into account the amendments introduced by the 7th update of Circular no. 262 of the Bank of Italy with the communication of 21 December 2021. More specifically, the amount of the current accounts and demand deposits is included, from 31 December 2021, in "Cash and cash equivalents" instead of in "Loans at amortised cost: loans to banks".
The attachments to the financial statements include a statement of reconciliation between the balances as at 31 December 2020 originally published, and the restated ones, as well as a statement of reconciliation between the items of the consolidated balance sheet and the reclassified consolidated balance sheet.

(thousands of euro)	31/12/2021	31/12/2020 (*)	Change	
Cash and cash equivalents	29,153,316	9,410,687	19,742,629	209.8%
Loans at AC	121,261,260	119,903,058	1,358,202	1.1%
- Loans to banks	11,877,878	10,568,073	1,309,805	12.4%
- Loans to customers (**)	109,383,382	109,334,985	48,397	0.0%
Other financial assets and hedging derivatives	36,326,393	41,175,632	(4,849,239)	(11.8)%
- At FV through Profit and Loss	6,464,186	9,118,571	(2,654,385)	(29.1)%
- At FV through OCI	10,675,079	10,710,796	(35,717)	(0.3)%
- At AC	19,187,128	21,346,265	(2,159,137)	(10.1)%
Interests in associates and joint ventures	1,794,116	1,664,772	129,344	7.8%
Property, plant and equipment	3,278,245	3,552,482	(274,237)	(7.7)%
Intangible assets	1,213,722	1,218,632	(4,910)	(0.4)%
Tax assets	4,540,229	4,704,196	(163,967)	(3.5)%
Non-current assets and disposal groups held for sale	229,971	72,823	157,148	215.8%
Other assets	2,691,964	1,982,900	709,064	35.8%
Total assets	**200,489,216**	**183,685,182**	**16,804,034**	**9.1%**
Direct funding	120,213,016	116,936,669	3,276,347	2.8%
- Due to customers	107,120,893	102,162,461	4,958,432	4.9%
- Securities and financial liabilities designated at FV	13,092,123	14,774,208	(1,682,085)	(11.4)%
Due to banks	45,685,032	33,937,523	11,747,509	34.6%
Lease payables	673,872	760,280	(86,408)	(11.4)%
Other financial liabilities designated at fair value	15,755,319	14,015,427	1,739,892	12.4%
Liability provisions	1,196,946	1,415,473	(218,527)	(15.4)%
Tax liabilities	302,816	464,570	(161,754)	(34.8)%
Other liabilities	3,566,156	3,928,139	(361,983)	(9.2)%
Total liabilities	**187,393,157**	**171,458,081**	**15,935,076**	**9.3%**
Non-controlling interests	1,108	1,894	(786)	(41.5)%
Group shareholders' equity	13,094,951	12,225,207	869,744	7.1%
Consolidated shareholders' equity	**13,096,059**	**12,227,101**	**868,958**	**7.1%**
Total liabilities and shareholders' equity	**200,489,216**	**183,685,182**	**16,804,034**	**9.1%**

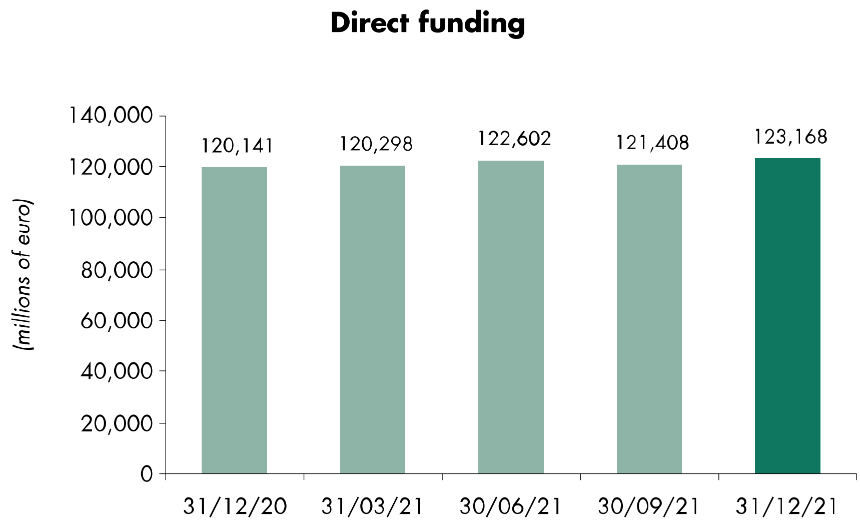
(*) The items "Cash and cash equivalents" and "Loans at AC - loans to banks" of the previous year have been restated to take into account the amendments introduced by the 7th update of Circular no. 262 of the Bank of Italy.
(**) Includes senior securities from sales of non-performing loans.

The evolution of the main balance sheet aggregates as at 31 December 2021 is illustrated below.

Loan brokering activities

Direct funding

(thousands of euro)	31/12/2021	% impact	31/12/2020	% impact	Abs. Change	% Change
Current accounts and deposits	**105,028,846**	**87.4%**	**99,964,064**	**85.5%**	**5,064,782**	**5.1%**
- current accounts and demand deposits	104,038,158	86.5%	98,490,060	84.2%	5,548,098	5.6%
- fixed-term deposits and other restricted current accounts	990,688	0.8%	1,474,004	1.3%	(483,316)	(32.8%)
Securities	**13,092,123**	**10.9%**	**14,774,208**	**12.6%**	**(1,682,085)**	**(11.4%)**
- bonds and liabilities at fair value	13,071,312	10.9%	14,704,719	12.6%	(1,633,407)	(11.1%)
- certificates of deposit and other securities	20,811	0.0%	69,489	0.1%	(48,678)	(70.1%)
Repurchase agreements	**627,845**	**0.5%**	**495,505**	**0.4%**	**132,340**	**26.7%**
Loans and other payables	**1,464,202**	**1.2%**	**1,702,892**	**1.5%**	**(238,690)**	**(14.0%)**
Direct funding	**120,213,016**	**100.0%**	**116,936,669**	**100.0%**	**3,276,347**	**2.8%**
Direct funding without repurchase agreements	**119,585,171**		**116,441,164**		**3,144,007**	**2.7%**
Other funding (Protected capital certificates)	3,582,874		3,699,901		(117,027)	(3.2%)
Total direct funding without repurchase agreements with certificates	**123,168,045**		**120,141,065**		**3,026,980**	**2.5%**



As at 31December 2021, **direct funding**[1] totalled 123.2 billion, showing an increase of 2.5% compared to 31 December 2020.

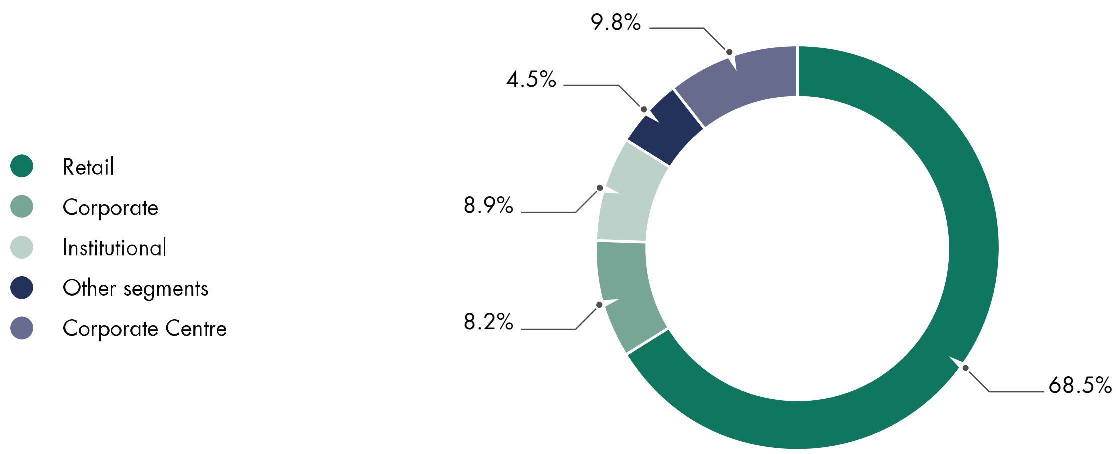
More specifically, over the period there was an increase of 5.5 billion in the segment represented by current accounts and demand deposits of the commercial network (+5.6%). As regards bonds issued, the stock as at 31 December came to 13.1 billion, down by 1.7 billion compared to 31 December 2020, due to higher reimbursements of securities matured than new issues in the period.

As at 31 December 2021, the funding guaranteed by the stock of certificates with unconditional capital protection totalled 3.6 billion (3.7 billion as at 31 December 2020).

[1] The aggregate includes demand and term deposits and current accounts, bonds issued, certificates of deposit and other securities, loans and other debts, and protected capital certificates and excludes repurchase agreements.

(thousands of euro)	31/12/2021	% impact	31/12/2020 restated (*)	% impact	31/12/2020	Abs. change on restated balances	% Change
Retail	84,398,631	68.5%	79,507,051	66.2%	79,521,550	4,891,580	6.2%
Corporate	10,136,351	8.2%	11,490,306	9.6%	11,475,745	(1,353,955)	(11.8%)
Institutional	10,926,181	8.9%	9,956,785	8.3%	9,956,749	969,396	9.7%
Private	2,935,264	2.4%	2,983,412	2.5%	2,983,412	(48,148)	(1.6%)
Investment Banking	2,663,969	2.2%	3,584,917	3.0%	3,584,917	(920,948)	(25.7%)
Leases	4,507	0.0%	6,669	0.0%	6,669	(2,162)	(32.4%)
Corporate Centre	12,103,142	9.8%	12,611,925	10.5%	12,612,023	(508,783)	(4.0%)
Total direct funding	**123,168,045**	**100.0%**	**120,141,065**	**100.0%**	**120,141,065**	**3,026,980**	**2.5%**

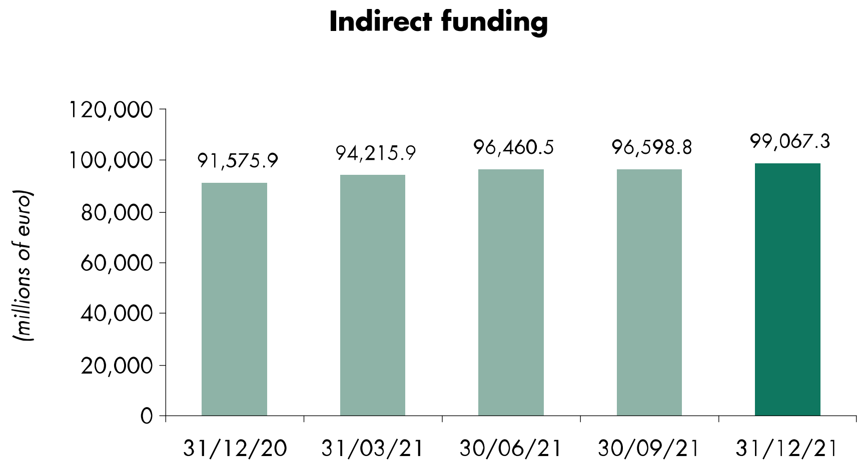
(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the profiling criteria used for 2021.



Total direct funding relative to the Commercial Network (Retail, Corporate, Institutional and Private) grew significantly, reaching 108.4 billion (+4.3%). Effectively, against a decrease in the stock of bonds placed with the Network and in the restricted component of direct funding, there was a sharp increase, especially in the Retail sector, of the non-restricted component of deposits (+5.4 billion), particularly the technical form of Current Accounts. This performance offset the reduction recorded by the Corporate segment of the Commercial Network, whose direct funding fell from 11.5 billion to 10.1 billion.
On the contrary, Corporate Centre amounts decreased, mainly due to the contraction in institutional bonds, despite new issues for 800 million, of which 300 million related to a subordinated bond issued at the end of June of the current year.

Indirect funding

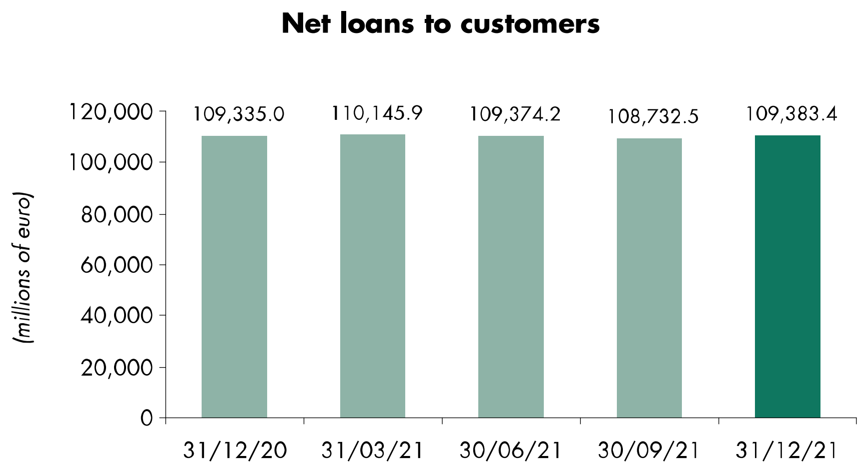
(thousands of euro)	31/12/2021	% impact	31/12/2020	% impact	Abs. Change	% Change
Managed assets	**65,347,877**	**63.9%**	**59,599,197**	**62.9%**	**5,748,680**	**9.6%**
mutual funds and SICAVs	45,762,839	44.8%	40,797,605	43.0%	4,965,234	12.2%
securities and fund management	4,135,099	4.0%	3,945,198	4.2%	189,901	4.8%
insurance policies	15,449,939	15.1%	14,856,394	15.7%	593,545	4.0%
Administered assets	**36,840,066**	**36.1%**	**35,208,130**	**37.1%**	**1,631,936**	**4.6%**
Total indirect funding	**102,187,943**	**100.0%**	**94,807,327**	**100.0%**	**7,380,616**	**7.8%**
Underlying funding for protected capital certificates	3,120,665		3,231,474		(110,809)	(3.4%)
Total indirect funding without certificates	**99,067,278**		**91,575,853**		**7,491,425**	**8.2%**



Indirect funding net of protected capital certificates amounted to 99.1 billion, up by 8.2% compared to 31 December 2020.
The component of managed assets amounted to 65.3 billion, up compared to the figure of 59.6 billion as at 31 December 2020 (+9.6%), due to the contribution of funds and SICAVs, which recorded an increase of around 5.0 billion since the beginning of the year (+12.2%); the increase in portfolio management and of the bancassurance segment was more modest.
Administered assets, net of protected capital certificates, reached 33.7 billion, an increase of 1.7 billion (+5.5%) compared to the end of 2020.

Loans to customers

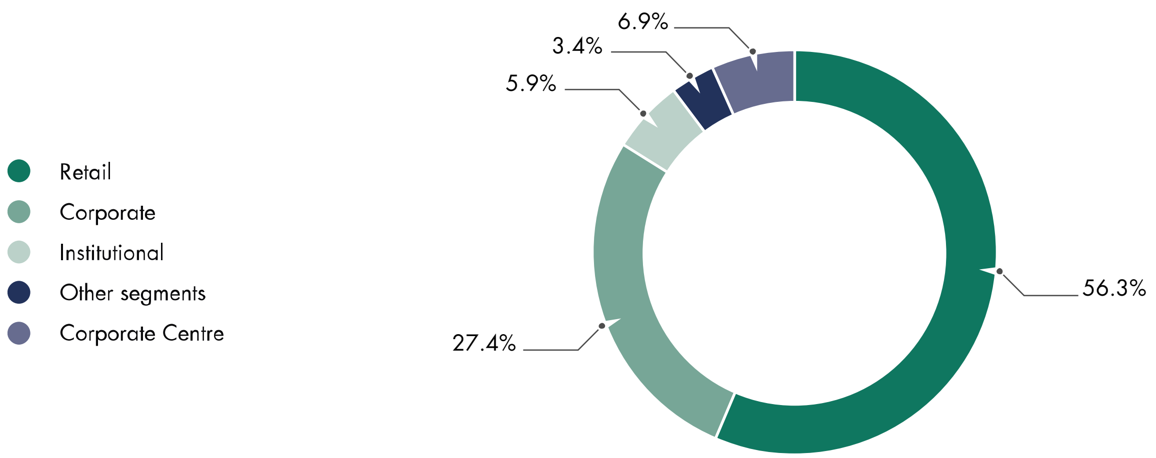
(thousands of euro)	31/12/2021	% impact	31/12/2020	% impact	Abs. Change	% Change
Mortgage loans	79,285,841	72.5%	76,393,191	69.9%	2,892,650	3.8%
Current accounts	8,542,637	7.8%	8,538,393	7.8%	4,244	0.0%
Repurchase agreements	3,658,922	3.3%	3,482,261	3.2%	176,661	5.1%
Finance leases	1,222,730	1.1%	1,491,577	1.4%	(268,847)	(18.0%)
Credit cards, personal loans and salary-backed loans	1,350,550	1.2%	1,890,737	1.7%	(540,187)	(28.6%)
Other transactions	13,025,142	11.9%	15,222,324	13.9%	(2,197,182)	(14.4%)
Senior securities from sales of non-performing loans	2,297,560	2.1%	2,316,502	2.1%	(18,942)	(0.8%)
Total net loans to customers	**109,383,382**	**100.0%**	**109,334,985**	**100.0%**	**48,397**	**0.0%**



Net loans to customers[1] totalled 109.4 billion as at 31 December 2021, essentially unchanged compared to the figure as at 31 December 2020 (109.3 billion). Performing exposures rose (+1.0%), with a volume of new loans to households and businesses of 22.7 billion[2] in the period, whilst non-performing exposures fell 24.0% compared to the end of 2020, due to the assignments finalised during the year.

(thousands of euro)	31/12/2021	% impact	31/12/2020 restated	% impact	31/12/2020	Abs. change on restated balances	% Change
Retail	61,625,508	56.3%	58,868,234	53.8%	58,679,546	2,757,274	4.7%
Corporate	29,936,846	27.4%	31,563,990	28.9%	30,952,448	(1,627,144)	(5.2%)
Institutional	6,488,818	5.9%	6,537,033	6.0%	6,498,443	(48,215)	(0.7%)
Private	428,751	0.4%	335,172	0.3%	335,172	93,579	27.9%
Investment Banking	1,963,699	1.8%	695,414	0.6%	694,825	1,268,285	182.4%
Leases	1,367,926	1.3%	1,639,209	1.5%	1,639,209	(271,283)	(16.5%)
Corporate Centre	7,571,834	6.9%	9,695,934	8.9%	10,535,342	(2,124,100)	(21.9%)
Total net loans	**109,383,382**	**100.0%**	**109,334,985**	**100.0%**	**109,334,985**	**48,397**	**0.0%**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the profiling criteria used for 2021.



The Commercial Network contributed positively to the growth of Group loans. More specifically, the Retail segment, which recorded 61.6 billion (+2.8 billion) increased due the effect of medium-long term loans granted to support SMEs, and related to the State Guarantee Fund for the Covid Emergency (DL "Heal Italy" and subsequent DL "Liquidity"). Corporate Centre saw a downturn, where the exposure to Cassa Compensazione e Garanzia, in the Parent Company's banking book position, decreased (-1.2 billion), and where the run-off of loans from the incorporated ProFamily started.

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

Credit quality

Loans to customers at amortised cost

(thousands of euro)	31/12/2021		31/12/2020		Abs. Change	% Change
	Net exposure	% impact	Net exposure	% impact		
Bad loans	906,482	0.8%	1,462,216	1.3%	(555,734)	(38.0%)
Unlikely to pay	2,309,437	2.1%	2,784,816	2.5%	(475,379)	(17.1%)
Non-performing past-due exposures	44,610	0.0%	45,642	0.0%	(1,032)	(2.3%)
Non-performing loans	**3,260,529**	**3.0%**	**4,292,674**	**3.9%**	**(1,032,145)**	**(24.0%)**
Performing loans	103,825,293	94.9%	102,725,809	94.0%	1,099,484	1.1%
Senior securities from sales of non-performing loans	2,297,560	2.1%	2,316,502	2.1%	(18,942)	(0.8%)
Performing exposures	**106,122,853**	**97.0%**	**105,042,311**	**96.1%**	**1,080,542**	**1.0%**
Total loans to customers	**109,383,382**	**100.0%**	**109,334,985**	**100.0%**	**48,397**	**0.0%**

(thousands of euro)	31/12/2021				31/12/2020			
	Gross exposure	Total value adjustments	Net exposure	Coverage	Gross exposure	Total value adjustments	Net exposure	Coverage
Bad loans	2,190,338	(1,283,856)	906,482	58.6%	3,578,445	(2,116,229)	1,462,216	59.1%
Unlikely to pay	4,126,107	(1,816,670)	2,309,437	44.0%	4,945,662	(2,160,846)	2,784,816	43.7%
Non-performing past-due exposures	59,733	(15,123)	44,610	25.3%	62,018	(16,376)	45,642	26.4%
Non-performing loans	**6,376,178**	**(3,115,649)**	**3,260,529**	**48.9%**	**8,586,125**	**(4,293,451)**	**4,292,674**	**50.0%**
of which: forborne	*3,346,651*	*(1,524,087)*	*1,822,564*	*45.5%*	*4,155,253*	*(1,913,282)*	*2,241,971*	*46.0%*
Performing loans (*)	**106,577,184**	**(454,331)**	**106,122,853**	**0.4%**	**105,508,487**	**(466,176)**	**105,042,311**	**0.4%**
of which: Stage 1	*94,887,670*	*(124,343)*	*94,763,327*	*0.1%*	*98,314,976*	*(155,709)*	*98,159,267*	*0.2%*
of which: Stage 2	*11,689,514*	*(329,988)*	*11,359,526*	*2.8%*	*7,193,511*	*(310,467)*	*6,883,044*	*4.3%*
of which: forborne	*3,224,400*	*(105,711)*	*3,118,689*	*3.3%*	*1,780,371*	*(94,599)*	*1,685,772*	*5.3%*
Total loans to customers	**112,953,362**	**(3,569,980)**	**109,383,382**	**3.2%**	**114,094,612**	**(4,759,627)**	**109,334,985**	**4.2%**

(*) Includes senior securities from sales of non-performing loans for an amount of 2,297.6 million (of which 2,299.4 million in gross exposure and 1.8 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".

As illustrated in more detail in Part A - Accounting policies, Section 5 - Other aspects - "Measurement of expected losses on credit exposures", in 2021, the Group continued with the process of revising and fine-tuning the current models, with a view to more accurately reflecting the expected losses of performing exposures, also as a consequence of the economic disruption caused by the Covid-19 crisis. This process moreover envisaged a series of adjustments to the models, as well as post model managerial adjustments. These interventions, along with changes in the portfolio, led to an increase in the credit exposures classified as "Stage 2" with respect to those recorded at the beginning of the year. In particular, for the portfolio represented by loans to customers, gross exposures classified as "Stage 2" as at 31 December 2021 amounted to 11.7 billion (10.97% of total performing exposures), up by 4.5 billion compared to the start of the year (when they totalled 6.82% of all performing exposures).

Net non-performing loans (bad loans, unlikely to pay and non-performing past due and/or overdue) amounted to 3.3 billion as at 31 December 2021.
An analysis of the individual items shows the following changes:
- net bad loans of 0.9 billion, down by 38.0% compared to 31 December 2020;
- net unlikely to pay of 2.3 billion, down by 17.1% compared to 31 December 2020;
- net past due exposures amounting to 45 million (46 million as at 31 December 2020).

The coverage ratio for the entire non-performing loans aggregate was 48.9% (50.0% as at 31 December 2020).
More specifically, as at 31 December 2021 the coverage ratio was as follows:
- bad loans 58.6% (59.1% as at 31 December 2020);

- unlikely to pay loans 44.0% (43.7% as at 31 December 2020);
- past due exposures 25.3% (26.4% as at 31 December 2020).

The change in the coverage of non-performing loans is related to significant fall in bad loans as a proportion of the total non-performing loan portfolio (from 41.7% at the end of 2020 to 34.4% as at December 2021) following the finalisation of the Rockets sale and the increase of the guaranteed component as regards said bad loans (from 64% at the end of 2020 to 67% as at December 2021).

The coverage ratio of performing loans was 0.43%, essentially stable compared to 31 December 2020 (0.44%); more specifically, the coverage of Stage 2 exposures was 2.82%, compared with 4.32% as at 31 December 2020.

Financial assets

(thousands of euro)	31/12/2021	% impact	31/12/2020	% impact	Abs. Change	% Change
Debt securities (*)	30,671,735	84.4%	33,859,700	82.2%	(3,187,965)	(9.4%)
Equity instruments	1,927,416	5.3%	1,387,043	3.4%	540,373	39.0%
UCIT units	1,091,564	3.0%	1,015,377	2.5%	76,187	7.5%
Total securities portfolio	**33,690,715**	**92.7%**	**36,262,120**	**88.1%**	**(2,571,405)**	**(7.1%)**
Derivative trading and hedging instruments	2,122,530	5.8%	2,661,631	6.5%	(539,101)	(20.3%)
Loans	513,148	1.4%	2,251,881	5.5%	(1,738,733)	(77.2%)
Total financial assets	**36,326,393**	**100.0%**	**41,175,632**	**100.0%**	**(4,849,239)**	**(11.8%)**

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

Financial assets amounted to 36.3 billion, falling 11.8% compared to 41.2 billion as at 31 December 2020; the decrease was mainly concentrated in debt securities (-3.2 billion) and, specifically, in the portfolio of securities measured at amortised cost. As at 31 December 2021, the aggregate in question was comprised by debt securities for 30.7 billion, equity instruments and UCIT units for 3.0 billion, derivatives for 2.1 billion and other financial assets, mainly represented by repurchase agreements for 0.5 billion.
The table below provides the details of financial assets by type and specific portfolio:

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

(thousands of euro)	31/12/2021	% impact	31/12/2020	% impact	Abs. Change	% Change
Debt securities	1,148,885	17.8%	2,128,251	23.3%	(979,366)	(46.0%)
Equity instruments	1,588,059	24.6%	1,061,431	11.6%	526,628	49.6%
UCIT units	1,091,564	16.9%	1,015,377	11.1%	76,187	7.5%
Total securities portfolio	**3,828,508**	**59.2%**	**4,205,059**	**46.1%**	**(376,551)**	**(9.0%)**
Financial and credit derivatives	2,122,530	32.8%	2,661,631	29.2%	(539,101)	(20.3%)
Loans	513,148	7.9%	2,251,881	24.7%	(1,738,733)	(77.2%)
Overall total	**6,464,186**	**100.0%**	**9,118,571**	**100.0%**	**(2,654,385)**	**(29.1%)**

Financial assets measured at fair value through other comprehensive income

(thousands of euro)	31/12/2021	% impact	31/12/2020	% impact	Abs. Change	% Change
Debt securities	10,335,722	96.8%	10,385,184	97.0%	(49,462)	(0.5%)
Equity instruments	339,357	3.2%	325,612	3.0%	13,745	4.2%
Total	**10,675,079**	**100.0%**	**10,710,796**	**100.0%**	**(35,717)**	**(0.3%)**

Financial assets at amortised cost

(thousands of euro)	31/12/2021	% impact	31/12/2020	% impact	Abs. Change	% Change
Debt securities (*)	19,187,128	100.0%	21,346,265	100.0%	(2,159,137)	(10.1%)
Total	**19,187,128**	**100.0%**	**21,346,265**	**100.0%**	**(2,159,137)**	**(10.1%)**

(*) 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 2021 was 25,619.1 million, and is provided below, broken down by country (in thousands of euro):

Countries	Fin. assets at fair value through profit and loss	Financial assets measured at fair value through other comprehensive income	Fin. ass. measured at amortised cost	Total debt securities	of which Parent Company
Italy	722,938	1,706,035	10,303,393	12,732,366	12,524,015
Spain	91,525	1,441,910	1,565,320	3,098,755	3,098,755
Germany	2	949,509	826,757	1,776,268	1,776,267
France	-	2,008,014	1,962,876	3,970,890	3,970,890
Austria	-	-	142,370	142,370	142,370
Ireland	3	-	19,484	19,487	19,484
Other EU countries	3	136,267	295,434	431,704	431,701
Total EU countries	**814,471**	**6,241,735**	**15,115,634**	**22,171,840**	**21,963,482**
USA	3	1,110,148	2,126,860	3,237,011	3,237,008
Chile	-	14,948	2,057	17,005	17,005
China	-	64,555	47,972	112,527	112,527
Mexico	-	5,237	18,853	24,090	24,090
Hong Kong	-	21,499	-	21,499	21,499
Other countries	40	28,164	6,877	35,081	35,079
Total other countries	**43**	**1,244,551**	**2,202,619**	**3,447,213**	**3,447,208**
Total	**814,514**	**7,486,286**	**17,318,253**	**25,619,053**	**25,410,690**

Exposure is mainly concentrated within the Parent Company Banco BPM, which as at 31 December held a total of 25,410.7 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 3%, in the portfolio of financial assets measured at fair value through other comprehensive income for 29%, and the remaining 68% is classified in the segment of financial assets at amortised cost.
Around 87% of said exposure regards securities issued by European Union countries and in particular, 49.7% by Italy.

As regards financial assets measured at fair value through other comprehensive income, the reserves resulting from the fair value measurement of debt securities totalled a positive 68.0 million as at 31 December 2021, before taxes, with 20.5 million referring to government securities (+11.1 million relating to Italian government securities and 9.4 million to securities of other countries).
With regard to financial assets at amortised cost, the book value amounted to 17.3 billion, of which 10.3 billion represented by Italian government securities. For reporting purposes only, note that the fair value of the government securities classified in the above accounting category, determined on the basis of market listings on 31 December 2021 (level 1 in the fair value hierarchy), amounted to 17.8 billion (10.6 billion is the fair value relating to Italian government securities only).

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 2022	Maturing between 2023 and 2027	Maturing between 2028 and 2032	Maturing beyond 2032	Total fair value as at 31/12/2021	Total fair value by hierarchy		
						LEVEL 1	LEVEL 2	LEVEL 3
Italy	2,574	719,648	159	557	722,938	722,938	-	-
Spain	-	-	91,525	-	91,525	91,525	-	-
Ireland	-	1	2	-	3	3	-	-
Greece	-	-	-	2	2	2	-	-
Germany	-	-	-	2	2	2	-	-
Other EU countries	-	-	1	-	1	1	-	-
Total	**2,574**	**719,649**	**91,687**	**561**	**814,471**	**814,471**	**-**	**-**
of which Parent Company	-	715,203	91,529	-	806,732	806,732	-	-

Financial assets measured at fair value through other comprehensive income

Status	Maturing by 2022	Maturing between 2023 and 2027	Maturing between 2028 and 2032	Maturing beyond 2032	Total fair value as at 31/12/2021	Net reserve at FVTOCI	Value adjustments	Total fair value by hierarchy		
								LEVEL 1	LEVEL 2	LEVEL 3
Italy	200,618	1,006,175	337,249	161,993	1,706,035	7,446	-	1,706,035	-	-
Spain	-	647,997	793,913	-	1,441,910	8,122	-	1,441,910	-	-
France	-	282,834	1,725,180	-	2,008,014	4,368	-	2,008,014	-	-
Germany	-	-	949,509	-	949,509	108	-	949,509	-	-
Other EU countries	-	12,094	124,173	-	136,267	1,723	-	136,267	-	-
Total	**200,618**	**1,949,100**	**3,930,024**	**161,993**	**6,241,735**	**21,767**	**-**	**6,241,735**	**-**	**-**
of which Parent Company	-	1,949,100	3,930,024	161,993	6,041,117	21,562		6,041,117	-	-

Financial assets at amortised cost

Status	Maturing by 2022	Maturing between 2023 and 2027	Maturing between 2028 and 2032	Maturing beyond 2032	Total book value as at 31/12/2021	Total fair value	Total fair value by hierarchy		
							LEVEL 1	LEVEL 2	LEVEL 3
Italy	3,672,064	5,798,460	665,310	167,559	10,303,393	10,585,131	10,585,131	-	-
Spain	-	462,621	1,102,699	-	1,565,320	1,629,217	1,629,217	-	-
France	-	-	1,962,876	-	1,962,876	2,025,150	2,025,150	-	-
Ireland	-	-	19,484	-	19,484	21,423	21,423	-	-
Germany	-	332,554	494,203	-	826,757	845,233	845,233	-	-
Other EU countries	-	276,786	161,018	-	437,804	456,530	456,530	-	-
Total	**3,672,064**	**6,870,420**	**4,405,591**	**167,559**	**15,115,634**	**15,562,683**	**15,562,683**	**-**	**-**
of which Parent Company	3,672,064	6,870,418	4,405,591	167,559	15,115,632	15,562,681	15,562,681	-	-

Net Interbank Position

Loans to banks

(thousands of euro)	31/12/2021	% impact	31/12/2020 (*)	% impact	Abs. Change	% Change
Loans to central banks	**10,036,899**	**84.5%**	**7,826,884**	**74.1%**	**2,210,015**	**28.2%**
Loans to other banks	**1,840,979**	**15.5%**	**2,741,189**	**25.9%**	**(900,210)**	**(32.8%)**
Fixed-term deposits	154,496	1.3%	75,366	0.7%	79,130	105.0%
Repurchase agreements	293,490	2.5%	854,645	8.1%	(561,155)	(65.7%)
Other loans	1,392,993	11.7%	1,811,178	17.1%	(418,185)	(23.1%)
Total loans (A)	**11,877,878**	**100.0%**	**10,568,073**	**100.0%**	**1,309,805**	**12.4%**

(*) The figures relating to the previous year have been restated to take into account the amendments introduced by the 7th update of Circular no. 262 of the Bank of Italy.

Due to banks

(thousands of euro)	31/12/2021	% impact	31/12/2020	% impact	Abs. Change	% Change
Due to central banks	**39,041,403**	**85.5%**	**27,820,559**	**82.0%**	**11,220,844**	**40.3%**
Refinancing operations	38,756,200	84.8%	27,355,979	80.6%	11,400,221	41.7%
Other payables	285,203	0.6%	464,580	1.4%	(179,377)	(38.6%)
Due to other banks	**6,643,629**	**14.5%**	**6,116,964**	**18.0%**	**526,665**	**8.6%**
Current accounts and demand deposits	421,964	0.9%	521,475	1.5%	(99,511)	(19.1%)
Fixed-term deposits	398,035	0.9%	152,328	0.4%	245,707	161.3%
Repurchase agreements	5,062,398	11.1%	4,619,012	13.6%	443,386	9.6%
Other payables	761,232	1.7%	824,149	2.4%	(62,917)	(7.6%)
Total payables (B)	**45,685,032**	**100.0%**	**33,937,523**	**100.0%**	**11,747,509**	**34.6%**
Mismatch loans/payables (A) - (B)	**(33,807,154)**		**(23,369,450)**		**(10,437,704)**	**44.7%**
Due to central banks: refinancing operations	(38,756,200)		(27,355,979)		(11,400,221)	41.7%
Interbank balance (excl. refinancing operations)	4,949,046		3,986,529		962,517	24.1%
Mismatch towards central banks (excl. refinancing operations)	9,751,696		7,362,304		2,389,392	32.5%
Interbank balance towards other banks	(4,802,650)		(3,375,775)		(1,426,875)	42.3%

Net interbank exposure as at 31 December 2021 amounted to -33,807.2 million, compared to the balance of -23,369.4 million at the end of last year.
Amounts due to central banks came to 39.0 billion, and include TLTRO III long-term refinancing operations with the European Central Bank for a nominal value of 39.2 billion.
If net exposures towards central banks are not considered (in reality linked to the minimum reserve), the net interbank balance towards other banks is negative, and amounts to -4,802.6 million (-3,375.8 million as at 31 December of last year).

It should also be noted that, as established by the 7th update of Circular no. 262 of the Bank of Italy, from 31 December 2021, demand loans to banks are recorded in the Reclassified consolidated balance sheet item Cash and cash equivalents instead of in Loans to banks at amortised cost. The figures for the previous year have been restated to provide a like-for-like comparison.

Interests in associates and joint ventures

Interests in companies subject to significant influence as at 31 December 2021 amounted to 1,794.1 million, compared with 1,664.8 million as at 31 December 2020.

The increase recorded in the year of 129.3 million, included the effects resulting from the measurement at equity of interests in associated companies; in detail it encompassed:

- the portions pertaining to the results recorded by investee companies during the year totalling +231.9 million;
- the effects of the reduction in the equity, following the distribution of dividends of Agos Ducato (-47.6 million), Anima Holding (-15.7 million), Vera Assicurazioni (-3.9 million), Bipiemme Vita (-3.1 million), Gardant Liberty Servicing (-2.1 million) and Etica SGR (-1.1 million);
- the net changes pertaining to the Group of valuation reserves and other reserves of associates (-10.2 million);
- the impairment made on the interest held in Factorit (-18.7 million).

It should also be noted that in July a 5% share in HI-MTF held by Banca Akros was sold.

Property, plant and equipment

(thousands of euro)	31/12/2021	31/12/2020	Abs. Change	% Change
Property, plant and equipment used in operations	**2,172,466**	**2,392,442**	**(219,976)**	**(9.2%)**
- at cost	795,374	894,659	(99,285)	(11.1%)
- at fair value	1,377,092	1,497,783	(120,691)	(8.1%)
Property, plant and equipment held for investment purposes	**1,105,779**	**1,160,040**	**(54,261)**	**(4.7%)**
- at fair value	1,105,779	1,160,040	(54,261)	(4.7%)
Total property, plant and equipment (item 90)	**3,278,245**	**3,552,482**	**(274,237)**	**(7.7%)**
Property, plant and equipment held for sale (item 120)	106,028	61,449	44,579	72.5%
Total property, plant and equipment	**3,384,273**	**3,613,931**	**(229,658)**	**(6.4%)**

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

Property, plant and equipment used in operations *(thousands of euro)*	At cost	At fair value	31/12/2021	31/12/2020
Owned assets	**87,001**	**1,377,092**	**1,464,093**	**1,598,649**
- land	-	1,004,302	1,004,302	1,101,844
- buildings	-	322,690	322,690	345,839
- other	87,001	50,100	137,101	150,966
Rights of use acquired through leases	**708,373**	**-**	**708,373**	**793,793**
- buildings	698,160	-	698,160	781,132
- other	10,213	-	10,213	12,661
Total	**795,374**	**1,377,092**	**2,172,466**	**2,392,442**

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	31/12/2021	31/12/2020
Owned assets	**-**	**1,105,779**	**1,105,779**	**1,160,040**
- land	-	791,671	791,671	829,624
- buildings	-	314,108	314,108	330,416
Total	**-**	**1,105,779**	**1,105,779**	**1,160,040**

As at 31 December 2021, the total property, plant and equipment held by the Group amounted to 3,384.3 million (3,613.9 million last 31 December) and included assets held for sale of 106.0 million (61.4 million as at 31 December 2020), referring to properties for which sales agreements were defined.

The fair value measurement of properties as at 31 December 2021 entailed the recognition of losses of 141.6 million, of which 106.0 million referred to owned properties acquired as part of credit collection activities (so-called "foreclosed assets").

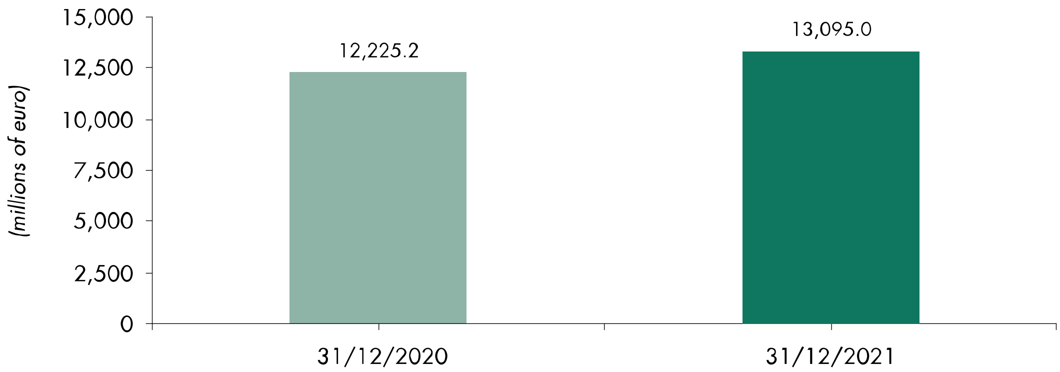
Liability provisions

As at 31 December, liability provisions amounted to 1,196.9 million (1,415.5 million last 31 December) and included the provisions for employee severance pay of 320.3 million (369.5 million at the end of last year), pension funds of 124.9 million (133.7 million as at 31 December 2020), allocations against commitments and guarantees given of 131.1 million (127.4 million at the end of the previous year) and other provisions of 620.7 million (784.9 million at the end of 2020).
These latter included provisions for personnel expenses of 382.6 million (450.7 million as at 31 December 2020), mainly related to the charges envisaged for the use of the extraordinary provisions of the Solidarity Funds and for early retirement incentives, and provisions for legal and tax disputes of 99.4 million (109.5 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

Consolidated shareholders' equity



The Group's consolidated shareholders' equity as at 31 December 2021, including equity instruments, valuation reserves and profit for the year, amounted to 13,095.0 million, compared to the figure at the end of 2020 of 12,225.2 million.
The increase of 869.7 million is due to the issue of 400 million nominal Additional Tier 1 instruments in January 2021, recognised under item "140. Equity instruments" for 397.4 million (equal to the price collected, less the transaction costs), and from the contribution of the comprehensive income recorded in the year. The latter is positive by 600.1 million due to the net profit for the year of 569.1 million and the positive change in valuation reserves of 31.0 million.
Furthermore, there was a total of 127.8 million in other negative changes, referring primarily to the extraordinary distribution of dividends for 90.5 million, the payment of coupons on Additional Tier 1 instruments for 46.2 million and to other changes in reserves.

The following table shows the breakdown of valuation reserves:

(thousands of euro)	31/12/2021	31/12/2020
Financial assets measured at fair value through other comprehensive income	66,536	139,259
Property, plant and equipment	375,335	246,926
Foreign investment hedges	(603)	199
Cash flow hedges	(16,416)	(4,287)
Exchange rate differences	13,998	11,860
Financial liabilities designated at fair value through profit and loss (changes to its own credit risk)	(5,609)	(8,608)
Actuarial gains/(losses) on defined benefit pension plans	(100,693)	(95,176)
Share of valuation reserves related to interests in associates and joint ventures carried at equity	6,498	17,925
Special revaluation laws	2,314	2,314
Total	**341,360**	**310,412**

Valuation reserves as at 31 December 2021 were positive and amounted to 341.4 million, compared with the positive figure of 310.4 million as at 31 December 2020. The most significant change was seen in the reserves on Financial assets measured at fair value through other comprehensive income, which recorded a negative change of 72.7 million referring mainly to reserves on Italian and foreign government securities of 71.2 million and in the reserve relating to property, plant and equipment, which recorded an increase of 128.4 million against 2020, mainly due to the effect (121.2 million) resulting from the release of deferred tax liabilities as a balancing entry of shareholders' equity following the alignment of the tax values of property, plant and equipment to their book values.

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 31/12/2021 as per the Parent Company's financial statements	**12,865,252**	**415,794**
Impact of the valuation at equity of associated companies	261,989	231,940
Cancellation of dividends received during the year by associated companies	-	(73,435)
Other consolidation adjustments	(32,290)	(5,231)
Balance as at 31/12/2021 as per the consolidated financial statements	**13,094,951**	**569,068**

Solvency ratios - reference legislation and standards to follow

The minimum capital requirements for 2021 are:

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

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

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

On 11 December 2019 the European Central Bank (ECB) notified Banco BPM of its final decision regarding the minimum capital ratios that Banco BPM is required to meet on an ongoing basis, starting from 2020.
The decision is based on the supervisory review and evaluation process (SREP) conducted in compliance with Article 4(1)(f) of Regulation (EU) no. 1024/2013.
In compliance with Article 16 (2) (a) of the Regulation no. 1024/2013, which confers on the ECB the power to require supervised banks to hold own funds in excess of the minimum capital requirements laid down by current regulations, the requirement to be added to the requirements highlighted above was 2.25%.

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

On 2 February 2022, the European Central Bank (ECB) notified Banco BPM of the SREP decision for 2022, maintaining the percentage to be added to minimum capital requirements unchanged at 2.25%.

Therefore, also considering the countercyclical capital buffer as at 31 December 2021 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 2022, both at phased-in and fully-phased level, until a new communication is issued, are as follows[1]:

- CET1 ratio: 8.519%;
- Tier 1 ratio: 10.441%;
- Total Capital ratio: 13.003%.

Banco BPM exercised the option for the full application of the transitory arrangements envisaged by Article 473a of Regulation EU 575/2013, which mitigates over time the impact on own funds resulting from the application of the new impairment model introduced by accounting standard IFRS 9. The above-cited transitional arrangements envisage the option of including a positive transitional component in Common Equity Tier 1 equivalent to a percentage of the increase made in provisions for expected credit losses as a result of applying IFRS 9. Said percentage decreases over time over a timeframe of five years, as indicated below:

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

From 1 January 2023 the impact from the first-time adoption of IFRS 9 will be fully recognised in the calculation of own funds. Without prejudice to the impacts expected from the transitional regime mentioned above, Banco BPM does not benefit from any impact on Common Equity Tier 1 capital due to the new transitional regime set out by the amendments made by Regulation 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". The capital ratios called "IFRS9 phased-in" instead are calculated based on the above-mentioned transitional provisions.

As at 31 December 2021, also including the profit (loss) for the year, and considering the proposed distribution of a dividend of 19 cents per share and the other allocations of the profit that will be submitted to the Shareholders' Meeting, the phased-in Common Equity Tier 1 ratio comes to 14.7% compared to 14.6% as at 31 December 2020.
The phased-in ratio benefits from exercise of the option for full application of the transitional rules introduced with the new Art. 473a of Regulation (EU) no. 575/2013, which dilutes over time the impact on own funds deriving from application of the new impairment model introduced by the accounting standard IFRS 9. Excluding the impacts of the aforementioned transitional rules, the fully phased IFRS 9 CET 1 ratio stood at 13.4%, up compared to the figure of 13.3% as at 31 December 2021.

[1] These requirements are set as follows:

- the Pillar 1 minimum requirement equal to 8% (of which 4.5% CET 1, 1.5% in terms of AT1 and 2% in terms of AT2);
- the P2R requirement communicated by the ECB equal to 2.25% to be met by CET1 (56.25%) and TIER1 (75%);
- a capital conservation buffer equal to 2.50%, to be entirely met by CET1;
- the O-SII buffer equal to 0.25% to be met entirely by CET1;
- the countercyclical capital buffer equal to 0.003% to be met entirely with CET1 capital.

The phased-in Tier 1 ratio was equal to 16.5% compared to 15.8% as at 31 December 2020, while the Total Capital ratio was equal to 19.6% compared to 18.7% as at 31 December 2020.

The fully-phased Tier 1 ratio was 15.1% (14.3% as at 31 December 2020); the Total Capital ratio came to 18.2%, compared to 17.2% as at 31 December 2021.

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[2]. As at 31 December 2021, Banco BPM Group had a consolidated LCR equal to 209%.

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 2021 came to 5.92%, 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 5.44%.

[2] 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. In that view, also to improve the representation of the Group's profitability, operating segments that are below the quantitative thresholds put forward in paragraph 13 of IFRS 8 are also highlighted.

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

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

The 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 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.[1]
It should also be noted that the Investment Banking operating segment also encompasses the contribution of the subsidiary Oaklins Italy S.r.l., acquired by Banca Akros in May 2021.

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

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

[1] Incorporated into the Parent Company on 21 February 2022, with accounting and tax effect from 1 January 2022.

- 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 2021 compared with those as at 31 December 2020.

Note that the figures of the previous year have been restated as compared to those published in the 2020 Annual Report, as a result of the reallocation of several customers among the various business lines, made on the basis of sales logic to achieve profiling that better reflects the characteristics of customers.

	Group	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Operating income									
2021	**4,510,746**	2,526,565	738,040	96,888	97,559	111,794	224,689	5,881	709,330
2020 (*)	**4,151,817**	2,237,380	701,533	99,868	90,771	125,444	131,279	21,004	744,538
Operating expenses									
2021	**(2,515,775)**	(1,901,966)	(199,363)	(41,907)	(75,285)	(91,922)	(2,646)	(31,817)	(170,869)
2020 (*)	**(2,430,067)**	(1,843,966)	(156,707)	(37,801)	(73,138)	(84,591)	(2,566)	(33,831)	(197,467)
Profit (loss) from operations									
2021	**1,994,971**	624,599	538,677	54,981	22,274	19,872	222,043	(25,936)	538,461
2020 (*)	**1,721,750**	393,414	544,826	62,067	17,633	40,853	128,713	(12,827)	547,071
Profit (loss) for the year									
2021	**569,068**	18,178	85,743	21,417	11,268	10,654	205,857	(125,982)	341,933
2020 (*)	**20,880**	(330,064)	3,343	20,104	3,922	24,212	132,295	(91,010)	258,078
Net loans (including senior securities from sales of non-performing loans)									
2021	**109,383,382**	61,625,508	29,936,846	6,488,818	428,751	1,963,699	-	1,367,926	7,571,834
2020 (*)	**109,334,985**	58,868,234	31,563,990	6,537,033	335,172	695,414	-	1,639,209	9,695,934
Direct funding (without repurchase agreements with certificates)									
2021	**123,168,045**	84,398,631	10,136,351	10,926,181	2,935,264	2,663,969	-	4,507	12,103,142
2020 (*)	**120,141,065**	79,507,051	11,490,306	9,956,785	2,983,412	3,584,917	-	6,669	12,611,925

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the profiling criteria used for 2021.

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									
2021	**4,510,746**	2,526,565	738,040	96,888	97,559	111,794	224,689	5,881	709,330
2020	**4,151,817**	2,254,223	693,040	99,932	90,912	125,444	132,255	21,434	734,577
Operating expenses									
2021	**(2,515,775)**	(1,901,966)	(199,363)	(41,907)	(75,285)	(91,922)	(2,646)	(31,817)	(170,869)
2020	**(2,430,067)**	(1,843,966)	(156,707)	(37,801)	(73,138)	(84,591)	(2,566)	(33,050)	(198,248)
Profit (loss) from operations									
2021	**1,994,971**	624,599	538,677	54,981	22,274	19,872	222,043	(25,936)	538,461
2020	**1,721,750**	410,257	536,333	62,131	17,774	40,853	129,689	(11,616)	536,329
Profit (loss) for the year									
2021	**569,068**	18,178	85,743	21,417	11,268	10,654	205,857	(125,982)	341,933
2020	**20,880**	(319,352)	2,023	17,107	4,025	24,212	113,872	(90,626)	269,619
Net loans (including senior securities from sales of non-performing loans)									
2021	**109,383,382**	61,625,508	29,936,846	6,488,818	428,751	1,963,699	-	1,367,926	7,571,834
2020	**109,334,985**	58,679,546	30,952,448	6,498,443	335,172	694,825	-	1,639,209	10,535,342
Direct funding (without repurchase agreements with certificates)									
2021	**123,168,045**	84,398,631	10,136,351	10,926,181	2,935,264	2,663,969	-	4,507	12,103,142
2020	**120,141,065**	79,521,550	11,475,745	9,956,749	2,983,412	3,584,917	-	6,669	12,612,023

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

	2021	2020 (*)	absolute change	% change
Net interest income	1,041,503	921,288	120,215	13.0%
Financial margin	**1,041,503**	**921,288**	**120,215**	**13.0%**
Net fee and commission income	1,475,885	1,292,761	183,124	14.2%
Other net operating income	5,167	9,238	(4,071)	(44.1%)
Net financial result	4,010	14,093	(10,083)	(71.5%)
Other operating income	**1,485,062**	**1,316,092**	**168,970**	**12.8%**
Operating income	**2,526,565**	**2,237,380**	**289,185**	**12.9%**
Personnel expenses	(1,069,629)	(1,012,069)	(57,560)	5.7%
Other administrative expenses	(722,089)	(703,243)	(18,846)	2.7%
Net value adjustments to property, plant and equipment and intangible assets	(110,248)	(128,654)	18,406	(14.3%)
Operating expenses	**(1,901,966)**	**(1,843,966)**	**(58,000)**	**3.1%**
Profit (loss) from operations	**624,599**	**393,414**	**231,185**	**58.8%**
Net adjustments to loans to customers	(438,667)	(685,375)	246,708	(36.0%)
Net provisions for risks and charges	(14,978)	(7,533)	(7,445)	98.8%
Profit (loss) before tax from continuing operations	**170,954**	**(299,494)**	**470,448**	
Taxation charge related to profit or loss from continuing operations	(61,690)	82,361	(144,051)	
Profit (loss) after tax from continuing operations	**109,264**	**(217,133)**	**326,397**	
Charges related to company restructuring, net of taxes	-	(123,265)	123,265	
Charges related to the banking system, net of taxes	(92,946)	(89,604)	(3,342)	3.7%
Impact of the realignment of tax values to book values	29,967	126,124	(96,157)	(76.2%)
Purchase Price Allocation net of taxes (**)	(28,107)	(26,186)	(1,921)	7.3%
Parent Company's profit (loss) for the year	**18,178**	**(330,064)**	**348,242**	

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the profiling criteria used for 2021.
(**) PPA relating to receivables and client relationships, net of related tax effects.

Economic performance of the segment

Total operating income amounted to 2,526.6 million, up by 12.9% on the previous year. Within this aggregate, net interest income improved by 120.2 million, given the allocation to the Commercial Network and in particular to the Retail segment, of part of the benefit generated by the TLTRO III, partly reduced by the impact of the so-called liquidity buffer cost, namely the share of the cost allocated to the Network due to the Group's need to hold a liquidity buffer to cover unexpected cash outflows. Despite a decrease in the spread of loans in the short-term segment, the increase is due to the positive impact of funding, the non-restricted component of which showed a substantial improvement.
Net fee and commission income, corresponding to 1,475.9 million, recorded an increase (+183.1 million), both as regards investment products (+57.6 million), and indirect funding (+42.4 million); increases were also recorded by current accounts and deposits (+52.7 million) and Transactional Bank services (+31 million).
Other net operating income was down, due to a fall in fast track fees (*commissioni di istruttoria veloce*); the net financial result also decreased, relating to hedge products placed and to the issue of Certificates.
Operating expenses, amounting to 1,902.0 million, recorded an increase of 58.0 million: within said aggregate, the increase in personnel expenses and in other administrative expenses was partly offset by a reduction of value adjustments.
Net adjustments to loans to customers fell to 438.7 million (compared to 685.4 million recorded in 2020), benefiting from the lower risk of the portfolio, also linked to the reduction of the stock of non-performing loans.
Allocations to provisions for risks and charges amounted to 15.0 million compared to 7.5 million recorded last year, and refer to clawbacks and legal disputes.
Net banking industry charges amounted to 92.9 million (against 89.6 million last year).
The positive impact resulting from exercising the option to realign tax values to book values for property, plant and equipment used in operations was recognised under the item of the same name and amounted to 30.0 million.
Instead, the contribution of the PPA (Price Purchase Allocation) of -28.1 million.
Due to the above, the Retail segment closed 2021 with a profit of 18.2 million.

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

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

Private Customers

Introduction

2021 saw an increase in the opportunities for interaction between the Bank and Customer: in particular digital identity and the offer of online products and services.
The creation of digital identities means that the Bank can enable customers to sign contracts digitally, therefore eliminating paper and ensuring that transactions are secure right from the start.
Therefore, the online offer process enables customers to have the bank close to hand in complete safety, as transactions are controlled remotely.
In addition, the development and implementation of the digital platforms (public websites, YouWeb, YouBusinessWeb, YouApp, YouBusinessApp) have continued, which has enabled customers to always be up to date as regards the emergency situation.

Private Customers

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

In December 2021, Private customers broke down as follows:

Segment	no. of customers with current account	% of customers with current account
Universal	2,663,492	80.3%
Personal	606,178	18.3%
Other Retail segments	48,509	1.4%
Total Retail customers with a current account (including card accounts)	**3,318,179**	**100.0%**

Products, services and loans for private Retail customers

Current accounts

During 2021, Banco BPM updated the range of current accounts offered to the Consumer target through the marketing of the new Conto You (You Account).
Conto You is aimed at customers with an omnichannel profile, willing to use online services, but also interested in the network's advisory service. The account can be opened both at a Branch or online, through a dedicated onboarding process, which is self-managed and paperless.
The account is part of a fully omnichannel approach, and therefore is an interesting opportunity both in terms of acquiring new current account holders, and of the customer's experience in using it, and updates the catalogue of products and services with regard to the spread of digital services.
Conto You has been enhanced with new features, such as the online renewal of ATM (Azienda Trasporti Milano) subscriptions and the MyBank service, extending the range of services available to customers.
Conto You is convenient for young people as there is no annual fee, and discounted fees are envisaged for employees and pensioners.
With a view to encouraging the acquisition of customers in the latter part of the year, an advertising campaign was launched for this new product.
Close collaboration with the commercial network is always very intense and enables support to be provided through training sessions/specific 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 - continued in 2021. Work to develop and manage content continued, focusing in particular on topics relating to the financial education found in the magazine area, which led to the production of over 120 articles, as well as the continuous update of communications relating to the health emergency. In parallel to the above, also the updates to align the management of technical cookies and of profiling to the Privacy Authority provisions were completed during the year, in compliance with the deadlines dictated by law. In February, in order to highlight the Bank's proximity to the local community, a new section of products was created for third sector companies, that can be directly accessed from the home page of Banco BPM's commercial website. The usage figures for the public websites recorded an increase in visitors of 37% compared to last year. At the end of the year, the integration of the CRM platforms with the architecture of the public websites was completed. This development will enable the browsing experience of users that have stated their consent, to be personalised, featuring purchase paths that are increasingly in line with the characteristics and needs identified.
Based on the positive and consolidated experience of this ecosystem, a workshop was opened at Banco BPM which, by borrowing the same technologies and architecture, resulted in the renewal of the Banca Akros (www.bancaakros.it) website, with its new look online from June.

Transfer of tax credit originating from Ecobonus and Superbonus schemes - private customers

Also in 2021, private customers, as well as businesses and condominiums again had the opportunity to transfer tax credit originating from work to improve the energy efficiency of buildings (Ecobonus and Superbonus). The tax credit transfer transaction is offered through the platform in partnership with Cherry 106 – Banco delle Tre Venezie. During 2021, over 13,000 applications were received from private customers, while the distribution of the applications saw a share of 20% for the Superbonus scheme and 80% relating to other tax bonuses.

In this regard, note that on 27 January 2022, Italian Decree Law no. 4 "Urgent measures regarding support to businesses and economic operators for labour, health and territorial services, related to the Covid-19 emergency, as well as to contain the effects of price increases in the electricity sector" - so-called "DL Sostegni Ter" [DL Support 3].
Article 28 "Measures to counter fraud in the sector of tax and economic subsidies" envisaged, with reference to Italian Decree Law no. 34 of 19 May 2020, converted, with amendments, into Italian Law no. 77 of 17 July 2020, so-called "Relaunch Decree", which from 7 February 2022, stated that there would no longer be the option for multiple sales of the tax credits accrued relating to Superbonus 110 and Other Construction Tax Bonuses (which included, for example, the Renovation Bonus, Facades Bonus, etc.).
The introduction of the limit of a single transfer of tax credit temporarily suspended the "indirect" operating business model adopted by the Bank for Retail customers relating to the purchase of tax credit. This model, activated through the Distribution Agreement" signed in 2020 with Cherry 106 (now B.T.V. S.p.A.), envisaged the purchase by the bank, through Cherry 106, of the "Superbonus" tax credits and "Other Tax Credits" relating to private customers, condominiums and businesses.
On 25 February 2022, Italian Decree Law 13/2022 "Measures to counter fraud in construction and on the electricity produced by plants from renewable sources" was published in the Official Gazette (so-called "Anti-Fraud Decree"), which in Article 1, amended Art. 28 of the previous "DL Support 3", re-introducing the option for multiple sales of tax credits accrued and relating to Superbonus 110 and Other Construction Tax Bonuses, on condition that they were sold to banks and financial intermediaries.
Therefore, the reason that had originally suspended the application of the "indirect" operating model adopted by the Bank was no longer valid, thus allowing Cherry 106 to resume with the purchase of tax credits relating to documentation already contractualised and to finalise transactions that had been suspended due to the operating block cited above. The new legislative context also permits the purchase of new tax credits within the assigned ceiling.

The cited Decree also extended the suspension of payments of instalments of mortgage loans and loans, relating to urgent work for the population hit by seismic events that occurred in 2016 in Central Italy to 31 December 2022, restricted to economic and production activities. For private customers, the suspension is envisaged for mortgage loans relating to the main place of residence, which is unusable or was destroyed, located in the "red area".

Omnichannel services

During the course of 2021, efforts continued to develop the range of digital products and services addressed to private and business customers.

In 2021, projects relating to platforms dedicated to private customers focused on completing the roll-out plan of the services "enabling" online transactions, which started in 2020, and from March 2021, the new Digital Identity Contract has been available for the entire Banco BPM network.

The Digital Identity regulates, harmonises and integrates the online services, the Digital signature and the graphometric signature, and is offered both for "new activations" and for those already subscribed to online services, reaching around 380 thousand subscriptions by the end of the year.
It represents a fundamental element to be able to work in paperless and digital mode, at the branch or through the online channels, and is required to access the new online Offer process, by means of a virtual room in which documents are exchanged and signed, accessed from the web.

The "Signature Room" is a feature that enables a sales proposal to be made through the Online Offer channel, and allows the Bank to forge new and effective dialogue with its customers which, by adopting a web collaboration approach and through the use of the digital signature, can execute contracts for products/services.
The "Signature Room" plays an increasingly central role in interactions with customers, therefore the development will soon be extended to the app and to Business customers.

From September 2021, the online financial advisory service has been available, which enables customers to see and sign proposals for financial advice directly through the web platform by signing digitally.
In line with the development of the digital service model defined in the Business Plan, in 2022, the Online Offer will be progressively extended, offering an increasingly higher number of products and services, such as the Nexi Credit Card and the Agos Loan.

During 2021, the new Onboarding You was completed, addressed to private customers who intend to open a Banco BPM current account at a local branch. From the website published by the bank, the customer accesses the new onboarding digital process to open a Conto You and has the option of requesting a debit card. The Conto You also envisages creating a digital identity.
The process can be carried out independently and has four macro steps in order to permit the online current account contract to be signed digitally:

- management of personal data and uploading documents;
- request Digital Identity;
- choose branch and request Conto You;
- request debit card (optional).

One of the new features is the upload of documents using the OCR (Optical Character Recognition) service, which, through specific algorithms is able to identify the components that represent text from inside an image.

In 2021, in addition to the integration of the online ATM channel with the CRM, a new feature was released for customers, which gives them the option of changing the predefined mobile phone number of You or Webank services through an ATM. Instead, customers who do not have Internet banking services can add a new mobile phone number, which the Bank can use for any communications.

From a legislative perspective, the PSD2 required the introduction of Strong Customer Authentication, also for online payments with payment cards, to increase the safety of electronic payments and reduce the risk of fraud (article 97), 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.
In 2021, projects were launched for the transition of payment services to 3DS, as required by law. In June 2020, 49% of K card customers possessed a compliant token. 12 months later, thanks to action taken in the field, this percentage has risen to 81%. The percentage of customers who make online transactions has reached 92%.

With regard to the developments of the digital channels enabled by new European PSD2 legislation, another project was undertaken during the year, which regarded the payment account aggregation service (AISP).
The digital service (which can be used through YouAPP and Webank App), enables private customers with Digital Identities and Remote Digital Signatures (FDR) to see the balance and movements of payment accounts held with other payment service providers. In this way, customers can have an overview of their financial situation, analyse their spending habits and their future financial requirements.

During 2021, the release of the new APP, for private customers, which started in 2020, was completed. The APP has been continuously developed from a Mobile First perspective, and its use by customers has recorded a continuous increase. The main features released include:

- sale of the Amex card in self mode (also available on Web);
- privacy dashboard and management of commercial contacts;
- improvement of virtual and voice assistance;
- mortgage loan simulator, which envisages an appointment in the branch for You customers and sending a request to the Virtual Branch for Webank customers;
- Call Me Back feature to be phoned by the Contact Centre;
- subscription to Remote Digital Signature for Webank customers during the AISP request process.

Again in 2021, the web platforms were made more efficient through a revision of existing features, an update of the insurance product (Cattolica and Covèa) and loan product (mortgage loans for young people) catalogue, and the release of new tools and services, such as, for example, the sale, in self mode, of Amex cards, the sale of the BPM Mp5 policy though an online offer and the option to display personal policy portfolios.

In 2021, the projects developed on the platforms for private customers as regards trading and investments were focused on:

- completing the process of making the channels more efficient through the Technological Convergence of the trading and investment services. This activity, completed in October 2021, has extended the work performed on front-end services, concluded in 2020, to back-end services, by completing the construction of an infrastructure that maximises synergies between the WeBank and YouWeb services, to exploit the significant benefits in terms of the optimisation of developments and maintenance, as well as reducing costs;
- launch of the project to migrate the trading of derivatives listed on regulated markets through the Webank channel from Intesa San Paolo to Banca Akros.

During the second half of 2021, the first markets were migrated to the group trader (in July Euronext - LIFFE, in November IDEM); the project will be completed during the course of the first quarter of 2022 with the migration of EUREX and CME Globex markets.

This project to insource all trading transactions made by customers through online trading into Banco BPM Group, maintaining external brokerage services just as a back-up, will enable group synergies to be optimised, generating substantial benefits in terms of cutting costs, improving the service provided to customers and increasing Banca Akros' market share in the third party trading segment.

During 2021, the activities dedicated to Banca Aletti, which began at the end of 2020 with the release of the new App, intensified. More specifically, the focus areas were as following:

- personalisation and improvement of the experience of using Web and App channels by Banca Aletti's customers, which now benefits from a logo, identifying colours, specific features of the services made available by Banca Aletti, dedicated catalogue of funds and SICAVs;
- introduction of new profiled information sections for Banca Aletti customers, such as menus dedicated to "Cards" (App and Web) and to the world of "Insurance" (Web);
- the opportunity to use the Web Advisory service from the App, enabling customers to browse the advisory proposals provided through the Web Advisory service in responsive mode.

With regard to business customers, the main projects undertaken in 2021 are illustrated below:

- in the last quarter of the year, the new App called "YouBusiness App" was released, an application for smartphones and tablets entirely dedicated to the Business world. The project was designed on the basis of the main requirements stated by customers, and for this reason, the application has been configured by

including the transactions that are most used on the Web platform in it. YouBusiness App also represents a new channel for customer contact, therefore becoming an important component of the bank's omnichannel asset. The next objectives are to increase the number of mobile transactions available on the YouBusiness App and to migrate customers to the token app, therefore optimising the customer's user experience, cutting business costs and improving the bank's ESG rating;
- the increase in online transactions thanks to the enabling service of the "signature room" for business customers. This activity, which is nearing completion, will enjoy full application in 2022, facilitating the digital transformation of commercial processes in the branch and on the online channels;
- the development of the Smart Lending service, which now features the full digitalisation of the loan application process, with the objective of achieving the online signature of loan agreements online (fully digital) in 2022;
- the process of optimising the web channel which, thanks to constantly listening to customers through surveys and requests to the Contact Centre, has led to a further improvement in the services offered, in particular F24, salary payments, payment and collection results, request for advances in invoices.

Furthermore, efforts to achieve alignment with ICB (Interbank Corporate Banking) standards continue, such as the development of XML Statements for ICB debit connections and Financial Monitoring.

With regard to business customers, at the end of the year, another important development was introduced: the BFM (Business Financial Management) service, which is offered to all customers with access to the YouBusiness Web platform, and is a useful tool which enables customers to use important new features such as:
- categorisation of transactions;
- automatic invoice reconciliation;
- forecasting of future income and expenses (through a graph);
- management of recurring transactions and of budgets assigned to company projects.

Through the BFM service, businesses, particularly small ones, can manage company cash flows independently, therefore freeing up resources and time for higher added value activities.

In 2021, 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 it increasingly central to relations between the Bank and Customer.

The table below outlines the trend for customers with omnichannel services:

Product/Service	End of 2021 figures	End of 2020 figures	% Change
No. of Customers with the Home Banking service	2,032,457	1,984,599	+ 2.41%
No. of Customers with Digital Identity	386,659	2,996	not indicated
No. of Customers with Telephone Banking	1,963,091	1,899,869	+ 3.33%
No. of Pure digital Customers (WeBank)	250,886	250,715	not indicated

% Customers making transactions	End of 2021 figures	End of 2020 figures	% Change
% Customers making online transactions against total customers making transactions	52.6%	49.3%	+ 3.30%
% Customers making mobile transactions against total customers making online transactions	68.0%	60.3%	+7.70%

Contact Centre

During 2021, the Customer Support and Development department further consolidated its collaboration with the Network channel.
More specifically, with regard to the Super Bonus 110 service, it developed and fully managed a customer assistance and relations service, which proved to be extremely important to the success of the project. The interest

demonstrated by the various customer segments within the scope (private customers, businesses and condominiums) in the new Service and the deadlines dictated by the law, led to a progressive and steady rise in contact volumes.

In line with the objectives stated in the 2021/2024 Business Plan, with regard to business development, efforts to support cross-selling in various business areas were further boosted, in synergy with the Omnichannel Customer Journey.
Again with a view to working with the Network, the Customer Support and Development department extended its reach by adopting a proactive approach and contacting customers selected by the Customer Journeys to set an appointment at the branch: during 2021, the percentage of Retail and Private customers contacted by the department for commercial and care purposes more than doubled with respect to 2020.
Furthermore, in order to encourage customer digitalisation, mostly in the Retail segment, in the latter part of the year, new and impressive outbound telephone schemes were identified.

Within the scope of providing customer support, this was actively managed both through traditional telephone channels (toll-free numbers with operator and Interactive Voice Response - IVR, new call-back service available in the App and website for a customer bracket) and written channels (email messages) as well as through a virtual assistant (web and mobile) and social media channels; the main areas of operations, in addition to the Superbonus 110, were as follows, in continuity with 2020:

- 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 only communication channel between the bank and the customer);
- support to private WeBank and Banco BPM customers on topics relating to cards.

E-Money - Payment cards

During 2021, Banco BPM innovated its set of Debit and Prepaid Cards, by equipping them with a Token feature and enabling the Digitalisation of its own Payment Cards in the main Digital Wallets: Samsung Pay, Google Pay, Garmin Pay, Fitbit Pay and Xiaomi Pay.
Our Bank, which has always focused on innovating the services offered to its Customers, has entered into agreements with Third Parties (OTT), providers of specific payment applications, which make it possible to manage the Digital Wallet in which the card can be registered in virtual format, and used through enabled mobile instruments such as Smartphones, Smartwatches and wearables.
The Digitalisation of Payment Cards enables the Cardholder to use his/her Mobile Device to perform Payment Transactions through the Digital Wallet at POS equipped with NFC technology, on Websites or on e-trade Applications of authorised Merchants, who display the logos of the payment circuits indicated on the Card.
Banco BPM was one of the first banks in Italy to enable the digitalisation of the National component (PagoBANCOMAT), as well as the International one (Maestro), for co-badged Debit cards, permitting its customers that use Samsung Pay to be able to choose which circuit to make payments from, also digitally.
During the year, customers showed considerable willingness as regards digital services and the use of electronic payments: people that have traditionally been distrustful of cashless services for years have now changed their minds after having to use them in the pandemic emergency; the measures implemented by the legislator were also fundamental, increasingly oriented towards promoting means of payment other than cash.
To seize this opportunity, Banco BPM innovated its products to meet the requests of its customers, not just through the Digital Wallets of the main OTT providers for payments with Digitalised Cards, as well as through BANCOMAT Pay® for money transfers between individuals and for payments through Mobile phone numbers.
BANCOMAT Pay® is a digital means of payment which allows you to pay at all affiliated merchants, on e-commerce and mobile-commerce websites and to send or receive money in real time 7 days a week, 24 hours a day, without knowing the IBAN of the beneficiary but with the mobile phone number, directly debiting or crediting your current account instantly.
In 2022, Banco BPM will continue along the path of Digital Innovation, by making Apple Pay available in the first few months of the year and completing the digitalisation process by also enabling Cartimpronta Credit cards.

Private mortgage loans

The effects of the pandemic that broke out in 2020 were also partly carried through into 2021. Nevertheless, in 2021, a noticeable increase in loan disbursement volumes was recorded. The final figure, just over 4 billion, recorded an increase of around 30% compared to the previous year.
Banco BPM's efforts in this area continued in 2021, entailing the streamlining of the range of products and services sold through direct channels and by commercial partners, maintaining its benchmark status among the major national competitors. The catalogue of products and services was extended with the launch of "Green Mortgage Loans" with a view to encouraging the energy efficiency of buildings. Furthermore, given the market's increasing focus on the target of young people, again as regards Green products, a version called "Young People's Mortgage Loan" was released, guaranteed by the presence of the CONSAP First Home Guarantee Fund.
In 2021, the Bank also confirmed its commitment to maintaining and pursuing measures to support 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.
As in previous years, also in 2021, Banco BPM immediately applied all of the legislative moratoria offered by the Government, adding its own schemes to these entailing the complementary suspension of household mortgages and loans. Overall the moratoria granted to private customers in 2021 regarded just over 10,700 loans.

Consumer credit

In 2021, new personal loans disbursed amounted to 970 million, returning close the pre-Covid-19 levels. Almost all of the personal loans were disbursed by Agos Ducato, a consumer credit company, whose products are distributed exclusively by Banco BPM. Furthermore, in the first half of the year, personal loans continued to be sold online, to meet the needs of private customers who were unable to come to a branch to start the loan application process.
With the intention of maintaining its focus on the segment of Young people, Banco BPM extended the range of products and services offered to this customer target through specific schemes.
In fact, in the latter part of the year, emphasis has been placed on a product called "Prestito Giovani con Garanzia Fondo per il Credito a Giovani" (Young People Loan Guaranteed by the Young People Credit Fund). The loan was targeted at students aged between 18 and 40, who wish to enrol on a series of study courses and benefits from the presence of the guarantee of the "Young People Credit Fund", established by the Government and managed by CONSAP, for 70% of the amount of the loan granted.
Furthermore, in November and December, young people aged under 36 had the opportunity to apply for an Agos personal loan not linked to a specific purpose (or without any obligation on how it should be used) through a dedicated offer, as well as the payment of the first instalment in the following year.
Lastly, to emphasise that it really understands the needs of households and help them during the recovery following the difficult emergency situation, in 2021, 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 2021, considerable efforts were made to promote this product 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 that the bank pays to professionals and the Bodies and Military corps of the Italian state.
Overall, in 2021, 1,700 advances were granted.

Investment products

In 2021, funding volumes for asset management were mainly focused on flexible and share products, characterised by asset diversification.
To ensure the widest range of products, we have continued to work closely with the most prestigious investment houses and one of the group's main partners continues to be Anima SGR.
Banco BPM Group places particular emphasis on ESG criteria, and with this in mind, products that comply with Art. 8 of EU Regulation on Sustainability and Finance were distributed.

In accordance with this, the range of asset management products has been extended with specific ESG products, including the Anima Gender Equality 2026 Multi Asset flexible fund - a product that invests in companies who stand out due to their focus on gender equality - and, the new system of Comunitam Funds, which envisages a structured analysis of ESG factors and the criteria included in the guidelines of the Conferenza Episcopale Italiana (CEI) in the investment process.
In 2021, an alternative closed-end ELTIF investment fund (European Long Term Investment Fund) was placed in collaboration with Anima SGR, called Anima ELTIF Italia 2026, to align the range of products offered and to propose an alternative channel for the funding of long-term projects set in place by SMEs, by enabling them to exploit the tax benefits confirmed by the Relaunch Decree.
In 2021, the Group continued to distribute insurance products through the joint-ventures established with Vera Vita, Vera Financial and with Bipiemme Vita.
In this regard, customers showed a preference for the range of Multi-line policies. These products enabled customers to combine savings protection solutions with solutions able to grasp the best yield opportunities offered by the markets. With regard to insurance investment products, Unit-linked products, through placements in temporary windows, with investments that meet ESG criteria were also offered.
As regards ESG, the commitment of Vera Financial is worth noting, which, with the subscription of the Futuro Sostenibile 2.0 policy, made a donation to plant and grow a tree.
In 2021, the Group continued to issue certificates and, in keeping with customer preferences, the products maintained a financial structure that protects capital (Equity Protection).
The use of various European sector indices as the underlying indices of the certificates (e.g. Eurostoxx Oil&Gas, Eurostoxx Insurance, Eurostoxx Banks, Eurostoxx Utilities) and multiple European and World market stock indices enabled good diversification.

As regards Supplementary pensions, the Group proposed a commercial initiative to promote two dedicated products in the range, the “Arti & Mestieri” pension fund by Anima SGR and the Piano Individuale Pensionistico [Individual Pension Plan] by Vera Vita.

Bancassurance Protection

In 2021, given the continuation of the Covid-19 pandemic, and with a view to pursuing an omnichannel approach also for non-life insurance products, the Bank continued to develop services and products for the online channel.
An online user can consult their policies in the portfolio, that have been issued by the two main insurance partners, BPM Vita Group and Vera companies (both life and non-life), from their online banking profile.
Vera Assicurazioni’s range of online products was extended with the addition of the Legal Protection policy, which previously had only been available at an agency.

To protect the numerous condominiums that exploited the huge state tax incentives to renovate buildings, a policy to cover catastrophic events was created within Vera Assicurazioni’s commercial range.

Given the greater need for health protection products, also due to insecurities generated by the continuation of the pandemic, a newly-conceived modular and full multi-guarantee health policy was created in both commercial ranges.
With a view to rationalising the product catalogue, this new policy replaced some old ones that envisaged similar guarantees.

To provide better consumer protection, and to complete the transposition of the Insurance Distribution Directive (IDD) and the relative IVASS Regulations, in particular Regulation 40/2018, a new IDD questionnaire was created, which further analyses insurance needs, while always checking consistency with the products in the catalogue.
This new feature, which mainly protects the consumer, also helps the manager when the range of non-life products is presented.

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 specific discounts if the policy is purchased independently by the customer online.

Listening to customers

Also in 2021, listening to customers and surveying their satisfaction were of primary importance, both aimed at improving the service provided.
In 2021, the relational Customer Experience, or Customer Satisfaction was conducted, and involved around 187 thousand Retail, Private and SME customers.
In 2021, of the 187 thousand interviews, around 20% were with the CAWI method - Computer Assisted Web Interview (40 thousand), while the remaining 80% were by phone.

Satisfaction is measured using TRI*M, a numeric score ranging from 0 to 100 provided by the assessments that customers provide regarding overall satisfaction, level of recommendation, likelihood of repurchase and economic convenience of Banco BPM. Another indicator used to measure satisfaction is the Net Promoter Score (NPS), which monitors how likely a Customer is to recommend Banco BPM. The Customer Satisfaction surveys also investigate satisfaction with the products, reputation, Branch services, web channels and any problems encountered. With a view to continuously monitoring the level of service perceived by our customers, all results and insights of the satisfaction surveys were published and made available to colleagues in a portal dedicated to the company Intranet. In 2021, all of the satisfaction indicators measured recorded an improvement over the previous year. Banco BPM's TRI*M index is 68 (+1 compared to 2020), while the NPS index is 23 (+3 compared to 2020). To monitor the quality provided, over 2,500 visits were made to Group Branches, using the "Mystery shopping" technique. The visits confirmed a good level of service at branches, with particular regard to the relational aspect.

In 2021, the tools available to actively listen and oversee the Experience as a whole were also further developed. In fact, Banco BPM has continued with the integration of the Customer Feedback Management (CFM) platform, to collect feedback in real time regarding the customer's experience of products, services and processes. Introduced in 2020, to date the Platform has enabled around 160,000 instantaneous feedbacks to be collected within the Group's Digital Services (YouWeb, Webank, YouBusiness Web, YouApp and Webank App) and through Direct Mailing after specific transactions have been completed (e.g. opening a current account, applying for a mortgage, buying and selling securities, taking out policies, etc.).
This feedback has enabled Banco BPM to introduce innovative working processes, aimed at "closing the loop", namely the opportunity, based on the feedback received from customers, to improve and implement products/services or even provide feedback to the customer. For example, in 2021, a pilot was launched for Business customers, which envisaged the Contact Centre recontacting the customer within 48 hours of any feedback received from the YouBusiness Web platform. The initial results show that being recontacted has a positive effect on customers, which leads to better feedback with respect to that previously given.

Research

In addition to the previously mentioned Customer Experience survey, in 2021, around 15 customised Research projects were conducted for the Group, with a view to addressing topics which, during the year, needed to be examined in more depth. More specifically, these projects focused on verifying User Experiences as regards the Group's Digital Platforms, contributing to identifying potential areas for improvement and providing support for the strategy and design of the same. Numerous surveys were also conducted to support Group departments and regarded ESG topics and the development of new products and services and the improvement of existing ones. As well as involving specific customer targets, these surveys also made use of the "Insquadra" [Inteam] Community Panel, which has represented another channel to encourage listening to customers since 2019, and which involves around 2,000 Private customers and 500 Business customers. Customers that participate in Banco BPM research activities contribute to the Group's decision-making process, by providing ideas and sharing experiences and impressions. In addition to the above, whenever Business customers participate in a survey, they contribute to the donations made to the AIRC Foundation (Foundation for Cancer Research), therefore supporting the partnership between our Group and AIRC. In 2021, thanks to the participation of Insquadra, it was also possible to contribute funding for a study grant for young researchers.

Long Term Rental

Within the scope of the commercial partnership with Alphabet (BMW Group), which offers customers the long-term rental of cars and industrial vehicles, from November 2021, customers of Webank and Youweb services had the opportunity to receive an estimate and sign a rental agreement directly online. The innovation enabled both the

visibility of the range of products offered to be considerably increased, and, consequently, the number of commercial network customers interested.
The previously-described features are also due to be released on the APP channel, with a view to capturing the interest of customers who prefer this method of communication with the Bank.

In addition, again completely online, another feature has been added, which enables the customer to request a replacement vehicle whilst awaiting the delivery of the one ordered. In this way, customers can access mobility within 48-72 hours of their request, significantly reducing the waiting times previously recorded.

Business Customers

There were approximately 470 thousand Business customers with a current account as at 31 December 2021, of which:

Segment	no. customers with current account	% compared to total businesses
Small Business Operators	157,028	33.5%
Businesses	140,954	30.1%
Companies	43,403	9.3%
Condominium Associations	82,296	17.6%
Other businesses	44,725	9.5%
Total	**468,406**	**100.0%**

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

Regarding the breakdown of customers by production sector, commercial 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.

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 2021, 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

The proportion represented by the transactional services component in the breakdown of the bank's net income from services is increasingly larger, with an increasingly higher percentage represented by online channels (especially that represented by YouApp) to the detriment of more traditional channels, such as branches.
Both bank transfers (especially "urgent" and "instant" transfers) and payment transactions through the "PagoPA" circuit recorded particularly lively growth trends, the latter boosted by a legislative obligation which, from 1 March 2021, binds Public Administration entities (including investee companies) to adopt this system to manage their collections.
This increase was accompanied both by a series of direct marketing campaigns mainly addressed to customers with a high level of digitalisation, and by a continuous training process on the topic addressed to Network colleagues, also with the involvement of Transactional Product Specialists.

E-money - POS

POS payments are today one of the safest payment methods, as goods and services can be paid for by credit cards, debit cards and cashpoint cards.

For 2021, Banco BPM confirmed all of its merchants' current promotions, both at fixed and mobile terminals, contactless or with tokens in digital wallets, and launched a "Special" promo for online purchases, which have grown exponentially during the time of the Covid emergency.
From 1 January 2021, Banco BPM also decided not to charge any commission for the next 2 years for PagoBancomat transactions of less than 5 euro made with its current and new affiliated merchants, and thanks to the "Bonus POS" scheme of the Legislator, which increased the tax credit on the commission charged for electronic payments made at POS from 30% to 100%, this contributed to increasing the amounts transacted, especially of small merchants and the small business segment.
In operational terms, during the current year, Banco BPM adapted the terminals of its merchants to the new limits for contactless payments without having to enter a PIN, from 25 to 50 euro. A prompt response to market requirements which, worn down by the pandemic, wants simple and infection-free payment instruments.
One of the new schemes that Banco BPM set in motion, in partnership with Nexi, made added-value services available to its merchants, by extending the luncheon vouchers accepted to new Companies and by introducing the commercialisation of the Bancomat Pay® circuit for digital payments at all merchants with e-commerce websites.
Lastly, it laid the foundations for the Innovative Digital Omnichannel Sales project for the online autonomous supply and sale of POS products, which will be made available during the course of next year.

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, unsecured loans.

Given the economic/financial difficulties experienced by Businesses due to the continuation of the state of emergency due to the Covid-19 pandemic, 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.
With a view to proposing operational solutions and financial support schemes to its customers - and at the same time seize the opportunities offered by legislation issued on "tax credit" - the Bank continued to work with Cherry 106 S.p.A. now Banco delle Tre Venezie S.p.A. (hereinafter B.T.V.), distributing tax credit purchase products, operating in full digital mode, and continued to offer - with products designed specifically for this purpose - financial coverage for the time between the start of works on site and their completion (at progress of work or overall) with the consequent monetisation of the tax credit transferred.
In particular:

- "Anticipo Superbonus Consumatori" (Advance of Superbonus to Consumers) designed to offer consumers, Individuals and Condominiums financial coverage for the time between the start of works on site and their completion (at progress of work or overall) with the consequent monetisation of the tax credit transferred to B.T.V.;
- unsecured loans to Condominiums - "Credito Condominio" (Condominium Credit), "Credito Condominio Energy Efficiency Italia" (Condominium Credit Energy Efficiency Italy), envisaging the opportunity to fund building upgrade and energy efficiency costs, also for the part of the works that will be paid for by using the consideration resulting from the transfer of said tax credit to Cherry 106, alongside the existing opportunity to fund the cost of the works up to 100%, including VAT, net of the tax credit sold to the enterprise through "discount on invoice";
- "Anticipo Contratti Riqualificazione Edifici" (Advances on Building Upgrade Contracts), addressed to businesses, through which they can obtain financial coverage for the time between the start of works on site and their completion (at progress of work or overall) with the consequent monetisation of the tax credit transferred to the intermediary, the Bank's commercial partner.

During 2021, work continued on the projects to design accessible financial solutions to support SMEs in their energy transitions and investments in renewable energy systems, relating to the topic of Sustainable Linked Loans.
These new products are part of the larger context of the guidelines and strategies on lending policies adopted by the bank. They are intended to become the main offer that the bank makes available to businesses that want to embark on a virtuous path towards sustainability, with less impact on the environment (Environmental), inclusion policies and supporting the local community (Social) and organisational enhancement (Governance).

The first solution which fulfils the "Sustainability Linked Loan Principles" (SLLP) provided by the Loan Market Association, an international association recognised by the financial markets, regards the "Unsecured Business Loan with ESG Factor".
The product's added value is given by the innovative opportunity offered to the customer to include a "ESG covenant", which enables the pricing performance of the loan to be linked to the company achieving or maintaining measurable sustainability objectives.

Smart Lending

At the beginning of 2021, remote banking "YouBusiness Web" customers were able 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 granting 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), as amended.;
- the suspension of the payments of loan instalments rather than extend Short-Term debts.

Again through the online channel, during 2021, customers were offered short-term loans to be paid in instalments to support business liquidity or to facilitate the payment of taxes/wages.
Furthermore, to improve access to financial services by businesses, an activity plan was launched with a view to extending receivables transactions that they might request through Remote Banking.
With this project, which will be completed over the coming months, business customers will be able to carry out all of the Bank's short-term commercial transactions (both for Italy and Foreign transactions) also online, further simplifying the Bank/Customer relationship in terms of day-to-day operations.

Other activities to support and increase business loans

The Bank has continued its commitment to find ways to support businesses, also considering the continuing emergency situation resulting from the Covid-19 pandemic.
The schemes implemented in 2021 in this regard mostly entailed arrangements required to promptly implement the support measures and subsidies dictated by a series of laws, such as Decree Laws and ABI Agreements.
Specifically, the following were gradually updated and made available:

- loans secured by the Guarantee Fund for Small and Medium Enterprises (pursuant to the "Liquidity" Decree, as amended);
- loans with the SACE for Mid Cap companies (known as the "MidCap SACE guarantee");
- suspension of the payment of mortgage and unsecured loan instalments (pursuant to the "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 and to provide support to the network during the period in which they are contacting and visiting businesses in this sector, it dedicated a team of resources comprised by 15 commercial Agriculture specialists.
During 2021, the performance of this sector was still significantly conditioned by Covid, and focused, above all, on making the Guarantee Fund for SMEs accessible to the whole primary segment.
As regards the Rural Development Programmes (RDP), even within the limitations imposed by the Covid pandemic, in 2021 Banco BPM continued to pursue and support business opportunities resulting from the implementation of the Rural Development Programmes (RDP) envisaged for 2014-2020. In addition, the important commercial scheme called "RDP - We are with you 100%" was confirmed, with a view to offering the financial support for the investments that business intend to make, benefiting from RDP Contributions.
In this regard, we draw attention to the fact that in 2020, the European Parliament decided to extend these programmes until 31 December 2022, using the economic resources of the 2021-2027 programming.
The RDP and related state contributions envisaged for agricultural and agrifood companies represent an exclusive and powerful engine for investments in the agriculture sector and, consequently, an important opportunity for Banco BPM, which has decided to provide financial support through both short-term products (dedicated to different options of anticipating the state contribution) and medium-long term products (dedicated to supporting investment).

Lastly, loans were created for the Supply Chain and District Projects, using CDP-MIPAAF funds (IV Tender), a topic that the Bank had never approached, and loans with EIB funds addressed to the Agrifood segment, with an upper limit for young farmers and climate.
In 2021, the use and maintenance of the credit assessment procedure for agricultural enterprises was consolidated (Due Diligence of Agricultural Enterprises).
These transactions, together with the presence of specialised professionals and the range of "Semina" lending products, make Banco BPM one of the Italian banks with the most focus on the development of the Agrifood segment.

Subsidised Financing and Guarantee Bodies

In 2021, 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:

- EIB funding for a total of 500 million, used to grant medium and 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;
- EIF Innovfin guarantee agreement, which by enabling the Bank to benefit from a new guarantee line to cover the loans already granted to Italian SMEs and Small Mid Caps, will allow the disbursement of new further loans amounting to around 500 million to businesses with a strong focus on research and development and/or technological innovation.

Lastly, note that in December, the Bank signed a new "synthetic securitisation" transaction with the EIB and EIF, comprised by a Retrocession Agreement with the EIB and a Guarantee Agreement with the EIF.
Under said Agreement, the Bank has committed to establishing a "New Portfolio" (not guaranteed by the EIF) of medium/long-term loans, to be disbursed by the deadline of 30 June 2023, to businesses that are eligible for EIB support, consisting of an assessment of transactions whose average level of risk and duration is higher than those assumed by the Bank beyond the EIB/EGF.

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;
- SACE, in the form of the "Italy Guarantee", "Mid Cap" and "SACE Green" guarantees, the latter to meet the parameters envisaged in the European Regulation and Taxonomy of "green" activities (Reg. EU no. 852/2020).

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.

The aforementioned guarantee instruments were developed with the aim of providing support to businesses in the current emergency situation due to the Covid-19 pandemic.
These interventions entailed adapting to the laws issued on each occasion, starting from Italian Decree Law no. 23 of 8 April 2020 ("Liquidity" Decree Law), which strengthened the aforementioned public guarantee instruments to support businesses damaged by the pandemic event.

To complete the offer to businesses in the coming months, the bank will extend the SMEGF guarantee to new short-term loans and unsecured loans, actually implementing a legislative provision already covered for some time by the Operating Provisions of the SMEGF and allowing a more extended use of the direct SMEGF guarantee.
Considerable efforts were also addressed to operations with Confidi (mutualistic entities created to facilitate access to credit for SMEs), both for the full adoption of the 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, by virtue of agreements entered into over time, which regulate operations as regards measures to contrast usury with regard to the funds allocated by Italian Law 108/96 "Anti-Usury Law". Thanks to their guarantee issued to Banco BPM, also the liquidity requirements of individuals with overt economic difficulties and problems accessing credit, can be met.

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

Through its Partnership with Alphabet, further schemes are being developed to boost sustainable mobility by offering vehicles that are mostly or exclusively fuelled by "green" energy, with specific reference to the need to convert company fleets into sustainable ones.

Partnership with TeamSystem

In 2021, developments continued as regards the partnership with TeamSystem, which makes management systems for companies. More specifically, the new interface via API of the company management system with the Bank's internet portal for business customers "YouBusiness Web" was released; this innovation has enabled customers to substantially improve their user experience for the service of importing invoices from the management system and facilitating their payment and/or funding.
In addition, new important agreements were signed to offer TeamSystem customers current account and internet banking products at advantageous conditions, as well as the opportunity to transfer tax credit (Ecobonus and Superbonus) through the Bank's channels.
With regard to the transfer of tax credit, collaboration with the platform made available by the TeamSystem Group continued, which enabled significant commercial results to be achieved (around 300 million in credit transferred to the Bank); substantial improvements were made to the platform to increase its user-friendliness for the customers in question.

Transfer of tax credit originating from Ecobonus and Superbonus schemes - businesses and condominiums

In 2021, customers belonging to the businesses and condominiums segment again had the opportunity to transfer tax credit originating from work to improve the energy efficiency of buildings (Ecobonus and Superbonus), in the same way as private segment customers. For the retail channel, as regards the segments in question, during 2021, over 12,000 applications were submitted with an equivalent credit value of over 1 billion, and an average amount of around 155 thousand euro per application for businesses and around 378 thousand euro for condominiums. The distribution of business applications saw a share of 52% for the Superbonus scheme and 48% relating to other tax bonuses, while for condominiums, the share was 9% for Superbonus and 91% for other tax bonuses.

Corporate

	2021	2020 (*)	absolute change	% change
Net interest income	472,599	463,178	9,421	2.0%
Financial margin	**472,599**	**463,178**	**9,421**	**2.0%**
Net fee and commission income	243,007	215,379	27,628	12.8%
Other net operating income	61	101	(40)	(39.6%)
Net financial result	22,373	22,875	(502)	(2.2%)
Other operating income	**265,441**	**238,355**	**27,086**	**11.4%**
Operating income	**738,040**	**701,533**	**36,507**	**5.2%**
Personnel expenses	(76,023)	(71,015)	(5,008)	7.1%
Other administrative expenses	(118,711)	(80,797)	(37,914)	46.9%
Net value adjustments to property, plant and equipment and intangible assets	(4,629)	(4,895)	266	(5.4%)
Operating expenses	**(199,363)**	**(156,707)**	**(42,656)**	**27.2%**
Profit (loss) from operations	**538,677**	**544,826**	**(6,149)**	**(1.1%)**
Net adjustments to loans to customers	(390,234)	(504,727)	114,493	(22.7%)
Net provisions for risks and charges	(5,242)	(10,802)	5,560	(51.5%)
Profit (loss) before tax from continuing operations	**143,201**	**29,297**	**113,904**	**388.8%**
Taxation charge related to profit or loss from continuing operations	(48,316)	(8,057)	(40,259)	499.7%
Profit (loss) after tax from continuing operations	**94,885**	**21,240**	**73,645**	**346.7%**
Charges related to company restructuring, net of taxes	-	(8,649)	8,649	
Charges related to the banking system, net of taxes	(11,159)	(9,346)	(1,813)	19.4%
Impact of the realignment of tax values to book values	1,850			
Purchase Price Allocation net of taxes (**)	167	98	69	70.4%
Parent Company's profit (loss) for the year	**85,743**	**3,343**	**80,550**	**not indicated**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the profiling criteria used for 2021.
(**) 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 738.0 million, up by 36.5 million (+5.2%) compared to last year.
Within this aggregate, net interest income was 472.6 million, up by 9.4 million against 2020 (+2%), benefiting, despite a slight reduction of the volume of loans, from lower funding costs, with regard to which the non-restricted component improved significantly. Attention should also be drawn to the benefit resulting from the allocation of part of the economic effects of the TLTRO III, partly mitigated by the negative impact of the so-called liquidity buffer cost, namely the share of the cost allocated to the Network due to the Group's need to hold a liquidity buffer to cover unexpected cash outflows.
Net fee and commission income, amounting to 243.0 million, increased (+27.6 million), due to the effect, in particular, of the higher contribution made by other services to businesses (+18.6 million), while the net financial result of 22.4 million did not undergo any significant changes.
Operating expenses recorded an increase of 42.7 million, both in terms of personnel expenses and other administrative expenses, while the cost of credit fell significantly, amounting to 390.2 million (504.7 million in 2020), benefiting from the lower risk of the portfolio.
In addition, charges related to the banking system, net of taxes were booked to the segment, amounting to 11.2 million, against 9.3 million in 2020, which brought the net result of the business line to 85.7 million, compared to 3.3 million last year.

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

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

Introduction

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

The Corporate Commercial Network is organised on a territorial basis according to a model developed and consolidated over the past few years, which has proven to be able to guarantee efficient and effective commercial and territorial oversight through:

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

Corporate customers

The Corporate segment includes Mid and Large Corporate companies.

Segment	**no. of customers with current accounts (*) or with loans (**) as at 31/12/2021**
Mid Corporate	approx. 9,800
Large Corporate	approx. 1,200
Total companies	**approx. 11,000**

(*) 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. 11,000	approx. 10,600	approx. 7,600
Number of Groups	approx. 3,200	approx. 3,100	approx. 2,960

The data on loans (progressive 2021 data, average annual balances - Source RDB) is as follows:

(in millions of euro) **Performing loans**	**35,362**
Cash + Bonds	30,695
Unsecured	4,667
Direct Funding	**10,445**

Corporate business strategy for 2021

The ever-changing economic context in 2021 and its volatile market scenario, both domestic and international, which are still characterised by the on-going emergency situation, have led Corporate business strategy to adopt two macro-approaches: the first focused on the relaunch of the country through support to businesses and the other, instead, project-based, focused on defining the guidelines for development illustrated in the 2021-2024 Business Plan.

The operational approach to support customers

Support for corporate customers, at a time when the market is particularly complex, was provided by sponsoring investment projects whose objective is the relaunch, both on the domestic and international fronts, with particular attention to solutions able to contribute to meeting climatic and environmental risk mitigation targets. In addition to this, companies were assisted in rebuilding their stocks of raw materials, in a market characterised by a substantial increase in the prices of raw materials.

Banco BPM, also through the choices it has made over the past year, intends to consolidate its role as a leader in the process of transition of the business models of its Corporate customers.
Through its commercial activities, the Corporate segment is actively involved in reaching many of the SDGs (Sustainable Development Goals) established by the United Nations. The year that has just ended saw numerous companies launch sustainable ESG projects, with a view to gaining a competitive advantage in a market that is highly sensitive to these issues.

The development guidelines contained in the 2021-2024 Business Plan

The strategic ambition for Corporate is to further strengthen its role as a key market player, leveraging the greater strategic focus and synergies of the Group. There are four main guidelines underpinning said ambition:

- to increase activities with high added value;
- to exploit the opportunities generated by the NRRP;
- to exploit Group synergies;
- to optimise the risk-return variables, although through new analysis tools.

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

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

Banco BPM maintains its benchmark role for operators, at national level, as it has a specific vocation in managing the 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 consolidation of the bank-business relationship, with continuously significant market shares in the specific business segment.
Maintaining constant oversight of relations with companies, in a context as complex as the current one, characterised by periods of strong economic recovery alternated by other periods of complications due to the pandemic, has been one of the main objectives, with a view to providing better support to Corporate customers. The role of customer relationship managers was once again extremely important to provide support to customers in the recovery phases. Commercial Network and Central Management, also thanks to the consolidated use of digital instruments and media, were able to quickly and efficiently handle customer requests.

<u>Main commercial initiatives</u>

2021 contributed to further consolidating the bank's role as a benchmark for Italian Mid-Caps. The Corporate structure continued its efforts to focus and rationalise its activities, with a view to further increasing its market share, share of business and its overall positioning to serve its customers, also by exploiting new market opportunities (e.g. Superbonus 110%). The above does not exclude 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 2021, Banca Akros confirmed its status as a benchmark player in terms of the derisking plans implemented in the frameworks of medium-sized Italian banks, acting as Arranger in important securitisation transactions.
In 2021, the initiatives relating to the allocation of a fund of 5 billion, called "2020-2023 Sustainable Investments", were set in motion, announced by the Group in December 2020 to encourage the green transition. 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.
Alongside the fund, the development of dedicated products and schemes continues, with a view to providing targeted and structured support to the green projects and investments of Corporate customers, both that regard transactions with highly personalised structures (developed with the support of Structured Finance), and that regard more standardised transactions developed directly by the Corporate Commercial Network.
In 2021, the use of the "Sales4Change" commercial interaction platform became fully operational; the platform works like a community, where colleagues share their know-how and work together to develop the best solutions to propose to corporate customers.
The concepts of the circularity and the sharing of ideas represent the drivers to optimise customer service, in a context of digital innovation.

During the year, other new features were introduced, which enabled the platform to be increasingly effective, to the benefit of the Network and Corporate Customers. Project work is continually evolving and will continue in the near future as well, with a view to achieving a fully integrated digital ecosystem.

Hedging financial risk

In 2021, 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, located in different geographical areas, equipped with superior technical and commercial skills.
During the year, the Group continued to develop new products and services, continuing to strengthen its role as a benchmark for its customers in terms of innovation. One of the most recent innovative activities worth mentioning is the hedges on ESG rates, which therefore comply with sustainability parameters.
In 2021, this sector stood out for the 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

During 2021, Banco BPM extensively developed services relating to the purchase of trade and tax receivables and incentives, the latter also held vis-à-vis the Public Administration, including tax credit relating to Decree Law 34/2020 (so-called "Super Ecobonus") from its customers without recourse.
The activities performed in this regard seek, first and foremost, to support the production chains using an instrument that in recent years has proven to be particularly effective in optimising a company's working capital.
The experience acquired by Banco BPM in this area is demonstrated above all by its ability to enter into customised agreements with leading companies that wish to optimise the opportunities available to manage supply credit/debt, while at the same time offering effective financial services to their suppliers.
An important market position was achieved in the purchase of tax credit originating from the so-called "Super Ecobonus", an activity which enabled both private and business customers to be able to fully utilise the significant tax subsidies envisaged by this decree.
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 dedicated platform able to facilitate operating aspects in the bank-customer relationship, a platform that will be the subject of an important development plan to achieve operational digitalisation by 2023.

Origination

Through Senior Bankers, specialised by Industry, and with the support of dedicated Business Analysts, in 2021 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. A similar approach has been adopted for the medium-sized business segment.

Structured finance

In 2021, the activity of the Structured Finance department maintained its role in the Group in assisting customers with regard to more sophisticated lending transactions, made with institutional and industrial counterparties which, as regards the purpose of the loan and/or its amount, require a specialised approach. Due to the pandemic, this activity has received growing interest from customers.
The economic performance recorded in 2021 was a net improvement on the previous year, even though many economic areas were damaged by the continuing effects of the pandemic. In any event, in general, also due to the maintenance of credit subsidies linked to the pandemic, Structured Finance recorded an improvement for all performance, capital, economic and operational parameters.

More specifically, the Corporate Lending activity also involved in the scheme of loans secured by the SACE guarantee, recorded a significant increase in the number of transactions made, as well as the commission collected.
The activity performed for Financial Sponsors, an area in which the Bank boasts a leadership position in the segment of leverage with SMEs, enjoyed a particularly successful year, thanks to the maintenance of the market conditions established in 2020, characterised by a high number of primary transactions, plus secondary transactions, which had been lacking the previous year.

Project Finance activity recorded a substantial increase in terms of performance data, thanks to the consolidation of relations with several operators, and the participation in several very important transactions. The launch of projects relating to the NRRP is expected to have a positive impact in the coming years.
Real Estate activity maintained the business levels recorded in the two-year period 2019-2020, thanks to the continuing interest that institutional, and international, operators continue to have in areas in which the Bank boasts long-standing expertise. The activity enjoys a very interesting backlog, partly linked to the most important projects in the Milan area.
Over 200 Structured Finance transactions were concluded in 2021, for a total resolved amount of around 6.5 billion. Of these, over 100 transactions (for over 4 billion in approved credit lines), relate to Corporate Lending. The following categories, in terms of numbers and relative volumes, are Leveraged transactions (58 transactions, for over 900 million in approved credit lines), Real Estate transactions (around 30 transactions, for over 800 million in approved credit lines), and Project Finance transactions (over 20, for a total of around 570 million in approved credit lines).

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 customer relationships.

Foreign Operations and Trade Finance

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 2021 as well.

Dedicated network and foreign goods unit
Banco BPM Group assists its customers via a dedicated commercial network, made up of more than 60 reference specialists across Italy who have superior technical and commercial skills and are, therefore, able to best support companies in their internationalisation activities.
In addition, in terms of operational support, the Group also has foreign-goods units located throughout the country, more specifically in Milan, Legnano, Verona, Modena, Bergamo and Lucca.
The above units handle operations relating to documentary credits and documented remittances, while those regarding international guarantees are handled by a dedicated unit based in Milan.
The common objective is to provide customers with a high-added value service that guarantees consistent returns in terms of commission income, while at the same time carefully and promptly monitoring the considerable technical-operational risks.
As a whole, the Operations structure currently has 100 resources.
2021 was characterised by a strong recovery of international trade and the dedicated Foreign Operations and Trade Finance structure was able to exploit this growth, significant increasing its market share and providing constant and proactive support to its customers.

Financial Institutions
Also in 2021, despite the constraints imposed by the health emergency, the Financial Institutions Group (FIG) oversaw the main foreign markets with the primary purpose of guaranteeing adequate credit lines to support customers' import and export business.
To support the export business, adequate trade credit lines have been implemented and renewed, both ongoing and temporary, for foreign banks; with regard to imports, as the usual targeted international missions in the main countries of interest for customers could not be undertaken, in any event, also in 2021, it maintained regular contact with foreign correspondent banks, by organising video calls and managed to maintain existing credit lines and implement new ones.

For the purpose of providing suitable coverage for trade finance operations with countries/banks considered risky or problematic, the Financial Institutions Group renewed its participation in the respective trade facilitation programmes of the main supranational banks: EBRD, IFC, ADB.
By managing the foreign Representative Offices in Mumbai and Hong Kong, the entity has helped customers who operate, or intend to operate, in the areas of responsibility of these offices.
To support new asset acquisitions, FIG confirmed its membership of BAFT (Bankers' Association for Foreign Trade) and ITFA (International Trade and Forfaiting Association).

Foreign Products and Services
Also in 2021, Banco BPM provided significant assistance to companies operating in foreign markets, responding to the changed financial requirements of business operators by working with institutional entities and implementing the measures made available by the Government to provide financial support to Italian exports.

Given the growing importance of offering digital services, 2021 saw Banco BPM continue to integrate new cutting-edge channels, with both information and order functions, for companies that operate or intend to operate abroad, one of these is "Banco BPM Trade World, your ally abroad", which enables access to international markets and contact with selected trade partners thanks to the YouWorld and YouLounge platforms.
YouWorld is an information platform to support foreign trade; it also provides details of potential suppliers or foreign customers organised by country, type of good or services handled. A total of around 1000 companies were using the service at December 2021.
YouLounge is the B2B platform to promote its own products/services through a virtual showcase. It can be accessed through Banco BPM's e-banking. Together with a further 13 leading international partner banks, it participates in the Trade Club Alliance which covers 60 countries and includes over 22,000 selected companies worldwide. As at December 2021, over 1,550 corporate customers participated in YouLounge.
In 2021, YouLounge was enhanced with a new feature: "Opportunities", which gives importers the opportunity to publish posts to inform the community about their search for specific products/services, specifying their characteristics, timing and other useful information.
With regard to Foreign operations, the digital offer is completed by a third portal, YouTrade Finance, which enables goods operations to be managed online (international guarantees - already operational, documentary credits, operational for the import phase), simplifying and optimising the bank-customer relationship, and able to guarantee maximum safety (i.e. the use of digital signatures) through guided procedures.

Agreements with leading institutions
In order to expand the support to customers that operate in the complex field of internationalisation, Banco BPM has joined numerous associations through its managers specialised in Foreign Operations and Trade Finance, or has agreements in place with leading institutions (including ICC Italia International Chamber of Commerce, Credimpex Italia, 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 2021 Banco BPM maintained its collaboration with the German-Italian Chamber of Commerce (CCIG), the Russian-Italian Chamber of Commerce, as well as with DE International Italia. This company, which belongs to the CCIG, offers a wide range of services for the internationalisation and promotion of forms of cooperation (business days, B2B meetings between Bank customers and foreign operators) with a particular focus on the German area, a region of Europe of particular interest for exporting Italian companies.

Trade and Export Finance
In 2021, the new Trade and Export Finance Department was created, which groups all export finance activities with SACE/SIMEST, the Group's international structured finance and commodity finance operations with leading international industrial groups and Trade Finance operations such as supplier's credit, bank risk coverage relating to the issue of international guarantees, as well as the risk relating to the confirmation of credit letters (coverage by SACE and other counterparties). The development of the desk was focused on strengthening the Group in bilateral operations with new large international customers, on the syndicated market in partnership with international banks, also focusing on trade finance operations aimed at boosting the exports of Bank customers.
In 2021, the desk was able to rely on a balanced increase in operations as regards buyer's credit, SACE Push strategy and supplier's credit to support exports of its Italian corporate network, and concluded several important international operations as regards commodity finance and international corporate finance, creating new trade

relations with industrial groups active in the US, Mexican, German, Chinese, Indian, Australian and African markets. In 2021, the desk also participated in a couple of lending transactions with ESG KPIs, formalising the entrance of foreign loans in the market sustained by sustainability KPIs.

The "advanced foreign trade" segment includes the following solutions (products and activities):

- Loans secured by an Export Credit Agency, in particular SACE:
  - ECA Buyer's Credit - supplier's credit with the support of the SACE policy;
  - SACE Push Strategy - loans secured by the SACE financial guarantee to facilitate future trade opportunities between Italy and foreign markets;
- Commodity Trade Finance:
  - Pre-Export and Pre-payment Finance - Loans for medium or long-term commodity trading with foreign counterparties;
  - Borrowing Base Financing – Revolving Credit Facilities Secured on stock and trade receivables;
- Foreign Borrowers:
  - Corporate & Acquisition Loans - extraordinary operations with international corporate customers that operate in Italy;
  - Revolving Credit Facilities - standard revolving credit operations not secured by stock or trade receivables;
- Traditional Trade Finance:
  - Supplier's Credit with transfer of ECA policy, secured by a corporate or banking guarantee (SBLC), to facilitate the export of Italian machinery and technologies abroad;
  - Issue of contractual guarantees with SACE coverage to support international trade operations, including large-scale ones;
  - Confirmation of credit letters covered by SACE.

In 2021, a total of 68 operations were concluded, consolidating its role as a highly specialised desk, serving the expansion of Italian exports and of large foreign customers with market shares in Italy.

Culture of sustainable finance for customers

In 2021, the increased attention paid to the area of sustainability continued to inspire projects, also as regards educating customers.
In fact, in June, the third "Lounge Banca Akros and Banco BPM Elite" took place, an edition focusing on sustainability and ESG issues. The event, held digitally, involved companies from different Italian regions and operating in various industrial sectors.
The purpose of this high-level training is to accompany businesses in the transformation of their visions of growth into sustainable strategic plans and real results, boosting development potential, promoting ESG projects and facilitating their access to available forms of funding, including public and private capital markets.

Institutional

	2021	2020 (*)	absolute change	% change
Net interest income	51,219	56,662	(5,443)	(9.6%)
Financial margin	**51,219**	**56,662**	**(5,443)**	**(9.6%)**
Net fee and commission income	42,585	40,024	2,561	6.4%
Other net operating income	3,504	3,056	448	14.7%
Net financial result	(420)	126	(546)	
Other operating income	**45,669**	**43,206**	**2,463**	**5.7%**
Operating income	**96,888**	**99,868**	**(2,980)**	**(3.0%)**
Personnel expenses	(12,972)	(8,499)	(4,473)	52.6%
Other administrative expenses	(28,186)	(28,423)	237	(0.8%)
Net value adjustments to property, plant and equipment and intangible assets	(749)	(879)	130	(14.8%)
Operating expenses	**(41,907)**	**(37,801)**	**(4,106)**	**10.9%**
Profit (loss) from operations	**54,981**	**62,067**	**(7,086)**	**(11.4%)**
Net adjustments to loans to customers	(8,054)	(22,836)	14,782	(64.7%)
Net provisions for risks and charges	(149)	(415)	266	(64.1%)
Profit (loss) before tax from continuing operations	**46,778**	**38,816**	**7,962**	**20.5%**
Taxation charge related to profit or loss from continuing operations	(15,439)	(10,675)	(4,764)	44.6%
Profit (loss) after tax from continuing operations	**31,339**	**28,141**	**3,198**	**11.4%**
Charges related to company restructuring, net of taxes	-	(1,035)	1,035	
Charges related to the banking system, net of taxes	(10,726)	(9,180)	(1,546)	16.8%
Impact of the realignment of tax values to book values	842	2,200	(1,358)	(61.7%)
Purchase Price Allocation net of taxes (**)	(38)	(22)	(16)	72.7%
Parent Company's profit (loss) for the year	**21,417**	**20,104**	**1,313**	**6.5%**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the profiling criteria used for 2021.
(**) 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 96.9 million, down by 3.0 million compared to the previous year (-3.0%).
Within this aggregate, net interest income fell by 5.4 million, due mainly to the impact of the so-called liquidity buffer cost, namely the share of the cost allocated to the Network due to the Group's need to hold a liquidity buffer to cover unexpected cash outflows, which reduces the increase of commercial net interest income; on the contrary, net fee and commission income recorded an increase of 2.6 million. Operating expenses increased overall, and amounted to 41.9 million (+4.1 million against 2020), in particular due to higher personnel expenses, which recorded an increase of 4.5 million.
Net adjustments to loans to customers fell significantly to 8.1 million, compared to 22.8 million recorded last year, due to the substantial reduction of the cost of risk resulting from the lower risk of the portfolio.
Charges related to the banking system, net of taxes were booked to the income statement for the year amounting to 10.7 million (9.2 million in 2020). 2021 closed with a net profit of 21.4 million, compared to 20.1 million recorded last year.

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

2021 was a crucial year, characterised by phenomena that had a significant impact:
- the "economic" management of the Covid 19 pandemic, in parallel with its health management, which entailed further financial support from the Banking System to the country's real economy, after that introduced in the first year of the pandemic;
- the assessment of the opportunities for economic recovery originating from the NRRP (National Recovery and Resilience Plan), over 70% of whose economic resources will be channelled through the Public Administration;

- the growing importance attributed to the effects of climatic change and to the assessment of the social impact of financial investments (focus on the SDGs of the 2020-30 UN Agenda), which has required greater efforts of the Bank, through the launch of the ESG (Environmental, Social & Governance) project, in which the Third Sector plays a fundamental role, in terms of the rationale behind determining the "social" value of investments.

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

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

Institutional

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

Relations with 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 2021):

Type of Entity by SAE (*)	**% Breakdown**
Mutual Investment Funds, Pension Funds and UCITs	19%
SIMs, SGRs and trust companies	8%
Non-banking (Leasing, Factoring) and Consumer Credit companies	5%
Regions, Healthcare Companies, Large Municipalities and Companies Co-owned by the Public Administration	8%
Insurance companies	6%
Bank foundations	2%
Central Government and Constitutional Bodies	2%
Social Security and Social Welfare Entities	2%
Other companies and financial intermediaries	48%
Total	**100%**

(*) *Group companies are not included*

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

With a view to achieving greater efficiency in the management of relationships, the services offered have been harmonised and commercial partnerships have been developed with Banca Akros and Banca Aletti to make the range of services offered to this particular type of customer more complete and specialised.
More specifically, in 2021, the following activities were launched:

- purchase of senior notes by Banco BPM as part of the project on the securitisation of Retail customer loans, with a view to providing greater support to the real economy and boosting the increase of loans;
- granting of the first ESG loans to support specific initiatives of the Alternative Investment Fund (i.e. loans to Real Estate Funds to build nursing homes, with significant social impact).

Commercial partnerships 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 40,000 current accounts.

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

Entities and the Public Administration

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

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

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

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

Commercial activities in 2021 focused on the gradual recovery following the Covid-19 pandemic, providing Public Sector counterparties with products and services able to meet their specific needs. In this regard, increasing attention was paid to activities performed by public investee companies in the water and waste disposal cycle sector, due to the clear environmental impacts, based on ESG logic.
The NRRP was the subject of specific focus, as well as the key role that the Public Sector will play in this context.

Entities and P.A. Customers are broken down by type of SAE (Sector of Economic Activity) as follows (figures as at 31 December 2021):

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

Third Sector and Religious Entities

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 nature as follows (figures as at 31 December 2021):

Type of Entity by legal nature	% Breakdown
Associations	45%
Foundations	2%
Religious Entities (parishes)	13%
Social Cooperatives	4%
Other entities with or without legal status	36%
Total	**100%**

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

The most important initiatives of 2021 included:

- the economic support measures to counter the effects of the Covid-19 pandemic, particularly for the wide bracket of the Third Sector and Religious Entities, which had been excluded after the moratorium with state guarantees expired at the end of 2020 and was not renewed; the measures adopted regard both suspending the payment of instalments of loans being repaid, and granting new loans for liquidity requirements induced by the pandemic (over 50 million disbursed in 2021, over 30% of the total disbursed to non-profit organisations and the religious sphere);
- the collaboration with Milan Polytechnic, which led to an in-depth study on the assessment of the social impact of investments regarding Third Sector organisations, through the 'Tiresia' project, with interesting insights on the development of new metrics to measure the social value of investments, based on ESG logic;
- the granting of a new loan for social impact projects;
- the launch of the third sector Portal dedicated to customers in this segment, which is directly linked to Banco BPM's institutional website (https://www.bancobpm.it/terzo-settore/). Through this site, customers can contact the dedicated specialist office, which provides advice and facilitates opening new accounts;
- the sponsorship of the third edition of the "Cantieri Viceversa" laboratory, organised by the National Forum of the Third Sector, to ensure the matching of the demand for and the supply of funds between Third Sector entities.

Private

	2021	2020 (*)	absolute change	% change
Net interest income	(2,557)	1,131	(3,688)	
Financial margin	**(2,557)**	**1,131**	**(3,688)**	
Net fee and commission income	100,394	89,708	10,686	11.9%
Other net operating income	5	7	(2)	(28.6%)
Net financial result	(283)	(75)	(208)	277.3%
Other operating income	**100,116**	**89,640**	**10,476**	**11.7%**
Operating income	**97,559**	**90,771**	**6,788**	**7.5%**
Personnel expenses	(55,953)	(52,422)	(3,531)	6.7%
Other administrative expenses	(15,909)	(20,112)	4,203	(20.9%)
Net value adjustments to property, plant and equipment and intangible assets	(3,423)	(604)	(2,819)	466.7%
Operating expenses	**(75,285)**	**(73,138)**	**(2,147)**	**2.9%**
Profit (loss) from operations	**22,274**	**17,633**	**4,641**	**26.3%**
Net adjustments to loans to customers	(265)	81	(346)	
Net provisions for risks and charges	(204)	16	(220)	
Profit (loss) before tax from continuing operations	**21,805**	**17,730**	**4,075**	**23.0%**
Taxation charge related to profit or loss from continuing operations	(7,327)	(4,876)	(2,451)	50.3%
Profit (loss) after tax from continuing operations	**14,478**	**12,854**	**1,624**	**12.6%**
Charges related to company restructuring, net of taxes	-	(4,676)	4,676	
Charges related to the banking system, net of taxes	(772)	(1,369)	597	(43.6%)
Impact of the realignment of tax values to book values	242	-	242	
Purchase Price Allocation net of taxes (**)	(2,680)	(2,887)	207	(7.2%)
Parent Company's profit (loss) for the year	**11,268**	**3,922**	**7,346**	**187.3%**

(*) 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 profiling criteria used for 2021.
(**) 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 97.6 million, up (+7.5%) compared to the previous year.
Within this aggregate, net interest income fell against 2020 (-3.7 million); this decrease was due mainly to the impact of the so-called liquidity buffer cost, namely the share of the cost allocated to the Network due to the Group's need to hold a liquidity buffer to cover unexpected cash outflows.
Net fee and commission income, amounting to 100.4 million, recorded an increase of 10.7 million compared to last year. Operating expenses of 75.3 million were up against last year (+2.9%) substantially due to higher personnel expenses, which rose by 3.5 million, and value adjustments to property, plant and equipment and intangible assets, which rose by 2.8 million; this increase was partly offset by lower administrative expenses, which were down by 4.2 million.
Adjustments to loans of 0.3 million, net provisions for risks and charges of 0.2 million and charges related to the banking system, net of taxes, of 0.8 million (1.4 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 -2.7 million, the Private business segment closed with a profit for the year of 11.3 million, with an increase of 7.3 million against 2020.

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

At the end of 2021, the Private Banking Network of Banca Aletti recorded a global amount of "assets under management" (administered and managed) of 25.3 billion, significantly higher than 2020; the figure includes the marginal liquidity positions of private customers of Banca Aletti with accounts at Banco BPM.

The solid income figures are due to the high quality advisory service provided by the Private Banking Network to customers in the changed financial market scenario, and had encouraged the establishment of investment portfolios characterised by a prudent approach to the higher risk and by international and thematic diversification. The decision to set the above-cited advisory service in motion from the first few months of the year enabled customer portfolios to benefit from the favourable stock market scenario. The high level of delegation allowed the quality of the portfolios to be improved mainly through high quality asset management solutions.
The continued negative structural yields of interbank monetary rates and of those of the yield curves of many bond markets, intensified the downward trend of bond and monetary investments; on the other hand, the international context in which system liquidity increased significantly and, consequently, investors, maintained volumes of direct funding on demand at the same levels as last year.

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, considering that the year has been characterised by frequent restrictions to personal contact, often replaced by digital tools.

To support development activities, in line with the strategy of previous years, efforts were made to create opportunities to meet potential customers through several local events; given the health emergency, these initiatives were limited to the last 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.
The joint action with the Business segment is worth noting, with which measures to support Group companies characterised by surplus liquidity were structured, with a view to defining investment solutions which, consistent with the time horizon and the low risk profile, were able to generate positive returns.

As at 31 December 2021, Banca Aletti's network was comprised of 11 Areas, 45 Units, 10 remote branches, 258 Private Bankers and 10 Financial Advisors.

Investment Banking

	2021	2020	absolute change	% change
Net interest income	53,830	73,213	(19,383)	(26.5%)
Financial margin	**53,830**	**73,213**	**(19,383)**	**(26.5%)**
Net fee and commission income	43,424	41,651	1,773	4.3%
Other net operating income	1,126	253	873	345.1%
Net financial result	13,414	10,327	3,087	29.9%
Other operating income	**57,964**	**52,231**	**5,733**	**11.0%**
Operating income	**111,794**	**125,444**	**(13,650)**	**(10.9%)**
Personnel expenses	(33,528)	(25,293)	(8,235)	32.6%
Other administrative expenses	(58,038)	(58,953)	915	(1.6%)
Net value adjustments to property, plant and equipment and intangible assets	(356)	(345)	(11)	3.2%
Operating expenses	**(91,922)**	**(84,591)**	**(7,331)**	**8.7%**
Profit (loss) from operations	**19,872**	**40,853**	**(20,981)**	**(51.4%)**
Net adjustments to loans to customers	(55)	3	(58)	
Net adjustments to securities and other financial assets	17	78	(61)	(78.2%)
Net provisions for risks and charges	490	286	204	71.3%
Profit (loss) before tax from continuing operations	**20,324**	**41,220**	**(20,896)**	**(50.7%)**
Taxation charge related to profit or loss from continuing operations	(5,834)	(13,495)	7,661	(56.8%)
Profit (loss) after tax from continuing operations	**14,490**	**27,725**	**(13,235)**	**(47.7%)**
Charges related to company restructuring, net of taxes	(3,836)	(602)	(3,234)	537.2%
Charges related to the banking system, net of taxes	-	(2,911)	2,911	
Parent Company's profit (loss) for the year	**10,654**	**24,212**	**(13,558)**	**(56.0%)**

Economic performance of the segment

The trend in the main income statement items recorded a decrease in net interest income (-19.4 million), due to the decrease specifically recorded in the contribution from the securities portfolio, especially within the intragroup component. The bonds 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 investment product structuring activity, as well as by lower coverage and development activities of Corporate & Financial Institutions customers, in coordination with the Parent Company with tax, exchange and commodity derivatives, bringing the item in question to 13.4 million (down 3.1 million compared to 2020). Net fee and commission income was in line with the previous year, also thanks to the contribution of the Investment Banking area, which more than offset the fall in structuring commission due to lower placements of Group certificates.

Operating expenses recorded an overall increase of 7.3 million, mostly due to personnel expenses, to the full recovery of the variable component, offset, to a lesser extent, by the fall in the number of resources recorded in 2021.

Banking industry charges, net of the relative taxes, were also charged to the income statement of the segment in question, amounting to 3.8 million, bringing the net profit for the year to 10.7 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. In May 2021, Banca Akros acquired 100% of the share capital of Oaklins Italy S.r.l., a "boutique" that provides advisory services for Mergers & Acquisitions.

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.

Corporate & Institutional Banking

During 2021, despite the health emergency still under way, the commercial coverage and development activities of Corporate & Financial Institutions customers in relation to the specialist products and services offered by Banca Akros continued successfully, in coordination with the Parent Company.
In particular, thanks to the service model that envisages the centralisation of all sales of hedging products for corporate and business customers of Banco BPM Group within the Bank, activities on financial risk hedging instruments were efficiently managed, also provided as part of cross-selling with the Parent Company, focusing in particular on the specific target represented by the Mid Corporate segment. During the year, cash flows on derivative products amounted to a total, in notional value, of around 4 billion for exchange rate and commodity risk hedges and around 5 billion for interest rate risk hedges on the underlying loans, mainly disbursed by Banco BPM.
Thanks to its sales staff and specialists located in Corporate Centres in Italy, the structure has forged, together with the Group, solid commercial relationships with its customers, providing services with high added value, in a market context characterised by strong competition from other Italian and foreign banks.
During the period, Banca Akros continued to develop new activities and services, including ESG products, confirming its status as a benchmark in terms of innovation to the benefit of its customers.
Certificate structuring activities also continued, although conditioned both by the narrowing trend of credit spreads within the banking industry, and by the Group's commercial and funding policy, which also led to a shorter duration of the products offered to customers by the distribution network.
Over the year, the total Investment Certificates structured by the Global Market "product factory" amounted to around 900 million, of which around 100 million issued by Banca Akros and placed on third-party networks. In 2020, the total Investment Certificates structured by the Bank had amounted to around 1,900 million, of which 120 million placed by third-party networks.

In a record year for asset management, Banca Akros worked with Anima SGR to structure funds worth over 1 billion (550 million in 2020): this result is related to the high level of appreciation demonstrated by Anima customers for products characterised, on one hand, by exposures to "thematic" investments, also through ESG indices, and on the other hand by dynamic equity risk management.

As regards the core business of trading in the secondary bond market, the cash flows from institutional customers in the segments of government, supranational and agency securities, as well as from corporate and financial issuers, albeit suffering the general slowdown of activity that characterised the main reference markets, amounted in total to 13.2 billion.
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 active participation in the placement of issues of primary issuers (illustrated in the "Investment Banking" section below); the placement of the third and fourth issues of BTP Futura, made on April and November respectively, made a significant contribution, with Banca Akros acting as Co-dealer, on the invitation of the MEF.

In terms of the diversification of sources of funding for businesses, activities continued to be developed as regards equity funding operations by operators specialising in the private debt sector, ELTIFs and infrastructure funds.

Trading and market making activities on own account

As regards the general "risk-on" of the markets, market making with customers started, for the most part, at lower levels than expected, then gradually rose to volumes in line with the second half of 2020. Proprietary trading was characterised by markets with low volatility and compressed yields, but managed to generate a positive result overall, higher than that of 2020.

The financial engineering team continued with Certificate, Policy and SICAV structuring activities, also effectively supporting diversification in the index parameters of products for customers.
In the fixed income segment, the market making of government and corporate bonds recorded lower volumes than expected in the first two months of the year, while from March onwards, operations with institutional customers recorded much higher levels. The good performance of "credit" (corporate bonds, etc.), still characterised by positive yields, made it possible to record higher results than expected. Trading in interest rates also recorded positive results, also thanks to the good volumes of interest risk management products offered to corporate customers

through the Parent Company, which enabled the "books" to be actively managed and opportunities for trading in volatility to be grasped.

In the stock markets, market making in equity derivatives with customers and in regulated markets was substantially in line with the second half of 2020. Market making in certificates was slower initially, but volumes decisively increased from the second half onwards, and levels continued to be high until the end of the year. Proprietary trading had to face particularly low levels of volatility, leading to results that were lower than expected.

Activity in the Forex market with customers saw lower volumes, in line with the recent past, not helped by the continued "trading ranges" on the major currencies. Instead, the results of proprietary trading were good, thanks to the implementation of "daily trading" strategies focused on the assumption that the price of assets will tend to converge at the average price over time (so-called "mean reversion").

Capital absorption and the daily VaR against the market risks of proprietary trading activities fell against the previous year, due to the strategic capital allocation decisions made by the Parent Company as regards market RWA. This derisking exercise on the bond portfolio led to a significant reduction of the financial margin, which had a negative impact on the results of the Global Markets area.

Brokerage and financial research activities

In 2021, Banca Akros confirmed and strengthened its undisputed leading position in third-party brokerage on the listed fixed-income market (source Assosim), with total trading volumes representing 33.04% (21.02% in 2020) of the market total. More specifically, in 2021, the value of listed bond brokerage on behalf of third parties saw Banca Akros in first place on the following markets: DomesticMOTand EuroMOT, with market shares of 34.70% and 28.18% respectively.

The results achieved by Banca Akros in share brokerage on behalf of third parties in domestic markets were also positive, where the Bank improved its ranking to third place (fourth place in 2020) among Italian and foreign brokers active in the Euronext Milan Domestic market (formerly MTA) with a market share of 8.92%, substantially in line with last year (Source: Assosim). The Euronext Milan Domestic market is represented by a basket of 241 companies, with a total capitalisation of 757.3 billion, corresponding to around 43.2% of Italy's GDP.
On the Euronext growth Milan market (formerly AIM-Italia) - the SME market, which has grown significantly in the last few years - the Bank improved its ranking by one grade with respect to last year, and is now in third place for trading on behalf of third parties, with a market share of 9.2%. The Euronext growth Milan market is represented by a basket of 174 companies, with a total capitalisation of around 11.5 billion, corresponding to around 0.6% of Italy's GDP.
With regard to the Italian stock market as a whole, Banca Akros in is third place overall for trading countervalues, with a market share of 8.65%, with respect to fourth place in 2020.
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 2021, 36 mandates were recorded, 6 of which were new. At the end of 2020, 33 mandates had been obtained. Of the 36 mandates currently in place, 10 are with companies listed on the Euronext Milan Domestic, 12 with companies listed on the Euronext STAR Milan (formerly STAR) and 14 with companies listed on the Euronext Growth Milan market.

In brokerage on behalf of third parties on the regulated derivatives markets managed by Borsa Italiana, Banca Akros holds second place in stock futures (fourth in 2020), with a market share of 2.66%, fifth place in the FTSE MIB Index Options, with a market share of 4.19% (third place in 2020), ninth place in stock options, with a market share of 1.71% (sixth place in 2020), and eleventh place in the Futures market on the index (tenth place in 2020).

Banca Akros also holds second place on the ETF (ETFPLUS) market and on the Certificates SEDEX market (third place in 2020), with a market share of 13.5% and 20% respectively. The excellent performance on the ETF market was achieved also due to the contribution of SABE ETF, the proprietary system which automatically searches dynamic best execution, which complies with the dictates of MiFID II, at the service of banking and institutional customers.

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

Investment Banking

Banca Akros intensified its focus on M&A/Corporate Finance activities addressed to family businesses and enterprises, as well as to Private Equity funds. In addition, the Bank completed its commercial "proposition", thanks to the access to the global network of Oaklins, a company acquired in May 2021, which comprises over 800 professionals dedicated to M&A and Corporate Finance in 45 countries; in this way, Banco BPM Group has extended its commercial offer, as it is able to provide support to corporate customers, businesses and financial sponsors for cross-border "in" and "out" transactions.

With regard to M&A activities, we draw attention to the performance of different assignments, both "sell side" and "buy side", as well as assistance for public tender offers and the issue of fairness opinions; the main activities performed in 2021 are illustrated below:

- operations with family businesses: note the sale of the control of Inrail to Austrada del Brennero, the assistance to Lisap in the acquisition of Parisienne Italia, the advice provided to Landi Renzo in the acquisition of 49% of Metatron, the assistance to S3K in the search for a private equity fund (identified as HLD), the advice provided to the shareholders of ATK in the sale of a majority shareholding to the Progressio fund, the advice provided to EGM in the assignment of the sheet metal business division to KME Italy;
- operations on behalf of Private Equity funds: note the assistance provided to NB Aurora in the acquisition of a minority shareholding in Veneta Cucine, as well as to White Bridge in the acquisition of Antichi Sapori dell'Etna (Pistì).

In addition, advisory assignments were performed for the reference shareholder in the Panaria public tender offer and for ION in the Cerved public tender offer, as well as for CDP in the issue of the fairness opinion regarding the SIA-Nexi swap ratio, and to Linkem for the issue of a fairness opinion relating to the Tiscali-Linkem Retail swap ratio.

As regards Oaklins Italy, 5 transactions were performed from May 2021; in particular, on the sell-side, the sale of Pinsalab to Deutsche Invest Capital, the sale of Zephyr to Dea capital and VSL Club, the sale of DMR Group and of Weingrill; on the buy-side instead, the assistance provided to Bee2Link in the acquisition of Terranova Web Systems.

In June, Banca Akros was accredited by CDP as a broker for the performance of due diligence activities, the execution and management of the loans of the Relaunch Fund.

As regards Equity Capital activities, Akros acted as Global Coordinator and Specialist in the IPO of Almawave, with a total funding countervalue of 30 million, as well as Global Coordinator, NOMAD and Specialist in the IPO of SPAC Industrial Stars of Italy 4 on the AIM Italia for a countervalue of 138 million. Banca Akros also acted as Sponsor in the translisting of Fine Foods & Pharmaceuticals N.T.M. from the AIM Italia market to the STAR Segment, as the broker entrusted with the coordination of collecting subscriptions to the Panaria and Carraro public tender offers, and as Co-Lead Manager in the share capital increase of Autogrill. In addition, the Bank conducted an Accelerated Book Building Offer operation as Joint Global Coordinator in October 2021 on Salcef stock, for a countervalue of 32 million.

On the Debt Capital Market, we draw attention to its participation in the placement with institutional investors of the following bond issues in the Corporate segment: ENEL S.p.A. (3,250 million), Terna S.p.A. (600 million), Marcolin S.p.A. (350 million), Gamenet S.p.A. (575 million), Inwit S.p.A. (500 million), Atlantia S.p.A. (1 billion), Autostrade per l'Italia S.p.A. (1 billion), Telecom Italia S.p.A. (1 billion) and ASTM S.p.A. (3 billion).
In the Financial Institutions segment, Banca Akros participated as Joint-Bookrunner, in the placement of bond issues finalised in 2021 by the Parent Company Banco BPM and by Anima, as well as issues of senior notes linked to securitisation transactions of Nexi S.p.A. (for 1,050 million), of Agos Ducato S.p.A. (Sunrise 2021-2 for 603.4 million) and of Alba Leasing S.p.A. (Alba 12 for 474.7 million).
In the SSA issuers segment (Supranational, Sovereign and State Agencies) Akros participated as Joint Bookrunner, in the issue of the Senior Bonds of AMCO S.p.A. for 750 million and of Cassa Depositi e Prestiti S.p.A. for 50 million; it was also involved in over twenty issues by leading Italian and foreign issuers, including the European Investment Bank (EIB) and the German bank, Kreditanstalt Für Wiederaufbau (KFW).

In the segment of performing securitisations, Banca Akros managed, as Joint Arranger, two securitisation transactions of consumer loans originated by Agos Ducato (Sunrise 2021-1 and Sunrise 2021-2), for a total of 2.2 billion and a securitisation of loans deriving from lease contracts originated by Alba Leasing S.p.A. (Alba 12) for 1.1 billion.
Furthermore, Banca Akros, acting as Co-Arranger, assisted Credimi S.p.A. in the securitisation transaction of receivables resulting from performing loans to SMEs for a total of 200 million and an Italian financial institution in a securitisation transaction of receivables resulting from performing loans to SMEs for a total of 170 million.

In the corporate securitisation segment, note that Banca Akros, acting as Arranger, assisted Unoenergy S.p.A. in its first securitisation of receivables deriving from natural gas and electricity supply activities for a total of 50 million, and a company operating in the commercial steel industry in its first securitisation for a total of 30 million; in addition, the Bank acted as Financial Advisor in the first three-year securitisation programme of trade receivables of 295 million originated by Generalfinance S.p.A..

In the "Green" segment, Banca Akros also acted as Arranger in an innovative securitisation transaction of performing receivables deriving from project finance loans on renewable energy plants, promoted by Glennmont REBS Fund for a total of 26 million.

Lastly, in the non-performing securitisation segment, Banca Akros acted as Joint Arranger for the securitisation transaction named "Rockets" of the Parent Company and a Multioriginator securitisation transaction of a portfolio of bad loans belonging to 12 Italian banks for a total amount of 790 million (Luzzatti POP NPLS 2021).

Strategic Partnerships

	2021	2020 (*)	absolute change	% change
Net interest income	(4,919)	(9,777)	4,858	(49.7%)
Gains (losses) on interests in associates and joint ventures carried at equity	229,608	129,385	100,223	77.5%
Financial margin	**224,689**	**119,608**	**105,081**	**87.9%**
Net financial result	-	11,671	(11,671)	
Other operating income	**-**	**11,671**	**(11,671)**	
Operating income	**224,689**	**131,279**	**93,410**	**71.2%**
Personnel expenses	(1,935)	(1,853)	(82)	4.4%
Other administrative expenses	(521)	(713)	192	(26.9%)
Net value adjustments to property, plant and equipment and intangible assets	(190)	-	(190)	
Operating expenses	**(2,646)**	**(2,566)**	**(80)**	**3.1%**
Profit (loss) from operations	**222,043**	**128,713**	**93,330**	**72.5%**
Gains (losses) on interests in associates and joint ventures and other investments	(18,673)	-	(18,673)	
Profit (loss) before tax from continuing operations	**203,370**	**128,713**	**74,657**	**58.0%**
Taxation charge related to profit or loss from continuing operations	2,487	3,582	(1,095)	(30.6%)
Profit (loss) after tax from continuing operations	**205,857**	**132,295**	**73,562**	**55.6%**
Parent Company's profit (loss) for the year	**205,857**	**132,295**	**73,562**	**55.6%**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the profiling criteria used for 2021.

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, Gardant Liberty Servicing and Anima Holding are included within the Strategic Partnerships segment.

Economic performance of the segment

The operating income of the sector in question amounted to 224.7 million, with a growth of 105.8 million, thanks to the contribution of interests in associates and joint ventures carried at equity, which recorded an increase of 100.2 million, thanks to the improvement of the general economic scenario and to the positive impact, of 42.1 million,

resulting from the realignment of the tax value of goodwill made by an investee company. In particular, the positive contribution of Anima Holding (43.2 million) and of Agos (156.0 million) are worth noting.
The performance of the Net financial result reflects the lack of dividends from Anima Holding, insofar as, from the second quarter of last year, the company has been measured at equity.
The income statement for the segment in question also reflected the negative impact, amounting to 18.7 million, resulting from the impairment made of a share held in the associated company Factorit.

Leases

	2021	2020 (*)	absolute change	% change
Net interest income	22,228	23,928	(1,700)	(7.1%)
Financial margin	**22,228**	**23,928**	**(1,700)**	**(7.1%)**
Net fee and commission income	(362)	(979)	617	(63.0%)
Other net operating income	(15,985)	(1,945)	(14,040)	721.9%
Other operating income	**(16,347)**	**(2,924)**	**(13,423)**	**459.1%**
Operating income	**5,881**	**21,004**	**(15,123)**	**(72.0%)**
Personnel expenses	(5,975)	(6,467)	492	(7.6%)
Other administrative expenses	(24,762)	(26,583)	1,821	(6.9%)
Net value adjustments to property, plant and equipment and intangible assets	(1,080)	(781)	(299)	38.3%
Operating expenses	**(31,817)**	**(33,831)**	**2,014**	**(6.0%)**
Profit (loss) from operations	**(25,936)**	**(12,827)**	**(13,109)**	**102.2%**
Net adjustments to loans to customers	(39,892)	(106,248)	66,356	(62.5%)
Fair value gains (losses) on property, plant and equipment	(99,858)	(12,227)	(87,631)	716.7%
Net provisions for risks and charges	739	(409)	1,148	
Gains (losses) on interests in associates and joint ventures and other investments	85	1,340	(1,255)	(93.7%)
Profit (loss) before tax from continuing operations	**(164,862)**	**(130,371)**	**(34,491)**	**26.5%**
Taxation charge related to profit or loss from continuing operations	38,209	34,682	3,527	10.2%
Profit (loss) after tax from continuing operations	**(126,653)**	**(95,689)**	**(30,964)**	**32.4%**
Charges related to company restructuring, net of taxes	-	(585)	585	
Purchase Price Allocation net of taxes (**)	671	686	(15)	(2.2%)
Profit (loss) for the year attributable to non-controlling interests	-	4,578	(4,578)	
Parent Company's profit (loss) for the year	**(125,982)**	**(91,010)**	**(34,972)**	**38.4%**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the profiling criteria used for 2021.
(**) 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 impacts of the management entity "Leasing Banco BPM" (formerly Banca Italease) and the accounting results of Release, recorded total Operating Income of 5.9 million, down by 15.1 million compared to the 21.0 million recorded last year, corresponding to -72.0%. This fall is mainly due to the 14.0

million reduction of “Other net operating income”, caused by the substantial increase, of around 13 million, of the operating expenses of the stock of real estate, due to significant completion and renovation work on an important real estate complex. In the aggregate in question, there is also a 1.7 million decrease in “Net interest income” due to a fall in interest-bearing assets (the leases segment is in run-off).

Operating expenses, amounting to 31.8 million, recorded a 6.0% decrease against the previous year; in particular, “Other administrative expenses” fell by 6.9%, from 26.6 million in 2020 to 24.8 million in the current year. The lower expenses are mainly due to Release, for 1.2 million (lower direct taxes on real estate of 0.8 million and lower real estate insurance costs, various costs and intercompany outsourcing of 0.4 million).

Net adjustments to property, plant and equipment amounted to 1.1 million.

By virtue of these trends, the profit (loss) from operations was down by 13.1 million, recording a loss that increased from -12.8 million in 2020 to -25.9 million in 2021.

The cost of credit fell by 66.4 million, falling from -106.2 million to the present -39.8 million; the improvement is mainly due to Release, which recorded net recoveries of 44.8 million (of which 37 million resulting from the recovery plan agreed for a significant position and collections of 5 million). In the previous year, adjustments of 18.8 million had been recorded resulting from the sale of a portfolio of non-performing receivables (“Titan” project).

Fair value gains (losses) on property, plant and equipment changed from -12.2 million in 2020 to -99.9 million: the increase, recorded entirely by Release, reflects the adjustments relating to the valuation process conducted annually on owned properties acquired as part of credit collection activities (so-called foreclosed assets).

Given the above, the leases segment recorded a loss for the year of 126.0 million, against a loss of 91.0 million last year.

Corporate Centre

	2021	2020 (*)	absolute change	% change
Net interest income	407,725	452,938	(45,213)	(10.0%)
Gains (losses) on interests in associates and joint ventures carried at equity	2,332	1,414	918	64.9%
Financial margin	**410,057**	**454,352**	**(44,295)**	**(9.7%)**
Net fee and commission income	6,270	(14,735)	21,005	
Other net operating income	81,402	45,296	36,106	79.7%
Net financial result	211,601	259,625	(48,024)	(18.5%)
Other operating income	**299,273**	**290,186**	**9,087**	**3.1%**
Operating income	**709,330**	**744,538**	**(35,208)**	**(4.7%)**
Personnel expenses	(411,784)	(403,523)	(8,261)	2.0%
Other administrative expenses	367,065	325,012	42,053	12.9%
Net value adjustments to property, plant and equipment and intangible assets	(126,150)	(118,956)	(7,194)	6.0%
Operating expenses	**(170,869)**	**(197,467)**	**26,598**	**(13.5%)**
Profit (loss) from operations	**538,461**	**547,071**	**(8,610)**	**(1.6%)**
Net adjustments to loans to customers	(10,032)	(17,706)	7,674	(43.3%)
Fair value gains (losses) on property, plant and equipment	(41,775)	(24,494)	(17,281)	70.6%
Net adjustments to securities and other financial assets	(345)	(1,108)	763	(68.9%)
Net provisions for risks and charges	(6,695)	(23,437)	16,742	(71.4%)
Gains (losses) on interests in associates and joint ventures and other investments	(180)	(150)	(30)	20.0%
Profit (loss) before tax from continuing operations	**479,434**	**480,176**	**(742)**	**(0.2%)**
Taxation charge related to profit or loss from continuing operations	(155,918)	(97,040)	(58,878)	60.7%
Profit (loss) after tax from continuing operations	**323,516**	**383,136**	**(59,620)**	**(15.6%)**
Charges related to company restructuring, net of taxes	-	(48,217)	48,217	
Charges related to the banking system, net of taxes	(25,556)	(26,491)	935	(3.5%)
Impact of the realignment of tax values to book values	48,808	-	48,808	
Goodwill impairment	-	(25,100)	25,100	
Change in own credit risk on Certificates issued by the Group, net of taxes	4,354	(11,739)	16,093	
Purchase Price Allocation net of taxes (**)	(9,473)	(13,181)	3,708	(28.1%)
Profit (loss) for the year attributable to non-controlling interests	284	(330)	614	
Parent Company's profit (loss) for the year	**341,933**	**258,078**	**83,855**	**32.5%**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the profiling criteria used for 2021.
(**) 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 709.3 million, down against 2020. More specifically, net interest income was 407.7 million, down above all due to the liquidity spread trend (namely the figurative rate of the re-employment of liquidity), which benefited the Commercial Network (174.1 million against last year). Nevertheless, by virtue of the afore-mentioned negative impact, net interest income gained, on one hand, from the greater use of ECB funding, with TLTRO III operations rising from 27.5 billion last year to 39.2 billion, and on the other hand, from a reduction in the cost of institutional issues. With regard to the latter, the weight of maturities more than offset the impact on the income statement of issues made in the second half of 2020 (850 million, of which 500 million for a subordinated issue in September), the full effect of which had not been reflected on net interest income last year. Furthermore, during 2021, bonds worth 800 million were issued, of which an issue

of a subordinated bond for 300 million at the end of June. The contribution of the securities portfolio was substantially stable, where a fall in yields was offset by an improvement in the cost of funding.
Total Other operating income stood at 299.3 million, up against the previous year, also due to the effect of the positive contribution of the settlement of several legal disputes and of several further contingent assets totalling 20.6 million, against a lower contribution of the Net financial result. Despite the positive performance of the securities portfolio (+90.1 million), especially due to several assignments made during the year, the Net financial result suffered from the valuation of the Nexi stock, which closed the current year at -25.8 million (against +158.6 million in 2020).
Operating expenses fell significantly, and amounted to 170.9 million, following the increase of recharges of the costs sustained by the Group in the various business lines.
The cost of credit and provisions for risks and charges fell, while Fair value gains (losses) on property, plant and equipment amounted to 41.8 million, following the valuation process conducted annually on property. Instead, Banking industry charges were substantially stable (25.6 million).
The income statement of the segment in question also reflected the positive impact of 48.8 million, due to the exercise of the option to realign the tax values of the Group's operating properties to book values, amounting to 48.8 million.
The impact of the change in own credit risk on Certificates issued by the Group, net of taxes, was a positive 4.4 million (-11.7 million in 2020). The contribution relating to the PPA also improved, the negative effect of which fell from -13.2 million to -9.5 million. Considering the profit attributable to non-controlling interests and taxes, the net profit of the Corporate Centre was 341.9 million, compared to 258.1 million in the previous year.

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 2021; during the year, LCR and NSFR liquidity indicators remained well above the Risk Appetite Framework objectives.

The use of medium/long-term ECB funding (TLTRO III), given the particularly favourable conditions introduced by the Central Bank in 2020 to tackle the consequences of the Covid-19 pandemic, was further increased during the year and amounted to a nominal 39.2 billion as at 31 December 2021.
During the year, new drawdowns were made for a total of 15.7 billion, and early redemptions of older tranches were made for a total of 4 billion; the overall net drawdown made in 2021 therefore totalled 11.7 billion. This strategy enabled the bank to benefit from the favourable interest rate and to extend the maturities profile.

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

With regard to public bond issues, three placements were made totalling 1.2 billion. More specifically: (i) in January 2021, an Additional Tier 1 of 400 million and coupon of 6.5%, (ii) in June a Tier II in "10NC5" format of 300 million and coupon of 2.875% and (iii) in July, a Social Senior Preferred Bond of 500 million with a 5-year maturity and coupon of 0.875%, which represents the first ESG bond of Banco BPM issued as part of the Green, Social and Sustainability Bond Framework, the proceeds of which will fund a selected portfolio of SMEs, which have been granted loans secured with the state guarantee envisaged in the Liquidity Decree to tackle the Covid-19 emergency.

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

- Synthetic Securitisation "Audrey": transaction conducted with the EIF (European Investment Fund), which entails a guarantee on the junior tranche of a portfolio of around 1.7 billion in performing loans disbursed to SMEs. This is the third Group transaction conducted with the EIF;
- Synthetic Securitisation "Brigitte": transaction conducted with a market investor, which entails a guarantee on the junior tranche of a portfolio of around 2.9 billion in performing loans disbursed to Mid Corporate Plus and Large Corporate (including pooled loans disbursed). This is the first synthetic securitisation transaction conducted by the Group with a market investor with a portfolio of Large Corporate loans as the underlying asset.

Banking Book and ALM

ALM

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

Management of Proprietary Portfolios

Regarding the management of financial instruments under assets, in 2021 the strategies briefly described below were followed.

Positions in the HTCS category
In 2021, the Parent Company's HTCS business model portfolio recorded a slight increase, from 9.4 to 9.9 billion.
The government share is the main reason for this increase, a combination of a substantial decrease of the Italian government securities component, more than offset by an increase in that of foreign securities, namely -2.2 and +2.7 billion respectively.
The non-government component was substantially unchanged in terms of amount, although it saw a partial reallocation towards corporate sectors that were more related to the economic recovery expected post pandemic and to substantial tax policies, with a specific focus on ESG securities. Expectations for inflation and the consequent risk of an increase of risk-free interest rates, which then materialised in the second half of the year, led to the decision to progressively immunise the most sensitive part of the portfolio against interest rate risk, with a substantial reduction of the duration.

Positions in the HTC accounting category
In 2021, the HTC portfolio of the Parent Company's Banking Book fell by a nominal 20.7 billion to 18.7 billion, following the completion of the forward sales negotiated in 2020 and at the natural maturity of securities. As regards the government portfolio, also in this case, the component that recorded the most significant fall was that of domestic securities, consolidating the process of risk diversification, which has been ongoing for years. It is also important to highlight that during the course of the year, around 2 billion in further forward sales was negotiated, which will be finalised in 2022.
With regard to the non-government component, the same investment policies illustrated above were adopted, reinvesting in maturing securities.

Trading and Funds

Positions in the HFT category

With regard to trading, it should be noted that the strategies set in place in the first few months of 2021 had to adapt to the new metrics (change of scenario/sensitivity of the "Stressed VaR" from rate scenario to credit scenario) and to the new risk limits adopted by the Bank, although continuing in the same direction as previous years. More specifically, also in line with the above, investments in bond instruments continued to be focused on the government component and on risk-free rates, both through IRS and CCT, with a view to reducing the effects of capital absorption and in compliance with the constraints and limits. As regards Government securities, the main focus was on country spread flattening strategies, and to a lesser extent, on option activity (both hedge and directional, above all listed) the management of which did not record successful results, apart from on the net interest income. Instead, the management of the residual portfolio of financial and non-government bonds made a positive contribution to the net financial result, as did the implementation of share trading strategies, and to a marginal extent, of forex trading.

Alternative Investments and Funds

In 2021, investment in Alternative Funds continued, and as in past years focused on Private Equity, particularly the green sphere, and with greater diversification of investments abroad. Promotion of the new Due Diligence and Mediation Service continued, addressed to Institutional Customers that invest in the private market, while in the area of investment in UCITS, during the year, a progressive reduction of the higher risk share component was made, shifting towards bonds.

Group Treasury

The interest rates established by the ECB on main refinancing operations, on marginal refinancing operations on Central Bank deposits, have not changed.
The particularly advantageous economic conditions of TLTRO III operations have increased direct exposure with the ECB from a nominal 27.5 billion at the end of 2020 to a nominal 39.2 billion at the end of 2021.
The Bank's excellent liquidity position, also resulting from a substantial increase in on-demand items by customers during the pandemic period, enabled the use of the monetary support from the ECB to be contained to an amount which, net of the cash invested in the Deposit facility made available by the ECB, and of the balance of the management account held with the Central Bank, amounted to around 1 billion at the end of 2021.
During 2021, the activities of the Money Market Desk recorded a high volume of forex swap operations, both to fulfil the coverage needs of accounts in foreign currencies at the various treasuries, and to seize arbitrage opportunities, generating an average monthly turnover of around 10 billion in nominal amount (value in euro).
Note that, from November 2021, the method to calculate rates for transactions with customers is no longer based on the Libor, but on the fallback rates published on Bloomberg on the mandate of the ISDA.

In March 2021, Banco BPM officially became a direct member of the Clearing House (central counterparty) LCH SA with access to the LCH Repo SA circuit. The operating benefits of direct membership initially regarded the activity of repurchase agreements with underlying German government bonds, then also extended to other European government bonds (Portugal, Ireland, Austria and Belgium). Said membership was in addition to that already finalised in December 2020 relating the Central Counterparty Eurex Clearing AG, whose business developed and consolidated in 2021. Note that in addition to providing an additional circuit to fund securities (funding liquidity) and to cover short positions, these memberships offer an advantage in terms of reducing operational, counterparty and reputational risks.
Membership of a greater number of Central Clearing Houses has enabled available collateral to be better optimised and therefore costs of funding to be contained. In terms of the secured investment of surplus liquidity, a marked decrease in volumes was recorded due to the fact that General Collateral repo rates continue to be constantly lower than the ECB Deposit Facility rate.
Secured funding activity on proprietary assets reported average funding of approximately 8.2 billion, while lending activity, excluding long-term operations, amounted to approximately 2.3 billion.
Considering the portfolio in dollars, the curve of USD repo rates showed little volatility in 2021, settling at levels of just above zero. To fund US government securities, a diversification strategy was adopted for maturities with a view to making the funding of said portfolio as efficient as possible.
The consolidation of non-collateralised securities lending transactions in the interbank market with counterparties of high standing, continued in 2021, and benefited from a strong liquidity position, which made it possible to optimise the economic return on High Quality Liquid Assets. The maximum outstanding amount of transactions closed was reached at the end of the fourth quarter with around 2.1 billion in active loans.

Medium/long term repo transactions, with underlying non-government bonds - in particular with the use of self-retained Covered bond issues and of ABS with underlying senior tranches of securitisations of bad loans guaranteed by the so-called GACS (State Guarantee on the Securitisation of Bad Loans) - recorded a substantial fall over the year against their progressive natural maturities. Overall, the amount financed, for all the above types, at the end of 2021, recorded a total outstanding amount of approximately 1.3 billion.
Efforts to support liquidity indicators continued also through an increase of collateral switch transactions with an outstanding amount of around 350 million at the end of 2021.
On the forex market, operators acknowledged the strong global growth that characterised the world economies in 2021, recording significant market volatility on the EUR/USD exchange market, also due to expectations of a reduction of purchases of assets by Central banks (tapering), which resulted in a stronger dollar against the euro, reaching lows in November, based on the prospect of higher American rates in the short term.
Note that 2021 marked the start of an intense period of collaboration with the Commercial network on spot and forward exchanges; in 2022, interesting prospects of collaboration with the department that handles "foreign" products are expected to develop.

Portfolio Management

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

With regard to the assets managed, the investments made privileged exposure to the equities asset class, with a strategic overweight position, although preferring technical/tactical positions in terms of geographical area and, particularly, in terms of sector to manage the higher volatility, not perceived at aggregate level, due to swift sector rotations. The negative yields offered by European government curves made investments in the government bond asset class unattractive; the persistently high inflation figures, solid economic growth and the tapering process, which was faster than initially expected and which characterised the last few months of the year, resulted in a prudent positioning, with an average duration of managed portfolios that was contained and underweight with respect to the benchmark parameters. A selective and prudent approach was maintained for the corporate segment, with a view to seizing market opportunities. Currency diversification in the portfolios, also based on a weighted risk spread, was also managed using a tactical approach and generally made a good contribution to the performance of the managed portfolios.
The results for the year were overall positive, and on average higher than the benchmark contractual parameters.
As at 31 December 2021, assets under management totalled 3.5 billion, slightly down on assets at the end of 2020 (3.2 billion).

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.
The activities carried out in 2021 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 which are returned to their owners, while owned properties become available for sale or lease to third parties, also resulting in savings on fixed management costs.
To date, transfers have been completed from Rome via Ludovisi to Rome Parco dei Medici and piazza Flaminio, from Milan viale Fulvio Testi to Milan via Massaua and piazza Meda, from Verona via Quintino Sella to Verona via Meucci and piazza Nogara, with a total annual saving of around 3.1 million.
In addition, the project regarding the closure of 300 branches was concluded, with the return of 200 buildings to third-party owners, with a saving on lease payments of 6.8 million per year.
With regard to the Eracle Fund, after entering into the new agreement and the consequent signature of new lease agreements, 72 buildings were returned to the owners.
The technical and legal management of all non-operating assets of the Group is assigned to Bipielle Real Estate and also includes buildings originating from lease agreements in default. With the incorporation of Bipielle Real Estate

into Banco BPM, effective 1 January 2022, the process of reorganisation of the real estate sector is now complete, with the allocation of the activities to the above-indicated departments.

Activities relating to the enhancement of non-operating assets encountered an Italian real estate market that was, obviously, heavily conditioned by the pandemic that has impacted the country since 2020, and which in 2021 recorded significant signs of growth.
After the start of the pandemic, a net hierarchy emerged between asset classes at European level. European trends show that the residential and logistics sectors will continue to represent interesting opportunities for investors in real estate in 2022. In Italy, logistics is the number one asset in 2021, with prices that have reached new records.

The Italian real estate market confirms the recovery, as stated in Nomisma's third report on the sector. Also the statistics of the Real Estate Market Observatory (OMI) of the Inland Revenue Agency highlight the recovery in sales and purchases of non-residential real estate: all non-residential segments have shown an uptrend, starting with tertiary-commercial, which encompasses over 50% of all trading volumes in this sector, even though the price trend has not been as lively as that of the residential sector. More specifically, the prices of the office sector were stable, although distinctions were recorded with respect to single markets, while the commercial market recorded a slight negative downturn.
The least dynamic sector was that of production real estate, even though a significant rise in purchases and sales was recorded.
The OMI reports that in the third quarter of 2021, sales of offices and private studios rose by 18% compared to 2020, topping +30% in the North East, while transactions relating to shops and laboratories recorded an increase of +22.7%, distributed fairly evenly over the country. Purchases and sales of commercial deposits and garages (+30.6%), warehouses and factories (+47.1%) were up. Lastly, the agricultural production sector also recorded a rise (+19.3%). The hotel sector also recorded an increase, although a long way from the record levels of 2019.

Despite the context of recovery, obstacles to sales continued to be present, which slowed down the process, above all as regards the Public Administration, with delays experienced in approvals of the building and urban permits needed to finalise the notarial deeds.
Nevertheless, the Group entered into deeds of sale worth around 115 million, up by 34% against 2020, while it made commitments to sell, or approved sales worth a further 100 million.
The most important transactions regarded the sale of several building complexes, formerly operating assets, including: Piazza Mercanti in Milan (for a price exceeding 13 million), Via Quintino Sella in Verona (for a price of around 8 million) and Piazzale Accursio in Milan (for a price exceeding 5 million). We also draw attention to the disposal of properties underlying NPL positions as part of the sale of a portfolio of bad loans to Doria Leaseco-Illimity for the so-called L-Ace project (52 properties) and Zeus Leaseco for the so-called Titan project (32 properties).

Unfortunately, the commercial lease segment has not recovered from the pre-pandemic levels, although, compared to the first half of the year, it recorded an average increase in volumes of 3.5%. As regards lease payments, on an annual basis, increases were recorded for homes and offices, while decreases continued to be recorded for shops, the same that were affected by sales prices.
Tourism, alongside catering, was one of the sectors most hard hit at global level by the pandemic; the restrictive measures related to the spread of cases conditioned the trend of income from tourism, during the first and last part of the year. The hardest hit sectors (shops, hotels and gyms) encountered difficulties in making their lease payments.
In 2021, albeit to a lesser extent than in 2020, several lessees in the tourism, hotel and retail sectors that were most affected by the pandemic, requested payment postponements or temporary reductions of lease payments. The Group approved the majority of these requests, both by signing new settlement agreements and by accepting part payment through the tax credit accrued on lease payments. The negative economic impact amounted to over 5 million, recorded mainly by the subsidiary company Release, which holds several hotels with international business and tourism customers, heavily affected by the pandemic.
Again as regards the sector of property used for tourism-hotel purposes, no negative impacts were recorded for the subsidiaries Lido dei Coralli, Terme Ioniche and Sagim: for these companies, the real estate development process continued, through the regularisation of owned property complexes with the land registry and town planning bodies, as well as extraordinary maintenance work and changes needed to fulfil legislative requirements.
At Group level, work continued in any event on "generating income" from free spaces, including those resulting from recent branch closures and, in this regard, new lease agreements were signed for a total of new annual payments of around 5 million, the main ones of which regard a portion of the building complex in Rome, via Anagnina leased by Release to the Lazio Regional Authority and a part of the building in via del Pescaccio in Rome leased by Sirio to a subsidiary company of the same Regional Authority.

RISK MANAGEMENT

Capital adequacy and main risks

The current level of own funds and of risk-weighted assets means that Banco BPM Group is easily able to comply with both the regulatory thresholds and the specific thresholds required by the Supervisory Authority on conclusion of the Supervisory Review and Evaluation Process (SREP).
In order to provide its Management team, stakeholders and the Supervisory Authority with a complete and informed disclosure, which confirms the adequacy of its own funds, the first defence against the risks assumed, Banco BPM Group assesses its capital situation from a current and future perspective, both as regards Pillar I and Pillar II, based on Basel 3 rules and the specific guidelines that the banks receive from the 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 effectively 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.
From an operating perspective, activities to prevent assuming risks that are not consistent with the risk appetite are specifically covered by the process to manage the ex-ante opinions of the Risk Function (Most Significant Transactions - MST and Significant Transactions - ST[1]), which must express a prior and non-binding opinion on all transactions that fall within the parameters established by internal regulations. 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 & 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.

During 2021, the periodic monitoring of the Group's capital adequacy (ICAAP), also in the light of the enhancement of the internal regulatory framework, was revised by "limiting" the scope of analyses to trends of scenario triggers. The definition of the macroeconomic scenarios adopted in the Bank's main processes continues to be the prerogative of the Scenario Council, for subsequent presentation to the Corporate Bodies. The Scenario Council consists of a team responsible for defining and updating or confirming the macroeconomic scenarios adopted in the Group's strategic processes in light of external events or specific vulnerabilities of the bank. It is also responsible for identifying the specific processes impacted and their potential updating. The team is comprised by the Chief Financial Officer and the heads of the Planning and Control, Risk and Administration and Budget Functions, with the participation of the Head of the Audit Function as auditor. In 2021, the Scenario Council met 7 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 VaR risk estimation model, belonging to the category of default models, which is applied on a monthly basis to credit exposures of Group banks. This model enables the economic

[1] The MST relate to credit and finance transactions, sales of non-performing receivables, purchases or sales of owned assets or other relevant transactions); the ST regard both loan granting transactions and assessments on classifications, and relate to the Credit area. Note that the credit category also includes leveraged transactions

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

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

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

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

The management of non-performing loans in Banco BPM Group is based, to a great extent, on a model that assigns the management of a specific set of loans (portfolio) to specialist resources. 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 an automated calculation proposed and maintained by the Credit Governance Function and validated by the Risk Function, for Past Due positions regardless of their amount and to those classified as Unlikely to Pay or Bad Loans for amounts below a materiality threshold (of 1 million), while amounts over said threshold are quantified analytically by the manager. Value adjustments measured analytically by the managers are periodically reviewed.

Note that, with regard to the cost of credit for the purposes of the financial statements, an analytical valuation is made by the manage on defaulted positions within the Group's perimeter.

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), solely for management purposes and to support capital adequacy assessment processes (ICAAP), the Parent Company and Banca Akros use internal methods to estimate exposures to the risk of possible default of counterparties in OTC derivative transactions subject to Collateral Agreements (Credit Support Annex - CSA).

The estimate of exposure to counterparty risk for positions in OTC derivatives for counterparties with whom a collateral agreement has been signed (CSA) is carried out using the simplified Shortcut Method simulation and assessed based on possible changes to the Mark to Market of the individual contracts underlying the same reference CSA, with a time horizon provided by the risk margin period for each contract. The measurement is also implemented in the Parent Company and Banca Akros lending process chain, together with a daily monitoring and reporting system. For the purposes of Prudential supervision, the Group adopts the standardised approach SA-CCR, which came into force in June 2021, to estimate exposure for the entire derivatives scope.

For the remainder of the perimeter exposed to counterparty risk (repurchase agreements, securities lending and medium/long-term loans), the amount of exposure is calculated using the standardised approach, also adopted for Supervisory Reporting.

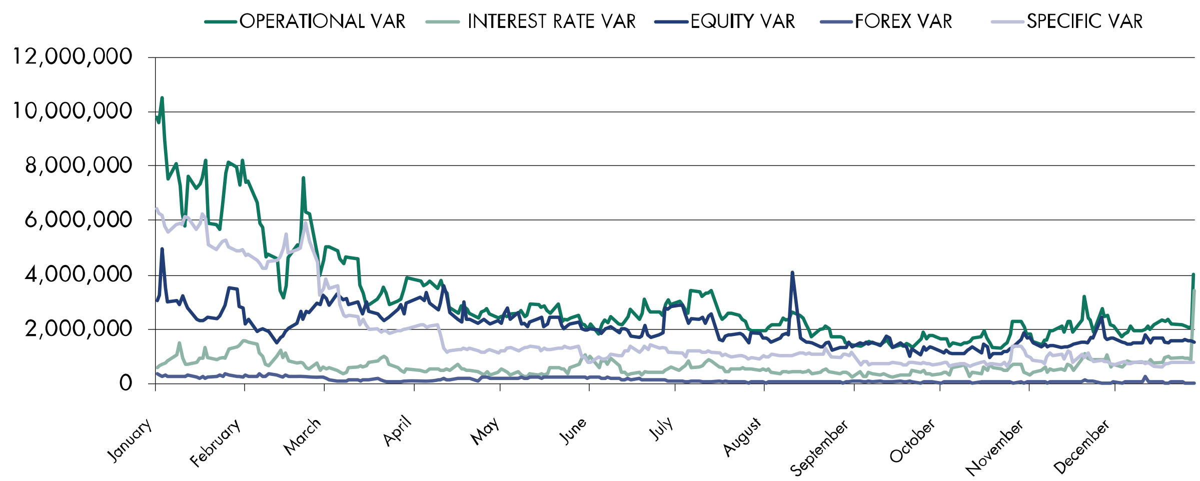
In accordance with the Basel 3 Framework, additional capital requirements regarding the following are to be calculated:

- 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.

Furthermore, from September 2021, the Group has met the obligation envisaged by European Legislation (Delegated Regulation (EU) 2016/2251), by exchanging, based on the relative contracts (CTA - Collateral Transfer Agreement), the initial margins of OTC derivatives not cleared by a central counterparty, which provide additional protection in the event that one of the two counterparties is not able to meet its commitments over the life of the contract. Banco BPM Group uses the SIMM method, whose calculation is mostly risk-sensitive, and is based on aggregate sensitivities by risk and product category. 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.
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 by Banco BPM Group, on 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 uses the extended model to calculate the capital requirement for Market Risk. Said requirement is therefore calculated on the basis of VaR, Stressed VaR, including the specific risk of debt securities, and IRC. During 2021, significant refinements were made to the internal model, with a view to fulfilling the Obligations of previous inspections: the changes regarded, in particular, the measurement of foreign exchange positions, the quality of VaR, Stressed VaR and IRC market parameter data, the process of identifying and managing Risks Not In Model Engine (RNIME) and the Incremental Risk Charge (IRC) calculation method. As regards the latter, a limitation is in place with a 10% add-on on an individual and consolidated basis, until several relative methodological findings have been resolved.
The performance graph containing the operational VaR figures for 2021 related to the regulatory trading book of Banco BPM Group, is shown below.

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



In the first half of 2021, the prevalent risk component is that relating to equity risk, following the derisking which took place between the end of 2020 and the start of 2021, and which involved especially the bond portfolio, due to the need to respect the Market RWA limits after the extension of the internal model to the specific risk of debt instruments. In particular, portfolio risk was lower in the second quarter of 2021, due to the removal of the March/April 2020 scenarios from the VaR calculation.

In the second half of 2021, the prevalent component related to generic risk on equity instruments (with the exception of the peak of interest rate risk at the end of the year due to a technical change of the repo curves at year-end). The changes in these securities are mainly due to the trends in the Group's overall risks in the second half of the year. More specifically, the portfolio showed a lower level of risk in the second half of the year, due to lesser importance of the specific risk component, following its exit from relevant scenarios for the calculation of VaR in March 2020 and the significant reduction of the exposure in Italian government securities in the second 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 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 Regulation EU 575/2013 (CRR) 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 that the measurement of potential profiles of exposure to these risks is always accurate, as well as the continuous improvement of management practices and risk prevention and mitigation techniques, with the constant objective of reducing the frequency and the severity of operational loss events in the medium term, Banco BPM Group has developed a measurement and management system (standards and processes, actors, roles and responsibilities and IT models and applications) in line with industry best practices. 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 2021 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 2021, all regulatory liquidity reports required at the level of Banco BPM Group were prepared. Note that from June 2021, the NSFR is a regulatory requirement for banks with a minimum of 100%, in compliance with Regulation 2019/876 of the European Union (CRR 2).

For further information on credit, financial and operational risk, please refer to Part E in the Notes to the financial statements, which is dedicated to risk management. The same section also contains detailed information on structured credit products, on exposures towards Special Purpose Entities, on securitisation transactions and operations in derivatives. The models developed internally by Banco BPM Group are subject to periodic tests by the Internal Validation function, which is independent from the functions in charge of developing the models. The results of the tests are illustrated in specific reports shared with the Corporate Bodies.

Outlook for Group risks and objectives

The macroeconomic scenario currently envisaged for 2022 sees the continuing recovery of Italy's GDP, which showed a significant trend in 2021, but which will still be influenced by the evolution of measures to contain the pandemic and by developments in the international scenario relating to the Russia-Ukraine conflict. In this regard, refer to the paragraph below "Outlook for business operations" in this report.

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

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 on the implementation of the new regulatory requirements was completed, which were 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

In a year that continued to be characterised by complexities and uncertainties as to the extension of the state of emergency due to the Covid-19 pandemic, to safeguard everyone's health and to guarantee the best working conditions (limitation to the number of people present, social distancing and provision of PPE), Banco BPM confirmed the extension of smart working, already adopted in 2020, flexibility for starting and finishing times and receiving customers by appointment in periods of highest alert.
The extension of this approach, on one hand guaranteed greater safety and encouraged the quality of the work-life balance, and on the other hand, enabled digital know-how to be further consolidated and strengthened, by adopting new work organisation approaches.

In addition to measures that sought to guarantee safety and the opportunity to continue to work as normal despite the continuation of the state of emergency, various initiatives were set in motion with a view to focusing business strategy on people, by listening, enhancing existing skills, experience gained, potential and professional aspirations, by planning personalised career paths, in line with personal traits and company needs.

In 2021, in accordance with the trade union agreement regarding the voluntary exit scheme, 450 new hires were made, against 1,283 employees leaving (access to the Solidarity Fund and subscription to Quota 100), favouring apprenticeship contracts, thus supporting the employment of young people and promoting generational turnover. The new employees joining the Group contributed to business development as they possess the new skills required by the market and by the changed context of reference, increasingly characterised by the use of new technologies.

The breakdown of personnel by category and gender as at 31 December 2021 is shown in the table below:

Category	Men			Women			Total
	Full-time	Part-time	Total	Full-time	Part-time	Total	
Executives	258	-	258	39	-	39	**297**
Middle Managers	5,299	36	5,335	2,060	392	2,452	**7,787**
Professional Areas/Other Personnel	5,347	174	5,521	4,001	2,811	6,812	**12,333**
Foreign employees	13	-	13	7	-	7	**20**
Total workforce	**10,917**	**210**	**11,127**	**6,107**	**3,203**	**9,310**	**20,437**
of which:							
Apprentices	213	-	213	265	1	266	**479**
Permanent contracts	10,704	210	10,914	5,842	3,202	9,044	**19,958**
Supply contracts	-	-	-	-	-	-	**-**

Planning and Development

In continuity with the 2020 plan, the Development model was applied in the process of managerial turnover implemented at the time of the voluntary exit scheme. During the first half of the year, career growth requirements were mapped, to define the pool of resources for managerial positions. Qualitative information available was assessed (expertise, potential, performance, experience) to define diversified career paths, with timelines based on individual profiles.
In this mapping exercise, the information gathered through the Development section of the Performance System enabled information of the professional aspirations of the individuals to be integrated, therefore making them a responsible and active part of their career paths.
This approach enabled development programmes focused on three population targets - Managers, Talents and Young People - to be planned - which will then be implemented from 2022. Each programme envisages specific management and development actions, with the objective of enhancing and consolidating individual talent.
The first to be implemented was the "Gender Program", the objective of which is to promote the development of female managers and professionals through personal career paths, to encourage a greater presence of women in managerial positions and to overcome the gender gap that has been created over the years. In 2021, 110 colleagues from the retail network participated in the first stage of the empowerment program dedicated to them.

The 2020 performance assessment was concluded at the beginning of the year, with the consequent return of feedback and the establishment of the development objectives for 2021. At the end of the year, around 19,800 resources took part in the 2021 self-assessment. The system, applied to all Group companies, promotes the empowerment of managers and collaborators and encourages the diffusion of quality conduct, via the recognition of individual performance and the application of assessment criteria based on the principles of fairness and merit. These contribute to creating a harmonised culture in empowering employees and enable managers to develop their own leadership style.
In parallel, the 2020 assessment cycle was completed and the 2021 cycle for top management was launched, and continues to maintain its reference to areas relating to ESG targets.

In collaboration with Selection and Assessment, a survey was launched to identify technical expertise in the credit area, which involved people working both in the Commercial Network and in Central Functions, for a total of around 3,500 people. The objective of the survey was to identify the technical areas covered, finding the main gaps and establishing training courses to consolidate expertise in the credit granting and monitoring processes (upskilling and reskilling), in accordance with EBA guidelines within the LO&M project.

Selection and Assessment

The update of the selection process, launched in 2020, was completed in 2021, and entailed the digitalisation of each stage of the same. The process was transformed to attract the new generations and to meet the expectations of new graduates and the continual evolution of the labour market. Around 2,550 people were screened in the selection process, to meet the requirements for new professionals with qualifications in the Group’s key areas. The Selection addressed to hiring young people represents the first time that their potential is assessed.
In 2021, as in previous years, 35 internships were set in place, addressed to young university students and new graduates, with a view to putting the knowledge acquired during their studies into a work environment, and to develop their organisational and managerial skills, which will help increase their awareness when making future job decisions.

In collaboration with Planning and Development, Employer Branding activities, planned with the Universities that «train the Best» and with the major Business Schools, were conducted to support generational turnover, with initiatives to engage and attract young people and to convey the image of a dynamic and innovative company.
The activities carried out regard Education schemes with a view to making the know-how of the Company’s professionals available to schools and universities. All schemes were held remotely and involved a total of roughly 2,000 young people and 38 colleagues in collaboration with 14 institutions (universities, business schools and training organisations).

Consistent with the development model that envisages measuring potential, between May and July, Assessments were conducted on people that work in the commercial network, with a view to accessing their first managerial positions.
The assessment is an integral part of the person’s individual profile: it highlights their talent components and their strength to tackle new challenges. By means of feedback, it helps the person in question to acquire greater awareness and contributes to drawing up personalised and coherent development plans.

Training

In 2021, Training accompanied and supported staff in their professional and managerial growth, with updated job-based training courses, consistent with the changed context, supporting change management and pursuing company strategies, exploiting the potential of digital through the mobile channel and redesigning the experience in a virtual classroom.

The main training initiatives implemented in 2021 were:

- #Respect Programme: to encourage the development of a culture of respect within the Company, and to promote the spread of conduct and management practices characterised by respect. The programme stimulated an important reflection on the interpretation of respect in the company, focusing on five relational areas: Man-Woman, Manager-Subordinate, between Peers, between Functions and between the Network and the Head Office, Bank-Customer, resulting in more virtuous behaviour;

- Central Structures - Circles of value: to stimulate second-line managers to promote a new style of management, involving them in a reflection aimed at raising the quality of complex and generative problem-solving processes, empathetic communication, and a positive vision with a view to implementing pervasive, shared and identity-creating leadership, based on responsibility and flexibility;
- Retail Network - "In-branch Team coaching": to consolidate a modus operandi and a customer approach based on method, planning logic and the involvement of everyone in the Team to achieve sustainable objectives, by adopting a relational approach focused on coaching and clear, transparent and widespread communication on the reason for this approach to doing business;
- Corporate Network - Being Corporate: to jointly build and explore a structured Customer Approach model, in advance and by a team with a view to generating value for the customer and for Banco BPM, through effective, distinctive and shared leadership style and people management, with a view to involving everyone in a common objective to develop a sustainable business, in step with the changing needs of business customers;
- Disability Management: to promote a cultural change in the company and to facilitate the inclusion of people with disabilities; to improve business processes based on the involvement of people with disabilities in all facets of working life;
- Digital transformation project: to share the context of digital transformation in Banco BPM, facilitate the knowledge, the informed adoption and the promotion of the services and products designed as part of the .DOT Programme initiatives, to develop a common language for the concepts that characterise the omnichannel strategy. More specifically, with the Digital identity, online financial advice and smart selling initiatives, new apps for private and business customers;
- IT transformation and strengthening Group Data Quality: to support the IT transformation and reinforce the role of Data Quality and Group Cybersecurity, by mapping the specific knowledge of the IT/Data Governance and Cybersecurity sphere, and other supporting know-how. Upskilling and reskilling training programmes were carried out for the people involved: data analytics path;
- ESG Programme: to develop the ESG issues that have emerged from the training requirements expressed in the various initiatives of BBPM's ESG programme: Governance, People, Clients-Business, Clients-Wealth Management, Risk&Credit, Environment, Stakeholder engagement & Measurement. The initiatives focused on developing a people-centered business culture and facilitates the inclusion of Banco BPM's ESG commitments: from green awareness to ESG Ambassadors, from the energy upgrading of businesses to financial sustainability and the relative actions actually performed in the company, from sustainable investments to the responsible asset management;
- New Skills Fund - ANPAL: to develop a path of cross-functional, digital and technical skills for all of the colleagues of the 300 small branches involved in the rationalisation process of the Commercial Network of Banco BPM Group. There were three focus areas: soft and digital skills, re-skilling and up-skilling in financial consulting and credit risk assessment and monitoring, and the culture of compliance in sales processes. The training project was entirely funded by the New Skills Fund;
- Control Functions Programme (Audit, Compliance, Risk): to provide the reference framework needed to do the job with the highest recognised professional standards; to improve the knowledge of risk measurement methods in light of legislative changes and emerging risks; to explore auditing and compliance methods; to improve the knowledge of methods to prevent and combat fraud; to guarantee expertise in the digital tools applied in the control structures currently available or to be used in the near future; to acquire "Certified Internal Auditor" certification;
- Skills in risk prevention and control programme: to develop skills and greater awareness of the importance of proper risk management, and promoting and spreading a culture and awareness of operational risk. The growing relative importance of the Bank's reputational dimension requires an increasingly extensive culture to prevent risk in banking groups at all levels (compulsory and qualifying training);
- Credit culture: to spread and consolidate a company credit culture that is consistent with EBA guidelines and with legislation on credit risk governance. Training schemes have been developed in line with the development of new features relating to assessing the business plans of enterprises, the management of agricultural credit transactions and the rules for classifying new customers for prudential purposes resulting from the New Definition of Default;
- Sales4Change Project: to consolidate synergies and to promptly develop shared commercial actions, involving the various company departments that contribute to the commercial process. New features have been added, the most important of which regard Corporate and Business commercial planning, credit exposures and the economic conditions applied to customers;

- Development of CIB Cross Selling: to spread a culture of CIB products and transactions with higher added value, to maximise information sharing and cooperation and to offer a complete sales proposal, shared by Investment Banking and the Corporate, Businesses and Banca Aletti Networks;
- On-the-job training for the Retail commercial network: to accompany the professional growth of positions. The on-the-job training programme has been completely redesigned so that it can be provided in a virtual classroom and through e-learning. The skills are always aligned and strengthened to develop commercial relations with the customer by providing a personalised service in line with market changes, adopting effective ways of communicating and negotiating, and efficient work planning and organisation, consistent with the Group's business approach;
- Training courses for the Corporate commercial network: to guarantee continuous training on specialist and in-depth topics, through the adoption of relational, communication and inter-operability models, of new operating tools and of sales opportunities with product companies. The training provided in previous years was consolidated, to support the specific skills of the position, consistent with strategic business objectives and credit risk governance;
- Group bank training: to develop specialist skills:
  - Banca Aletti training: the training activities launched in 2020 continued and were implemented, with a view to improving technical, commercial and relational skills. More specifically, the specialist training focused on applied behavioural finance and financial personalities, taxation in Private Banking, the ESG certification course to prepare for the EFPA/ESG Advisor exam, the value of questions.
  - Banca Akros training: the training activities launched in 2021 continued and were implemented to improve technical, commercial and managerial skills. More specifically, the specialist training focused on basic and advanced Financial Modelling, the ESG certification course to prepare for the EFPA/ESG Advisor exam, behavioural finance and the value of questions.

In 2021, training was mostly provided virtually (synchronous and asynchronous), following the careful redesign of all training initiatives into different modes (virtual classroom; e-learning; mobile learning). Two Smart Learning initiatives were also set in motion.

The table below shows the hours of training provided in 2021, broken down by the various types of training course and the level of attendees.

2021	Man-days/ Hours provided
Training days	138,623
Training hours	1,039,673
of which in % by training area:	
Mandatory	12.8%
Technical - professional	33.5%
Qualifying technical professional	42.8%
Relational/skills development/commercial	8.5%
Managerial	2.3%

Remuneration Policies

With regard to remuneration policies, the short-term and the long-term incentive schemes were particularly important, as they aim to encourage the involvement and participation of personnel in the achievement of the objectives of the company and of the Group as a whole, both in the short and medium term.
The short-term incentive scheme has proven to be a useful management tool for the company to recognise the contribution of its personnel and reward individual merit, the purpose of the long-term incentive scheme, which will end in 2023, is to align management interests with those of all stakeholders that are important to the Group.
Detailed information concerning the Group's remuneration and incentive policy can be found in the "Explanatory report on the remuneration policy and payouts awarded of Banco BPM Group", 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

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

Prevention measures as regards health and safety in the workplace
With regard to the continuing serious problems caused by the Covid-19 pandemic and the consequent risk of infection in the workplace, the precautionary measures already adopted in 2020 were confirmed, adapting them to the preventive measures established by the emergency legislation in force at the time, in particular confirming the widespread use of smart working and the option of using periods of voluntary absence.

Reduction of the workforce
The implementation phases of the trade union agreement made at the end of 2020, regarding the reduction of the workforce, received particular attention, moreover integrated, at the beginning of 2021, by a specific agreement to increase the total number of workers able to access the extraordinary subsidies of the Solidarity Fund from 1,500 to 1,607.

Company interventions
Initiatives to further rationalise the group's corporate and operating structure were examined, relating to the merger by incorporation of ProFamily, Release and Bipielle Real Estate into the parent company Banco BPM.
The consequent processes of relocation for the personnel in question did not have any repercussions in terms of territorial mobility and were accompanied by training sessions for any necessary professional retraining.

2021-2024 Business Plan and development of the network model
The 2021-2024 Business Plan was illustrated, alongside the related evolution of the Group's commercial network, through the adoption of organisational solutions that seek to maximise the effectiveness of level of customer service.
The above-mentioned organisational solutions were the subject of a specific disclosure and discussion procedure with the trade unions, as envisaged by the national contract for the industry.

As regards the complex negotiations, which started at the end of 2021, the agreements illustrated below were reached.

Company Bonuses and Welfare
To acknowledge the particular commitment of employees in the Professional Areas and of the category of Middle Managers to ensuring the continuity and the effectiveness of the services provided to customers, with relation to 2021, a Company Bonus, for the amount of 650 euro per head has been recognised, for which individuals may choose between two options (welfare or cash), as well as, a Welfare Bonus for an additional amount of 600 euro per head, of a non-monetary nature, which can only be used for welfare purposes.

Integration of the second-level contract as regards professional figures
The professional figures envisaged as part of the above-mentioned development of the network model and the related activation of Business Centres, have been integrated into second-level contracts, with a view to safeguarding the professional career paths already undertaken by the personnel in question, as well as, more specifically, to acknowledge the professionalism and specialist skills of the professional figures of the Business Centre Director, the Development Coordinator, the Company Coordinator and the Private Customer Coordinator.

Professional training and re-training
Access to funding from the Inter-professional Training Fund (Fondo Paritetico Interprofessionale - a Fund for Banks and Insurance Companies) was established, to provide a comprehensive series of training courses, confirming training as a toll for cultural integration and change, as well as for re-training, acquiring the skills needed to support professional career paths.

Use of voluntary absence from work
Again in 2022, the option to use voluntary absence from work, partially paid, for personal or family needs, was confirmed, and relates to the residual available days (30,000) of the voluntary suspension plan launched in previous years.

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; furthermore, for the only foreign entity belonging to the Group (Banca Aletti Suisse), it conducts its own audits in addition to those conducted by the local structure assigned audit activities and coordinates with the same where necessary.
When performing its duties, the Audit Function takes the provisions of the widely accepted professional standards into account.

The audits conducted in 2021 regarded the following areas:

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

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

The most significant activities involving the Audit Function in 2021 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, 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).
We also draw attention to the audits conducted on the processes adopted by the Group for the management of real estate and public collateral against customer loans, as well as to monitor credit exposures relating to the supporting measures for 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.
During 2021, 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.
The Compliance Function worked on identifying the applicable regulations and assessing their impacts on company processes, models and procedures, providing advice on compliance, as well as assessing compliance with internal regulations as part of the issuing process. In application of the annual or specific plan required by the Corporate Bodies or the Supervisory Authorities, the Function conducted compliance checks to evaluate the existence and adequacy of governance, organisation, control and IT measures of the Group, their strength and effectiveness in

mitigating compliance risks, and the compliance of the operating practices and conduct of employees or workers, reporting any situations of non-compliance and identifying possible remediation actions, monitoring their implementation. The Compliance Function also provided advice and assistance to the Group's corporate structures on topics where compliance risk is important, particularly as regards preparatory work relating to the issue of internal regulations and sales proposals.
The Function also provided its assistance in conducting personnel training courses, in order to disseminate and promote a solid and robust risk management culture within the Bank, adequate knowledge of the regulations and the relative responsibilities, as well as ensure awareness of the supporting instruments and procedures in the fulfilment of obligations.
The most significant activities involving the Compliance Function in 2021 included in particular: (i) the launch of a project to innovate Compliance methodologies; (ii) IT development implementations, in line with the changes introduced to methodologies; (iii) the automation of the process to manage and calculate the main Key Risk Indicators to support compliance analyses from a forward-looking perspective; (iv) the continuation of the refresher training course, launched in 2020, addressed to internal resources.

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).
Also in this case, the activities are performed for both the Parent Company and the 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 and 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 remedy the issues found.
Among the findings of the Anti-Money Laundering function in 2021, the following are of particular interest: (i) the update of the Anti-Money Laundering and prevention of terrorist financing Regulation; (ii) the consolidation of the function's organisational model, as well as strengthening Anti-Money Laundering Controls, also by adopting a control system designed on the basis of KRIs - Key Risk Indicators; (iii) the various training schemes, also directly provided by the Anti-Money Laundering function, addressed to the Commercial Network, as well as to head office resources, and specific sessions addressed to Corporate bodies (board induction).

Research and development

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

The main initiatives for each area are outlined below.

Technological projects and investments

Legal compliance

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

IBOR's Transition – The transition of benchmark rates

By the end of 2021, the majority of the activities envisaged by the IBOR Transition project had been completed. The project mainly entailed aligning the organisational and IT processes, and the contracts and regulations of Banco BPM to the provisions envisaged by European Regulation 1011/2016 (Benchmark Reform, BMR), which has redesigned the legislative framework on market benchmarks.

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

New Definition of Default (DoD)

As of 1 January 2021, for regulatory purposes, the application of the New Definition of Default (”DoD”) became compulsory, deriving from the implementation of the “RTS on the materiality threshold for credit obligations past due under Article 178 of the CRR (EU Delegated Regulation 2018/171)” and of the correlated EBA guidelines “EBA Guidelines on the application of the definition of default under Article 178 of the CRR”.
The above-mentioned regulation, while confirming the bases of default in payment delays and in the unlikely to pay status of the borrower, introduces several stricter criteria to identify non-performing positions and their subsequent return to performing.
In 2021, the internal models for the measurement of credit risk were amended, in order to implement the new definition of default, as part of a wider project to revise A-IRB models.
For a detailed illustration of the changes introduced in 2021 to advanced internal A-IRB models, please refer to the content of Part E, Section 1 - Risks of the consolidated book - A. Credit Quality of the notes to the consolidated financial statements.

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, as well as changes to the corporate structure that could impact the model in question.
In 2021, a series of actions were completed to strengthen the 231/01 system, including:

- the greater involvement of the Compliance Function as regards monitoring the effectiveness of the Model and, in particular, in validating it, in reporting the need for any changes, and in mapping risks;
- strengthening the means of communicating the Model by checking that employees have consulted the model through online tracing, and verifying the effectiveness of training, also by managing the outcome of the courses taken by employees;
- acquiring an opinion on the risk assessment method used by the Compliance and Risk functions (Internal Validation);
- a 231/01 risk mapping exercise, which involved the commercial network, the central departments and top management bodies, to identify the areas that are most exposed to the likelihood of the crimes identified by Italian Legislative Decree 231/2001 being committed.

In addition, to increase the awareness of the risks of committing the crimes identified by Italian Legislative Decree 231/01, and to contextualise them with respect to the activities performed, information sheets were drawn up to show the connection between the activities performed by the various Group departments, the crimes that could be committed, the general principles of conduct, specific control ones and the reference to the company regulations in place.

Italian Legislative Decree 231/07 – Anti-money laundering and the prevention of terrorist financing
In 2021, Banco BPM updated its reference regulatory framework, as regards both Anti-Money Laundering and prevention of terrorist financing, which illustrates and justifies the decisions that the Group has taken as regards preventing the risk of being involved in money laundering and in international terrorist financing, and the operating rules, accompanied by developments in the IT system, to align it with the changes introduced by external provisions and, in particular, the update of the Bank of Italy circular “Instructions regarding customer classification”.

Technological projects and investments

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

DOT – Digital Omnichannel Transformation
In 2021, Banco BPM completed the main enabling elements of the new omnichannel and digital model, with specific reference to infrastructural elements, to services that enable customers to interact in the new digital context in the

various remote channels available, autonomously or by interacting directly with customer relations managers and with the bank's other commercial departments.
Of the various changes made, we draw attention to the creation, in addition to that already available to private customers, of the "Signature Room" for businesses, which, in addition to enabling documents and contracts to be signed digitally through internet banking, also enables financial advice to be offered.

The progressive adoption of the new solutions introduced by the Programme and of the new sales processes has continued through the provision of new digital services, the update of the catalogue and enabling customers.
In 2021, the programme focused on the sale of products and the provision of services in Self and Online Offer modes.
The development of the Web and App channels as regarded both sales activities, focusing in particular on insurance products, credit cards, payment systems and granting certain forms of financing, and the release of new services dedicated to optimising customer assistance.
The latter include the launch of the "Call me Now" and "Call me Back" service, the launch of the "New Onboarding You" to attract prospective customers, which includes the new Conto You (You Account) and the new Bancomat You (You Cashpoint card), as well as the Digital Identity contract.
The diffusion of the Digital Identity of private customers recorded in 2021 has led, and will continue to lead, to the progressive reduction of the production of paper documents in branches.
In 2021, the remote financial advisory service was launched, provided through a completely digital and paperless process, and customers showed their appreciation of the advantages of the new service, with a large number signing up for it. In parallel, the catalogue of online services and products was extended with the addition of bancassurance products (non-life).
Targeted interventions were also carried out to improve customer assistance, also through evolved support features, such as a new virtual assistant. Furthermore, the development of the Customer Centre was launched to exploit interactions of a higher value for the Bank and for customers, with a view to adopting a Digital Branch model.
The .DOT Programme has also led to an improvement in open banking services, the creation of a new App for Business Customers and to other work to improve and update the functions of the public website.
In 2021, the Customer Relationship Management system was fully overhauled in terms of industrialisation of contact, listening to customers and the architectural elements of the model.
The development of smart lending processes with a push approach is also of note, with reference to specific technical forms of loans, and of subsidised loans.
During the year, within the Programme, a feasibility study was also carried out to achieve the onboarding of prospective business customers, which is expected to be implemented in 2022.

Other areas developed:

IT Architecture and Cloud Adoption
In 2021, the applications architecture model for Banco BPM's new IT system was defined, the main technical components of which are leading market solutions, with a view to guaranteeing greater agility, automation, resilience and enabling new service models. Furthermore, Cloud solutions have been adopted to benefit from advantages in terms of speed, scalability and cost optimisation.

Data Quality and Data Analytics
To ensure the correct advancement of the business model and compliance with regulatory and legislative requirements, projects have been launched to increase data reliability and to define analytical synergies to produce information of value; specific focus on the credit world with the implementation of the relative DWH.

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

Managing Obsolescence
To guarantee the quality and continuity of the service provided and to reduce any IT risks, an overall assessment of the state of obsolescence of the applications pool, at the end of which a series of activities were prioritised, with a view to upgrading hardware, operating systems and databases in End of Life situations.

Communication

In 2021, the Bank's strategic and communication plans mostly regarded projects on ESG and sustainable development, as well as charity and solidarity projects.
With the aim of promoting all aspects of sustainability, the Brand Identity Partnership and Sponsorships department managed the production of an institutional campaign starting from ESG (Environment, Social, Governance) topics, and new guidelines for product communication were defined.
Again with regard to sustainability, the graphics layout for the Sustainable Investment Plafond scheme addressed to Businesses and Corporate firms was designed.
The five-year partnership agreement with the AIRC Foundation (Foundation for Cancer Research), as institutional partner of Banco BPM, continued, with a view to raising funds for scientific research and disseminating useful information on the prevention, diagnosis and treatment of cancer. As always the traditional support of communication was ever present: the Bank activated all of its channels (website, banners, social media) to contribute to disseminating the Foundation's social campaigns.
With regard to the "Language Revolution" project, 2021 saw the launch of a new Newsletter for customers: "Three minutes with Banco BPM", an agile, simple and geolocated instrument. Sent frequently and easy to read, the newsletter has a very direct communication style; it contains three pieces of news, two institutional ones and a commercial one. The first edition reached over 1.6 million private customers.
In addition, training courses were provided for internal resources, with a view to establishing guidelines to spread a new common language culture.
Sport as a vehicle for inclusion and community support, as the best expression of shared values, has always enjoyed the support of Banco BPM, especially as regards associations and companies focused on social and gender inclusion.
The Bank has chosen to support partners that are committed to promoting sport for young people, women and people with disabilities. More specifically, its partnership with AC Milan entails supporting all activities regarding young people and social topics promoted by the Milan team. Banco BPM is the "Jersey Sponsor" of the women's first division team, the main partner of the AC Milan Academy project for young people and of the Respect project.
The Institutional Relations with the Community structure continued to provide its support locally also through sponsorships, which privileged support to projects and activities with a strong focus on the social sphere, confirming the Bank's presence in local events with historical roots.
Education and instruction continue to be areas of crucial importance to the country: this is why Banco BPM has continued in its commitment to support schools, in the knowledge that education is the starting point for our country's future. In 2021, the "School Project", which was launched back in 2018, focused in particular on the support of public institutions of all levels: more specifically, it helped 268 schools in 41 different municipalities, completing 45 projects.
In addition to the "School Project", in 2021, Banco BPM undertook a new programme to combat young people abandoning school throughout Italy, called "School 4 Life" promoted by the Elis Consortium in collaboration with the main representatives of the national economic sphere.

Despite the restrictions imposed by the emergency situation and the relative reduction of activities relating to the organisation of events, initiatives relating to "Financial Awareness" were very successful, and entailed online workshops on economic and financial topics, focused in particular on the female world, through 48 meetings.
In 2021, the Media Relations department also coordinated the organisation and management of over 100 events and conferences, almost 90% of which regarded awareness and debate on ESG issues and, compatibly with the pandemic situation and in line with legislation in force, it continued to manage and organise over 20 institutional events (of which 5 digitally), in various Italian cities. The events prioritised cultural spheres and market outlooks, with specific reference to sustainable investments, and were addressed to both existing and potential customers for the entire Group.
The Media Relations department also focused on strengthening relations with national and local newspapers and press agencies.
In 2021, there were over 130 press releases on the activities of the whole Group, including the Foundations, and, in addition to institutional and business topics (2021-2024 strategic plan, ECB communications on stress testing, resolutions of the Board of Directors, bond issues, derisking ...), they also regarded areas in which Banco BPM demonstrates its loyalty to the community through specific projects: from school to sport, from financial education to public meetings with different stakeholders, from partnerships to sponsorships.
These communication actions were accompanied by a full programme of media presence, through dedicated interviews, presentations of public events and participation in conferences - both online and in person - organised or

sponsored by Banco BPM directly or in cooperation with other entities that operate locally in the different socio-economic areas.
On the social networks, Banco BPM's institutional communication activities mainly focused on topics that related to the schemes set in place for local communities to provide support to businesses and help households.
In 2021, the Internal Communication department continued in its role as the specific channel to transmit operating information to support the sales activities of the Network, to communicate the Bank's strategic assets, vision and values, and lastly to assist company departments in promoting projects, initiatives and contests to encourage sharing with and involving colleagues and Group colleagues.
The company Intranet and the Corporate TV were again confirmed in 2021 as the main communication instruments to channel communications relating to the Bank, together with digital encounters, which seek both to reinforce the sense of community and belonging and to shorten the distance from the Group's top management team, as well as to provide all of the operating instructions adopted by the company as regards the measures to combat the spread of the Covid-19 virus and safeguard the health and safety of its personnel.
To encourage engagement and collaboration, the Internal Communication department presented and promoted projects and initiatives aimed at promoting and fostering a culture of Sustainability, both through measures to increase awareness and spread the word, and by emphasising the Bank's actions, through strategies, training, products and services.
Internal Communication continued to focus on financial education initiatives, involving colleagues as participants and around 70 Brand Ambassadors trained as tutors for meetings at secondary and high schools. More specifically, the events that were held in 2021 regarded the webinar cycle "Il denaro con gli occhi delle donne" (money through the eyes of a woman), which was extended to colleagues, customers, and prospective customers, and financial education meetings dedicated to students, for which ad hoc training was organised for Brand Ambassadors who then gave online lessons. The objective is to continue to increase the awareness of the main economic and financial topics in an continuously evolving context.
With regard to internal Workshops, again this year, plenary sessions and meetings addressed to Banco BPM colleagues were organised and managed, mostly digitally, with some exceptions for a small number of people able to meet face to face (e.g. Iren Cup Regatta), in compliance with legislation in force for the pandemic emergency.
With the "In Teams with the CEO", several colleagues were able to enjoy discussions and swap suggestions with Giuseppe Castagna; in addition, several virtual encounters were organised with top management to share objectives and strategies, with a view to give colleagues an active role in the process of building the Group's identity. In addition, Management and Workshop events were organised for the Retail network in collaboration with the product companies.

Investor Relations

In 2021, the Investor Relations team managed 97 events overall, also with the involvement of the Group's top management, which led to dialogue with 453 investment companies and financial analyst firms (both on the stock and fixed income markets), credit rating agencies and other institutional financial entities. Of these events, 5, with a total of 28 investors attending, focused specifically on ESG topics.
Furthermore, during the year, Banco BPM held 5 telephone conferences with audio webcasts to present the Group's financial performance to the market (results as at 31 December 2020, 31 March 2021, 30 June 2021 and 30 September 2021) and the 2021-2024 Strategic Plan.
The following table summarises the events held over the year:

	No. of events	% of total	no. of companies met with	% of total
Industry conferences (stock market)	6	6.2%	81	17.9%
Industry conferences (fixed income market)	5	5.2%	46	10.2%
Roadshows & Reverse Roadshows (stock market)	11	11.3%	179	39.5%
Roadshows & Reverse Roadshows (fixed income market)	5	5.2%	41	9.1%
Other individual and/or group meetings, telephone conferences and video conferences (stock market)	58	59.8%	73	16.1%
Other individual and/or group meetings, telephone conferences and video conferences (fixed income market)	5	5.2%	6	1.3%
Other assets	1	1.0%	21	4.6%
Meetings/calls with rating agencies	6	6.2%	6	1.3%
Total	**97**	**100%**	**453**	**100%**
of which, with an ESG focus	5		28	
Presentation to the financial market with conference calls/webcasts	5			

On the stock market front, the Group participated in 6 industry conferences and 11 Roadshows and Reverse Roadshows organised by leading research and brokerage companies. Together, these resulted in meeting 260 counterparties, equal to 57.4% of the total reached overall during the year.
Similarly, in the fixed income market, Banco BPM participated in 5 industry conferences and 5 Roadshows and Reverse Roadshows, meeting 87 counterparties (19.2% of the total).
The remaining 23.4% of the institutional parties involved had the opportunity to dialogue with the Group on a further 70 occasions (individually and/or as a group).
Note that, given the pandemic crisis situation that characterised 2021, almost all of the meetings with the financial community were held virtually, enabling the Group to maintain constant and productive contact with its stakeholders, 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 2021, the Bank had around 290,000 shareholders, broken down as follows:

- approximately 190,000 depositors at Banco BPM Group;
- around 100,000 depositors with other brokers. This figure represents the situation as at the dividend distribution date (21 April 2021 - payment date), as no accounting transactions regarding the entire share capital were subsequently recorded.

In accordance with Article 120 of the Consolidated Finance Law, any investor with shares representing over 3% of the share capital of a listed company, must make a disclosure to the investee company and to CONSOB.
By means of a press release published on 12 April 2021, CONSOB announced that the temporary regime of enhanced transparency introduced by the resolution of 9 April 2020 would not be extended further. The latter had confirmed, for a period of three months from the date of entry into force of the same and unless revoked early, an additional temporary threshold of 1%, which, if exceeded resulted in the communication obligations set out in Article 120 of the Italian Consolidated Finance Law.
Whoever, over the period of time envisaged by the resolution, had held an interest exceeding the 1% threshold and below the 3% threshold, should have communicated it within 10 working days of the aforementioned date.
By means of resolutions of 8 July 2020, 7 October 2020 and 13 January 2021, CONSOB further renewed the extension of the provisions of the aforementioned resolutions until 13 April 2021.
From 14 April 2021, ordinary legislation regarding transparency on relevant changes in shareholding structures resumed effect.

As at 31 December 2021, according to the information published on the CONSOB website regarding parties which hold shares of over 3% in the share capital of Banco BPM, Capital Research and Management Company holds an interest corresponding to 4.99%.

Banco BPM stock

In 2021, the value of Banco BPM shares fluctuated between a minimum closing price of 1.781 euro on 25 January 2021 and a maximum closing price of 3.04 euro on 6 July 2021.
From the beginning of the year, Banco BPM shares recorded a positive performance of +46%. During 2021, average daily volumes were approximately 13 million shares.
In addition, it should be noted that at the end of 2021, the Banco BPM share was "covered" by 20 equity research companies (of which: 12 with positive recommendations, 8 neutral and 0 negative), with which continuous dialogue was maintained during the year.

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

This consultation agreement, originally signed on 21 December 2020 between several Italian Foundations, shareholders of Banco BPM with a total share of 5.49% of Banco BPM's share capital, gained new shareholders, who signed the Consultation Agreement on 20 July 2021.
To date, this agreement encompasses shareholders that hold 6.17% of the Bank's share capital.
It should also be clarified that a further consultation agreement, signed on 18 January 2021 by several Banco BPM shareholders, in possession of 6.683% of share capital, was terminated on 1 November 2021, with notice of termination announced in a press release on 5 November 2021.

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

Group ratings

Summary table of Banco BPM ratings

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

Summary table of Banca Akros ratings

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

Over the course of 2021, as part of normal rating activity, Moody's and DBRS Morningstar monitored Banco BPM's activities through reports, press releases and rating actions; the following were the main events:

- On 12 May 2021, Moody's upgraded the Outlook for the long-term deposit rating from Negative to Stable, as well as the long-term Issuer and senior unsecured debt rating of Banco BPM. At the same time, all of Banco BPM's ratings were confirmed, including the Baseline Credit Assessment (Ba3), the ratings on long and short term deposits (Baa3/P-3), as well as the long-term Issuer and senior unsecured debt rating (Ba2). This decision reflected a similar action that Moody's took with regard to several Italian banks and demonstrated, inter alia, a more positive assessment of the Italian economy and the domestic bank sector. On 14 June 2021, the rating company published an updated Credit Opinion on Banco BPM confirming said assessment;
- Following the publication of a Rating Report on Banco BPM on 22 January 2021 with regard to the ratings in force at the end of 2020, on 19 November 2021, DBRS Morningstar (DBRS) upgraded the Trend of Banco BPM and of Banca Akros from Negative to Positive, acknowledging the Group's reduction of risk related to Covid-19 and the strong track record demonstrated during the pandemic, including the significant improvements in credit quality and the overall capital position. Subsequently, on 6 December 2021, DBRS published a Rating Report analysing Banco BPM, which incorporated, inter alia, this recent improvement.

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 2021.

Banca Aletti

(millions of euro)	2021	2020	Change
Income statement figures			
Net interest income	0.3	(0.2)	(268.23%)
Net fee and commission income	106.9	92.6	15.40%
Operating income	105.0	103.9	1.03%
Operating expenses	(77.6)	(73.1)	6.08%
Profit (loss) from operations	27.4	30.8	(10.97%)
Profit (loss) before tax from continuing operations	25.9	42.2	(38.64%)
Profit (loss) for the year	14.8	23.0	(35.62%)

	31/12/2021	31/12/2020	Change
Balance sheet figures *(millions of euro)*			
Total assets	2,940.0	2,808.1	4.70%
Loans to customers (net)	370.0	257.9	43.47%
Financial assets and hedging derivatives	8.8	50.0	(82.40%)
Shareholders' equity	371.3	368.3	0.81%
Customers' financial assets *(millions of euro)*			
Direct funding	2,406.2	2,282.8	5.41%
Indirect funding	22,775.1	22,126.0	2.93%
- Asset management	11,484.0	10,448.7	9.91%
- Mutual funds and SICAVs	6,101.1	5,296.2	15.20%
- Securities and fund management	3,453.9	3,355.3	2.94%
- Insurance policies	1,929.0	1,797.2	7.33%
- Administered assets	11,291.1	11,677.3	(3.31%)
Information on the Organisation			
Average number of employees	485.8	477.9	1.65%
Number of bank branches	55	55	-

	31/12/2021	31/12/2020	Change
Alternative performance measures			
Profitability ratios (%)			
Financial margin / Operating income	0.3%	(0.2%)	(250.00%)
Net fee and commission income / Operating income	101.8%	89.1%	14.25%
Operating expenses / Operating income	73.9%	70.4%	4.97%
ROA	0.5%	0.8%	(37.50%)
ROE	4.0%	6.3%	(36.14%)
Operational productivity figures			
Loans to customers (net) per employee (thousands of euro)	762	540	41.12%
Operating income per employee (thousands of euro)	216	218	(0.64%)
Operating expenses per employee (thousands of euro)	160	153	4.38%
Capitalisation ratios			
Common Equity Tier 1 ratio	53.4%	58.9%	
Tier 1 capital ratio	53.4%	58.9%	
Total capital ratio	53.4%	58.9%	
Leverage ratio	51.2%	64.7%	
Other Ratios			
Net loans / Direct funding	15.4%	11.3%	

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

Banca Akros

(millions of euro)	31/12/2021	31/12/2020	change
Income statement figures			
Financial margin	54.7	73.2	(25.2%)
Net fee and commission income	41.0	41.8	(1.8%)
Operating income	110.2	125.4	(12.2%)
Operating expenses	(86.6)	(84.6)	2.3%
Profit (loss) from operations	23.6	40.8	(42.2%)
Profit (loss) before tax from continuing operations (*)	24.1	41.2	(41.5%)
Profit (loss) after tax from continuing operations	17.3	27.7	(37.7%)
Net profit for the period	10.7	24.2	(55.7%)
Comprehensive income	15.2	25.0	(39.1%)

(*) also gross of contributions to guarantee schemes.

(millions of euro)	31/12/2021	31/12/2020	change
Balance sheet figures			
Total assets	8,241.7	7,905.8	4.2%
Loans to customers (net)	1,963.7	694.8	182.6%
Financial assets	5,685.4	6,425.2	(11.5%)
Shareholders' equity	727.2	735.6	(1.1%)
Customers' financial assets			
Direct funding	956.5	980.5	(2.4%)
Information on the organisation			
Average number of employees and other staff	203	212	
Number of bank branches	1	1	

	31/12/2021	31/12/2020
Alternative performance measures		
Profitability ratios (%)		
Return on Equity (ROE)	1.50%	3.40%
Return on risk adjusted capital (RORAC)	2.75%	9.04%
Return on assets (ROA)	0.13%	0.31%
Financial margin/Operating income	49.68%	58.36%
Net fee and commission income/Operating income	37.23%	33.28%
Operating expenses/Operating income	78.58%	67.43%
Profit (loss) before tax from continuing operations (*)/Operating income.	21.89%	32.86%
Operational productivity figures (thousands of euro)		
Loans to customers (net) per employee	9,673.4	3,277.5
Operating income per employee	542.7	591.7
Operating expenses per employee	426.4	399.0
Annual average operational VAR (99%, 1 day)	2,400	4,800
Other ratios		
Financial assets/Total assets	68.98%	81.27%
Derivative assets/Total assets	16.60%	19.45%
- trading derivatives/Total assets	16.60%	19.45%
- hedging derivatives/Total assets	-	-
Net trading derivatives/Total assets	0.02%	3.47%
Net loans/Direct funding	205.29%	70.86%
Regulatory capitalisation ratios		
Common equity tier 1 ratio (CET1 capital ratio)	18.77%	24.46%
Tier 1 capital ratio	18.77%	24.46%
Total capital ratio	18.77%	24.46%
Leverage ratio	12.04%	23.62%

(*) 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)	126.8	27.6	97.1	493.2	19.6	(1.0)
Bipielle Bank (Suisse) in liquidation	23.0	21.4	-	-	-	(0.5)
Financial companies						
Aletti Fiduciaria	9.6	7.4	-	962.8	1.1	0.02
Release	1,295.2	457.8	4.5	-	479.8	(80.4)
Oaklins Italy	2.0	1.0	-	-	-	0.9
Other companies						
Bipielle Real Estate	1,293.4	1,270.8	-	-	4.7	29.1
Tecmarket Servizi	45.5	25.7	-	-	-	9.2
Ge.Se.So.	1.3	0.2	-	-	-	0.01

(*) 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 subsequent amendments, are included in the Notes to the Consolidated Financial Statements, Part H, to which reference should be made.

Own shares of the Parent Company and of subsidiaries

The disclosure relating to own shares of the Parent Company and to changes in the year is provided in section 13 - Group Shareholders' Equity in Part B of the Notes to the Consolidated Financial Statements.

As illustrated in Section 4 - "Events subsequent to the reporting date" contained in Part A of the Notes to the Consolidated Financial Statements, in February 2022, the Parent Company implemented the own shares purchase programme to support existing short and long-term incentive plans for staff, implementing the resolution of the Ordinary Shareholders' Meeting of 15 April 2021.
The programme regarded 4,582,640 ordinary Banco BPM shares for a counter value of 16 million.

Consolidated non-financial statement

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

Report on corporate governance and ownership 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, 37th update, Part I, Title IV, Chapter 2 "Remuneration and incentive policies and practices"), of Art. 123-ter of Italian Legislative Decree 58/1998 as amended, 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

According to the provisions of European Commission Regulation 815/2019 (European Single Electronic Format Regulation - ESEF), Banco BPM has drawn up this Annual financial report in the new ESEF format, which represents a combination between xHTML language (for the presentation of the financial reports in a legible format for human users) and the XBRL markup (eXtensible Business Reporting Language).
Furthermore, the information contained in the schedules of the consolidated financial statements (balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity and cash flow statement) were mapped according to "inline XBRL" specifications, contained in the basic taxonomy issued by the ESMA (European Securities and Markets Authority).
It should also be noted that, to fulfil the communication obligations envisaged by the Transparency directive (Directive 2004/109/EC), the Annual financial report drawn up by Banco BPM in the format envisaged by the ESEF Regulation will be published within the legal terms.

OUTLOOK FOR BUSINESS OPERATIONS

2021, as already mentioned, marked the turning point in the progression of the pandemic, thanks to the full and widespread implementation of mass vaccination campaigns in many advanced economies, which contributed to the lively economic recovery in progress.
At the beginning of February, the favourable prospects that were evolving appeared to be destined to continue in the new financial year, supporting the activities of the banking sector as a whole. For the current year, the consensus scenarios indicated a lively and robust aggregate demand, also fuelled by the surplus savings accumulated during the lockdown, by a further boost expected by the launch of the NRRP and by the extension of several government credit support measures for the whole of the first half of 2022.
In terms of the Italian banking system, the favourable economic trend was expected to encourage a slight increase in the stock of business loans, even in the face of financial requirements limited by substantial liquidity buffers deposited with the banking system. Estimates also envisaged a more marked growth of household loans, thanks to the strengthening of the real estate market, which promotes the demand for mortgage loans. The level of risk of loans was expected to rise with respect to the very modest levels reached in 2021. The increase in flows of new non-performing loans was expected to be offset to a large extent by the continuation of assignments of Non-Performing Loans and by the active management of those in the portfolio, especially UTP and past due.
In terms of funding, the gradual termination of the support provided by the ECB was envisaged. Direct funding, particularly of households, was expected to increase, albeit to a lesser extent than last year, mainly sustained by the issue of term deposits and bonds.
The trend of money market rates, at system level, despite the cited less accommodative approach of monetary policy, was not expected to suffer excessive shocks. The mark-down was expected to continue to be negative, although with a very slight improvement, while the mark-up was expected to suffer a very slight downturn, resulting in a marginal reduction in the bank interest spread.
The forecast increase in volumes was expected to enable, nevertheless, customer margins to substantially resist, added to which a higher contribution of interest on securities was envisaged, which would have enabled a modest increase of net interest income at system level. Net fee and commission income was expected to increase, supported by investments in asset management products. The trend described enabled an increase of operating income to be envisaged, albeit modest.
The forecasts for operating costs indicated a further reduction, driven by the downturn in personnel expenses, and by the reduction in other costs, following further branch closures.
In the light of the above-illustrated trends, the profits of the banking system were expected to increase.
Lastly, adjustments to loans, according to the consensus scenarios, were expected to rise, given the gradual end of state support measures.

As regards the above-illustrated system scenario, Banco BPM Group drew up the following forecasts for its operations:

- growth of the fee and commission component, in particular of the asset management and Bancassurance segment;
- net interest income that reflects the lower contribution of both ECB funding, with the end of the extra remuneration period, and of the portfolio of financial assets;
- reduction of overall costs, due to the strong governance of the trend of operating expenses, which will continue to be one of the main focus areas, despite the impacts resulting from the unlikely repeatability of certain recoveries and reductions of expenses that characterised FY 2021, above all as regards personnel expenses, and the increases relating to the application of the national contract for the industry and the increase in IT investments and inflation;
- further progress in the direction of reducing the cost of credit launched in recent years, thanks to the conservative approach to measurement adopted in 2021 for both performing and non-performing exposures, albeit with an expected uptrend of flows of new non-performing loans with respect to the past year and promoting, in any event, the continuation of derisking and maintaining a solid level of coverage.

In summary, net of any significant deterioration of the scenario, the Group’s overall performance in 2022, given the leverage of 2021’s results that were better than expected, was envisaged to be consistent with the performance outlined in the Strategic Plan and with the relative medium-term targets.

The positive macroeconomic scenario outlined above underwent a sudden change at the end of February. The tension between Russia and Ukraine, which was escalating following extensive and prolonged military manoeuvres of the Russian and Belarus armed forces along a fair part of the Ukraine border, was transformed in the early morning of 24 February 2022, into Russia's announcement of a military operation in Donbass, which started the invasion of Ukraine.
The Russian aggression was immediately strongly condemned by both the European Union and by the United States and all NATO member countries. Said condemnation was followed by the approval of a large range of sanctions against Russia, including the block of technology exports, a ban on doing business with Russian state entities, strategic entities and those that produce gas and oil, as well as the block of the SWIFT system for Russian banks.
The sanctions generated an immediate crisis of the Russian financial systems, which led to a rapid and substantial loss of value of the rouble, the downgrading of the sovereign rating, the potential serious risk of bankruptcy of Russian banks and the collapse of the prices of stock issued by Russian companies.
The effects of the sanctions are, however, also going to impact the western countries that issued them and currently, macroeconomic prospects are very uncertain insofar as the influence of the above-described events on the same will greatly depend on the unforeseeable duration and outcome of the conflict under way.
Today, lower economic growth in Europe and in Italy is expected, due to the rise in energy and commodity prices, which will accentuate the rise in inflation that is already in progress. Assumptions relating to adopting a less accommodative monetary policy by the ECB now appear to be groundless, in light of the need to counter the negative effects of the sanctions and the increased cost of energy and commodities, and therefore expectations of an interest rate hike have consequently disappeared.
In this new context, Banco BPM is not expected to suffer any significant impact related to the Group's direct exposure to Russia and Ukraine. This is because said exposure is extremely limited, equal to less than 0.1% of total on-balance sheet assets and unsecured loans.
Given the extreme uncertainty that characterises a constantly-changing situation, it is premature to estimate any possible indirect economic implications resulting from the changed macroeconomic scenarios in which the Group operates. Therefore, Banco BPM will update the market on these aspects when the evolution of the international crisis and the potential repercussions on macroeconomic growth become clearer.

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.

Milan, 1 March 2022

The Board of Directors

Consolidated financial statements

CONSOLIDATED BALANCE SHEET

Asset items	31/12/2021	31/12/2020 (*)
10. Cash and cash equivalents	29,153,316	9,410,687
20. Financial assets at fair value through profit and loss	6,337,110	9,043,525
a) financial assets held for trading	4,538,625	7,248,348
c) other financial assets mandatorily measured at fair value	1,798,485	1,795,177
30. Financial assets measured at fair value through other comprehensive income	10,675,079	10,710,796
40. Financial assets at amortised cost	140,448,388	141,249,323
a) loans to banks	12,773,990	11,422,214
b) loans to customers	127,674,398	129,827,109
50. Hedging derivatives	127,076	75,046
60. Fair value change of financial assets in macro fair value hedge portfolios (+/-)	2,875	52,288
70. Interests in associates and joint ventures	1,794,116	1,664,772
90. Property, plant and equipment	3,278,245	3,552,482
100. Intangible assets	1,213,722	1,218,632
of which:		
- goodwill	54,858	51,100
110. Tax assets	4,540,229	4,704,196
a) current	246,601	236,993
b) deferred	4,293,628	4,467,203
120. Non-current assets and disposal groups held for sale	229,971	72,823
130. Other assets	2,689,089	1,930,612
Total assets	**200,489,216**	**183,685,182**

(*) Items "10. Cash and cash equivalents" and "40. a) Financial assets at amortised cost - loans to banks" of the previous year have been restated to take into account the amendments introduced by the 7th update of Circular no. 262 of the Bank of Italy.

Liabilities and shareholders' equity items	31/12/2021	31/12/2020
10. Financial liabilities at amortised cost	166,561,146	151,420,894
a) due to banks	45,691,578	33,944,598
b) due to customers	107,788,219	102,915,666
c) debt securities in issue	13,081,349	14,560,630
20. Financial liabilities held for trading	14,132,931	12,687,544
30. Financial liabilities designated at fair value	1,405,190	955,781
40. Hedging derivatives	227,972	585,680
50. Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	(47,812)	130,912
60. Tax liabilities	302,816	464,570
a) current	8,894	5,672
b) deferred	293,922	458,898
80. Other liabilities	3,613,968	3,797,227
90. Provisions for employee severance pay	320,303	369,498
100. Provisions for risks and charges	876,643	1,045,975
a) commitments and guarantees given	131,108	127,442
b) post-employment benefits and similar obligations	124,879	133,654
c) other provisions	620,656	784,879
120. Valuation reserves	341,360	310,412
140. Equity instruments	1,092,832	695,417
150. Reserves	3,999,850	4,112,500
170. Share capital	7,100,000	7,100,000
180. Own shares (-)	(8,159)	(14,002)
190. Non-controlling interests (+/-)	1,108	1,894
200. Profit (loss) for the year (+/-)	569,068	20,880
Total liabilities and shareholders' equity	**200,489,216**	**183,685,182**

CONSOLIDATED INCOME STATEMENT

Items	2021	2020
10. Interest and similar income	2,425,188	2,416,605
of which: interest income using the effective interest method	2,137,845	2,280,772
20. Interest and similar expense	(409,048)	(460,005)
30. Net interest income	**2,016,140**	**1,956,600**
40. Fee and commission income	2,018,601	1,765,869
50. Fee and commission expense	(117,906)	(123,996)
60. Net fee and commission income	**1,900,695**	**1,641,873**
70. Dividends and similar income	53,718	42,015
80. Net trading income	79,523	16,912
90. Fair value gains/losses on hedging derivatives	(848)	(7,657)
100. Gains (losses) on disposal or repurchase of:	(129,080)	(149,126)
a) financial assets at amortised cost	(145,262)	(271,534)
b) financial assets measured at fair value through other comprehensive income	16,256	124,311
c) financial liabilities	(74)	(1,903)
110. Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss	16,342	133,747
a) financial assets and liabilities designated at fair value	7,894	14,235
b) other financial assets mandatorily measured at fair value	8,448	119,512
120. Operating income	**3,936,490**	**3,634,364**
130. Net credit impairment losses/recoveries relating to:	(630,954)	(1,049,430)
a) financial assets at amortised cost	(629,997)	(1,049,211)
b) financial assets measured at fair value through other comprehensive income	(957)	(219)
140. Gains (losses) from contractual modification without derecognition	(8,521)	(1,256)
150. Net income from financial activities	**3,297,015**	**2,583,678**
180. Net income from financial and insurance activities	**3,297,015**	**2,583,678**
190. Administrative expenses:	(2,771,573)	(2,897,178)
a) personnel expenses	(1,670,739)	(1,836,216)
b) other administrative expenses	(1,100,834)	(1,060,962)
200. Net provisions for risks and charges	(26,039)	(57,625)
a) commitments and guarantees given	(5,254)	(11,464)
b) other net provisions	(20,785)	(46,161)
210. Depreciation and impairment losses on property, plant and equipment	(165,828)	(165,437)
220. Amortisation and impairment losses on intangible assets	(114,457)	(112,122)
230. Other operating expenses/income	363,082	329,188
240. Operating expenses	**(2,714,815)**	**(2,903,174)**
250. Gains (losses) of associates and joint ventures	213,314	130,799
260. Fair value gains (losses) on property, plant and equipment and intangible assets	(141,633)	(36,721)
270. Value adjustments to goodwill	-	(25,100)
280. Gains (losses) on disposal of investments	(142)	1,190
290. Profit (loss) before tax from continuing operations	**653,739**	**(249,328)**
300. Taxation charge related to profit or loss from continuing operations	(84,955)	265,960
310. Profit (loss) after tax from continuing operations	**568,784**	**16,632**
330. Profit (loss) for the year	**568,784**	**16,632**
340. Profit (loss) for the year attributable to non-controlling interests	284	4,248
350. Parent Company's profit (loss) for the year	**569,068**	**20,880**
Basic EPS (euro)	0.38	0.01
Diluted EPS (euro)	0.38	0.01

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Items	31/12/2021	31/12/2020
10. Profit (loss) for the year	**568,784**	**16,632**
Other comprehensive income after tax without reclassification to the income statement	**139,815**	**(133,680)**
20. Equity instruments designated at fair value through other comprehensive income	14,591	(126,130)
30. Financial liabilities designated at fair value through profit and loss (changes to its own credit risk)	2,131	(11,900)
50. Property, plant and equipment	128,784	(2,732)
70. Defined benefit plans	(5,517)	7,174
90. Share of valuation reserves related to interests in associates and joint ventures carried at equity	(174)	(92)
Other comprehensive income after tax with reclassification to the income statement	**(108,790)**	**96,116**
100. Foreign investment hedges	(802)	(7)
110. Exchange rate differences	2,138	256
120. Cash flow hedges	(12,129)	2,618
140. Financial assets (other than equity instruments) measured at fair value through other comprehensive income	(86,744)	84,958
160. Share of valuation reserves related to interests in associates and joint ventures carried at equity	(11,253)	8,291
170. Total other comprehensive income after tax	**31,025**	**(37,564)**
180. Comprehensive income (Items 10+170)	**599,809**	**(20,932)**
190. Consolidated comprehensive income attributable to non-controlling interests	(284)	(4,242)
200. Consolidated comprehensive income attributable to the Parent Company	**600,093**	**(16,690)**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

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

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 as at 31/12/2020			
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**		

CONSOLIDATED CASH FLOW STATEMENT

Indirect method

A. Operating activities	31/12/2021	31/12/2020 (*)
1. Cash flow from operations	**1,270,260**	**795,904**
- profit (loss) for the year (+/-)	568,784	16,632
- gains/losses on financial assets held for trading and on other financial assets/liabilities at fair value through profit and loss (-/+)	(111,965)	(231,066)
- capital gains/losses on hedging derivatives (-/+)	848	7,657
- net credit impairment losses/recoveries (-/+)	639,475	1,050,686
- net impairment losses/recoveries on property, plant and equipment and intangible assets (+/-)	280,285	302,659
- net provisions for risks and charges and other costs/revenues (+/-)	28,229	56,823
- net premiums not collected (-)		
- other insurance income/expenses not collected (-/+)		
- taxes, duties and tax credits not settled (+/-)	77,587	(280,936)
- net impairment losses/recoveries on discontinued operations net of taxes (-/+)		
- other adjustments (+/-)	(212,983)	(126,551)
2. Cash flow from/used in financial assets	**2,433,061**	**(9,570,840)**
- financial assets held for trading	2,762,800	(1,445,798)
- financial assets designated at fair value	-	-
- other financial assets mandatorily measured at fair value	41,670	(198,936)
- financial assets measured at fair value through other comprehensive income	34,760	1,815,757
- financial assets at amortised cost	162,417	(10,061,538)
- other assets	(568,586)	319,675
3. Cash flow from/used in financial liabilities	**15,977,948**	**16,220,648**
- financial liabilities at amortised cost	15,962,095	13,199,488
- financial liabilities held for trading	2,457,926	1,017,672
- financial liabilities designated at fair value	469,112	532,476
- other liabilities	(2,911,185)	1,471,012
Net cash flow from/used in operating activities	**19,681,269**	**7,445,712**
B. Investing activities		
1. Cash flow from:	**18,036**	**9,749**
- sales of interests in associates and joint ventures	314	-
- dividends collected on interests in associates and joint ventures		
- sales of property, plant and equipment	17,722	9,735
- sales of intangible assets	-	14
- sales of subsidiaries and business segments		
2. Cash flow used in:	**(198,527)**	**(221,106)**
- purchases of interests in associates and joint ventures	-	(68,240)
- purchases of property, plant and equipment	(92,323)	(66,358)
- purchases of intangible assets	(106,204)	(86,508)
- purchases of subsidiaries and business segments		
Net cash flow from/used in investing activities	**(180,491)**	**(211,357)**
C. Financing activities		
- issues/purchases of own shares	-	(4,080)
- issues/purchases of equity instruments	332,395	358,805
- dividend distribution and other allocations	(90,544)	-
- third-party sales/purchases		
Net cash flow from/used in financing activities	**241,851**	**354,725**
Net cash flow from/used during the year	**19,742,629**	**7,589,080**

(*) The figures relating to the previous year have been restated to take into account the amendments introduced by the 7th update of Circular no. 262 of the Bank of Italy. The profit (loss) for the year includes the profit (loss) of non-controlling interests.

Reconciliation	31/12/2021	31/12/2020 (*)
- Cash and cash equivalents at the beginning of the year	9,410,687	1,821,607
- Net cash flow from/used during the year	19,742,629	7,589,080
- Cash and cash equivalents: foreign exchange effect		
Cash and cash equivalents at the end of the year	**29,153,316**	**9,410,687**

(*) The figures relating to the previous year have been restated to take into account the amendments introduced by the 7th update of Circular no. 262 of the Bank of Italy.

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

(thousands of euro)	31/12/2020	Cash flows	Non-monetary changes			31/12/2021
			Business combinations /loss of control of companies	Fair value changes	Other	
Liabilities deriving from loan activities (items 10, 20 and 30 in the liabilities)	165,064,219	18,889,133	2,498	(1,062,994)	(793,589)	182,099,267

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 2021 (including the SIC and IFRIC interpretation documents).
With regard to disclosure requirements, note that from 1 January 2021, the disclosure envisaged by standards IFRS 7, paragraphs 24I and 24J, relating to phase 2 of the IBOR Reform, illustrated in the paragraph below "Interest rate benchmark reform ('IBOR Reform')", illustrated in "Section 5 - Other Aspects".

For an overview of the accounting standards and the related interpretations endorsed by the European Commission, whose application is planned for 2021 or future years, 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 2021).

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 7th update published on 29 October 2021. Specifically, this was a Circular issued by the Bank of Italy in exercising its powers established by the above-mentioned Legislative Decree 38/2005 (hereinafter also referred to as "Circular no. 262"). The Communication dated 21 December 2021 entitled "Update of the supplements to the provisions of Circular no. 262 'Bank financial statements: layouts and rules for preparation'" replacing the previous one issued on 15 December 2020, with which the disclosure on the impacts of Covid-19 and the measures to support the economy was introduced.
The financial statements provide, in addition to the accounting data as at 31 December 2021, comparative information relating to the last financial statements approved as at 31 December 2020. In this regard, it must be

noted that, in order to guarantee a like-for-like comparison between the above-mentioned financial statements, certain balances of the balance sheet and of the tables of the notes to the consolidated financial statements have been restated to transpose the new classification criteria envisaged by the 7th Update of Circular no. 262, as illustrated in detail in the following paragraph.

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 2021, adjusted, where necessary, to adapt them to IAS/IFRS used by the Group.

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

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

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

  The balance sheet, the income statement and the statement of comprehensive income do not include accounts with no amounts for either the financial year to which the financial statements relate or the previous financial year;
- *predominance of substance over form*: the transactions and other events are recognised and stated in compliance with their substance and economic entity and not just their legal form;
- *offsetting*: assets and liabilities, income and costs are not offset, unless permitted or required by an international accounting standard or its interpretation or by the provisions of the cited Circular no. 262;
- *comparative information:* comparative information relating to the previous year is provided for each balance sheet and income statement account, unless an accounting standard or interpretation does not allow for this or provides otherwise. The figures for the previous financial year may be adjusted, where necessary, to ensure the comparability of information for the current financial year. Any non-comparability,

adaptation or impossibility of the latter is indicated and commented on in the notes to the financial statements.

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

Update of Circular no. 262 - Illustration of the main changes and consequent restatement of comparative balances

On 29 October 2021, the Bank of Italy published the 7th update of Circular no. 262, relevant to the preparation of 2021 financial statements, the aim of which is to achieve better alignment between financial statement information and FINREP supervisory reports, which are already sent to the ECB on a quarterly basis, as well as to transpose the information changes envisaged by IFRS 7.
The main changes, introduced by the update in question, regard the recognition in the financial statements of the following items:

- demand loans to banks and Central Banks;
- Purchased or Originated Credit Impaired - POCI);
- intangible assets;
- fee and commission income and expense;
- contributions to resolution funds and to deposit guarantee schemes.

The new disclosure requirements envisaged by IFRS 7 were also transposed, following the endorsement of Regulation no. 25 of 13 January 2021 – "Interest Rate Benchmark Reform, Phase 2", to be provided in the section "Part A– Accounting Policies".
For the above-cited items, the new rules of recognition have entailed the need to restate certain comparative figures of the previous year, to guarantee a like-for-like comparison with those relating to FY 2021.
A brief analysis of the changes introduced and of the relative impact on the comparative balances contained in the financial statement schedules, and/or in the tables of the Notes, is provided in the following paragraphs.

<u>Changes with an impact on financial statement schedules</u>

The update in question envisages that item "10. Cash and cash equivalents" must contain demand loans - current accounts and deposits - with all banks, including central banks; based on previous instructions, demand loans to banks, other than central ones, were instead included in item "40. Financial assets at amortised cost", while demand deposits with central banks were already included in item "10. Cash and cash equivalents". For the cash and cash equivalents relating to fulfilling the requirements of the "minimum reserve" with central banks, classification in item "40. Financial assets at amortised cost" was confirmed.
The new classification criteria therefore entailed the need to restate the balances of the balance sheet originally published as at 31 December 2020, in order to reclassify the demand loans to banks, which amounts to 552.6 million, from item "40. Financial assets at amortised cost" to item "10. Cash and cash equivalents", as summarised in the following table.

Financial Statement Item (thousands of euro)	**31/12/2020 Restated (A)**	**31/12/2020 Restated (B)**	**Impact of restatement (A)-(B)**
10. Cash and Cash Equivalents	9,410,687	8,858,079	552,608
40. Financial assets at Amortised Cost	141,249,323	141,801,931	(552,608)
a) Loans to banks	*11,422,214*	*11,974,822*	*(552,608)*

Consistent with the changes made to the balance sheet, item "130. Net credit impairment losses/recoveries" on the income statement was adjusted to conventionally include net impairment losses/recoveries relating to demand loans to banks and central bank", shown in balance statement item "10. Cash and cash equivalents".

Changes that impact the details of the Notes

The update of Circular no. 262 also entailed the amendment of several details of the Notes, with the consequent need to restate the comparative figures of FY 2020, as illustrated below; for further details, please refer to the specific tables of the Notes.

Demand loans to banks and Central Banks

The amendment to the classification criteria for demand loans to banks, as illustrated above, has led to a different detailed disclosure in the tables showing the breakdown by product of item "10. Cash and cash equivalents" (Table 1.1 of assets), and of item "40. Financial assets at amortised cost" (Table 4.1 of assets) and table 4.4 "Financial assets at amortised cost: gross value and total value adjustments", with the consequent restatement of the balances as at 31 December 2020.
Accordingly, the comparative balances of the following tables contained in Part E of these Notes were also restated:

- A.1.1 Distribution of financial assets by portfolio and by credit quality (book values);
- A.1.2 Distribution of financial assets by portfolio and by credit quality (gross and net values);
- A.1.1 Prudential Consolidation – Distribution of financial assets by past due bands (book values);
- A.1.2 Prudential Consolidation - Financial assets, commitments to disburse funds and financial guarantees given: changes in total value adjustments and total provisions.

Lastly, the restatement of the balances regarded table "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", contained in Part "A.4 Fair value disclosure" of these Notes.

Purchased or Originated Credit Impaired (POCI)

For portfolios of "Financial assets at amortised cost" and of "Financial assets measured at fair value through other comprehensive income", the alignment to the FINREP entailed a different recognition of Financial assets Purchased or Originated Credit Impaired (POCI) which, starting from these financial statements, will no longer be included in the breakdown by credit risk stages, but exposed separately as a new category of credit quality.
For Banco BPM Group, this category only regards the portfolio of " Financial assets at amortised cost" and in particular that of "Loans to customers". As at 31 December 2020, the book value of assets purchased or originated credit impaired amounted to 341.5 million, equal to the mismatch between a gross value of 759.2 million and total value adjustments of 417.7 million, and was stated:

- in Stage 2 for 25.0 million, equal to the mismatch between a gross value of 26.8 million and total value adjustments of 1.8 million;
- in Stage 3 for 316.5 million, equal to the mismatch between a gross value of 732.4 million and value adjustments of 415.9 million.

The tables in the Notes affected by the change in question, with the consequent restatement of the balances of the previous year are as follows:

- Part B: "4.2 Financial assets at amortised cost: breakdown by product of loans to customers";
- Part B: "4.3 Financial assets at amortised cost: breakdown by debtor/issuer of loans to customers";
- Part B: Assets: "4.4 Financial assets at amortised cost: gross value and total value adjustments";
- Part B: "4.4a Loans at amortised cost subject to Covid-19 support measures: gross value and total value adjustments";
- Part B: "10.3 Provisions for credit risk relating to commitments and financial guarantees given";
- Part C: Income Statement "8.1a Net credit impairment losses relating to loans at amortised cost subject to Covid-19 support measures: breakdown";
- Part E: A.1.2 Prudential Consolidation - Financial assets, commitments to disburse funds and financial guarantees given: changes in total value adjustments and total provisions.

Intangible Assets

In the breakdown of intangible assets, specific evidence of software that does not represent an integral part of hardware pursuant to IAS 38 (Table "10.1 Intangible assets: breakdown by type of asset" contained in Part B of the Notes).

As at 31 December 2021, the book value of the intangible assets represented by software amounted to 352.1 million (326.4 million as at 31 December 2020).
Accordingly, the breakdown of "Table 15.1 Amortisation and impairment losses on intangible assets" was amended in the income statement to include information on the amortisation and on net value adjustments made to software included in intangible assets, pursuant to IAS 38.

Fee and Commission Income And Expense

The update in question revised the breakdown of the tables in the Notes "2.1 Fee and Commission Income" and "2.2 Fee and Commission Expense" to align it, as far as possible, to FINREP details, although maintaining the previous detailed disclosures for certain types of services offered.
The new informative details have enabled a part of the fee and commission income/expense, previously stated in the residual item of other services, in the pertinent sub-items, with particular regard to the fee and commission income relating to the use of e-money and to that relating to the disbursement and management of loans.

Contributions to resolution funds and to deposit guarantee schemes
The amendment to the Circular requested separate evidence to be provided for contributions to resolution funds and to deposit guarantee schemes recognised in the financial statements under "Other administrative expenses" (Table "12.5 Other administrative expenses: breakdown" contained in Part C of the Notes).

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 the availability of new information or of greater 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 2021. The following analysis on the most important accounting policies will also include the main aspects of uncertainty relating to the Covid-19 pandemic that are able to influence financial statement valuations, and are the subject of a more in-depth disclosure in the paragraph 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 taking account of the

recoverable cash flows or on a lump-sum basis, taking into consideration the losses recorded historically on loans with similar characteristics. 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. 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 of 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 any historic data available, in order to best represent the estimated realisable value of the credit exposure. For updates introduced to the measurement of expected losses, primarily addressed to incorporating the effects of the Covid-19 pandemic on credit quality, 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 2021. It is precisely the current market context - characterised by unprecedented phenomena, such as the support measures set in place by national and supranational governments - that has required estimation models and criteria to undergo a continuous updating process, also by means of discretionary corrections, with the aim of managing to factor in the expected effects of the above-mentioned phenomena.

Lastly, we draw attention to the fact that, as illustrated in the Report on operations, to which the reader should refer for further details, on 26 April 2021, the ECB started an off-site inspection concerning the credit and counterparty risk of "CRE - Commercial Real Estate" exposures. More specifically, the inspection entailed a review of the quality of assets vis-à-vis real estate companies and vis-à-vis businesses that present collateral represented by commercial real estate (namely of the above-cited CRE exposures), an assessment of the commercial properties repossessed by the Group and recognised in the financial statements (so-called "Foreclosed Assets"), as well as the valuation of the related management support processes and procedures.
On the date of this Financial report, no "draft report" has been received containing the preliminary assessments of the ECB. Nevertheless, new pieces of information acquired during discussions with the inspection team have been duly taken into consideration by the Bank when drawing up the 2021 financial statements, with a view to making the best estimate of the recoverable value of the exposures included in the scope of the inspection in question.
However it cannot be ruled out that, at the time of the final outcome of the inspection conducted by the Supervisory Authority, formalised with the issue of the "Decision" or "Final follow-up letter", new pieces of information, not known at the time of preparation of this Report, may emerge and are to be considered in the valuation of CRE credit exposures.

Incorporation of climate and environmental risks in the calculation of expected losses

To estimate the expected losses of credit exposures, one of the most complex aspects to assess is the effective relevance of climate and environmental risks, given the uncertainty that inevitably surrounds forecasting events which, by nature, may arise in a long-term time horizon.
The models currently used by the Group to calculate the expected losses of performing loans (ECL) do not directly incorporate the risks resulting from the exposure of the borrower counterparty to aspects relating to climate and environment; nevertheless, these aspects are considered indirectly to the extent that the ECL calculation models consider the expected impact of the evolution of macroeconomic variables on credit risk parameters, also through the use of sector-based satellite models, namely of models that define the functional relationships between the evolution of macroeconomic variables and the Bank's risk parameters (PD and LGD).
This is also true of the "lump-sum" calculation methods adopted to calculate ECL relating to similar categories of non-performing loans. More specifically, as these are calculation methods adopted to assess bad loans and unlikely to pay with an exposure less than or equal to a materiality threshold established as 1.0 million and to total exposures classified as non-performing "past due", in line with supervisory regulations.
With regard instead to non-performing loans to be assessed analytically, the risks related to climate and the environment are taken into consideration in the estimate of the present value of envisaged future cash flows, on an essentially discretionary basis and together with other pieces of information.
Therefore, it cannot be ruled out that the possible development of models able to better factor in climate and environmental risks, may lead to different estimates with respect to those conducted for the preparation of the consolidated financial statements as at 31 December 2021.
For an illustration of how the Group is encompassing environmental aspects in its credit policies, refer to the content of "Part E – Information on risks and related hedging policies" of these Notes.

Estimated impairment losses in relation to intangible assets with an indefinite useful life

Pursuant to IAS 36, all intangible assets with an indefinite useful life must undergo impairment testing at least once a year to verify the recoverability of their value. In addition, the standard establishes that the results of the annual test may be considered valid for subsequent tests, provided that the probability, which the recoverable value is less than the book value of the intangible assets, is considered remote. This opinion may be based on the analysis of the events, which have occurred, and the circumstances, which have changed subsequent to the most recent annual impairment test.
Based on the provisions of this standard, Banco BPM Group has chosen to conduct impairment testing on intangible assets with an indefinite useful life as at 31 December of each year: the results of these tests can be considered valid

for subsequent interim situations, unless evidence was to emerge that would require impairment testing to be conducted in advance to ascertain the recoverability of the value of said intangible assets with an indefinite useful life. The importance of verifying the recoverability of the intangible assets in question is particularly evident in the context of the Covid-19 crisis, in line with the recommendations of ESMA and CONSOB, considering the possible negative repercussions of the crisis on the assumed cash flows underlying impairment testing.

As at 31 December 2021, the assets in question amounted to 559.1 million and were represented by:

- 504.3 million in trademarks recognised following the business combination with the former Banca Popolare Italiana Group (222.2 million) and with the former BPM Group (282.1 million), 485.7 million of which attributed to the "Retail" Cash Generation Unit (hereinafter also "CGU") and 18.6 million to the "Banca Akros" CGU;
- 54.9 million in goodwill attributed to the "Bancassurance Protection" CGU (51.1 million) and to the "Banca Akros" CGU (3.8 million). The latter value represented the intangible assets recognised as at 31 December 2021, following the allocation - which was finalised in the fourth quarter of the year - of the cost relating to the acquisition of control of Oaklins Italy S.r.l. by Banca Akros, as illustrated in "Part G – Business combinations regarding companies or divisions", to which reference should be made for further details.

As regards the intangible assets relating to the "Retail" CGU, which represent around 87% of total intangible assets with an indefinite useful life, valuation analyses were conducted using the cash flows of the new 2021-2024 Business Plan, approved on 4 November 2021, as reference, taking a multi-scenario approach, with a view to factoring in the uncertainty of future macroeconomic scenarios in which the Group may have to operate. More specifically, multi-scenario analyses were considered, already drawn up on the date of preparation of the above-mentioned plan, based on three different scenarios ("baseline", "adverse" and "favourable") and using the macroeconomic forecasts available at the time as reference. In this regard, note that the updates of the macroeconomic forecasts, which were slightly more favourable, drawn up at the beginning of December 2021 to calculate ECL, were not incorporated, also on the basis of the conservative logic of the impairment test exercise. Similar considerations were made as regards verifying the recoverability of Deferred Tax Assets (DTA). Instead, the probabilities of occurrence of the three macroeconomic scenarios were harmonised, between the different valuation exercises (impairment of intangible assets, DTA and ECL).

The results of the impairment testing conducted as at 31 December 2021 confirmed the recoverability of the book values of intangible assets with an indefinite useful life, as illustrated in Section 10 "Intangible assets – item 100" contained in "Part B – Information on the consolidated balance sheet" of these Notes, to which reference should be made for further details.
In this regard, it should be noted that verifying 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 changed 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 on intangible assets, to be able to recognise the resistance of the recoverable value with respect to alternative assumptions and hypotheses.

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 the three-level fair value hierarchy.
For qualitative and quantitative information on the method adopted to measure the fair value of financial assets and liabilities, as well as for the sensitivity analysis of the fair value relating to financial instruments measured at fair value and classified as level 3 of the fair value hierarchy, please refer to the contents of these Notes, Part A.4 – "Fair value disclosure".

Estimating the recoverability of deferred tax assets

The Group has Deferred Tax Assets (DTA) among its significant assets, mainly generated by temporary differences between the income statement recognition date of given business costs and the date when said costs may be deducted, rather than resulting from tax losses carried forward. The recognition of these assets and subsequently maintaining them in the financial statements assumes a judgement of probability as to the recovery of the same, which must also consider the legislative provisions on taxes in force on the date of preparation of the financial statements.
More specifically, the deferred tax assets that meet the requirements of Italian Law no. 214 of 22 December 2011 can be converted into tax credits in the case of a "statutory loss", a "tax loss" for IRES tax purposes and a "net negative value of production" for IRAP tax purposes; their recovery is therefore certain, insofar as it does not depend on the ability to generate future income.
For the remaining tax assets that cannot be converted into tax credits, the judgement of their probability of recovery must be based on reasonable income forecasts taken from approved strategic plans and projections, also considering that, for IRES tax purposes alone, tax provisions envisage that tax losses may be carried forward, without any time limit. This judgement is supported by a recoverability assessment exercise (so-called probability test) characterised by a considerable level of complexity, particularly if it regards DTAs on tax losses carried forward, the existence of the which could indicate the fact that sufficient taxable income may not be available in the future for their recovery. Based on the provisions of IAS 12 and on the considerations of the ESMA in a document dated 15 July 2019, the above judgement of recoverability requires a careful recognition of all evidence supporting the probability of having sufficient taxable income in the future, also considering the circumstances that generated the tax losses, which must be linked to clearly identified causes, deemed not repeatable in the future on a recurring basis. In order to take into account the uncertainties of the macroeconomic scenario and the potential repercussions on the estimate of taxable cash flows, particularly evident in the context of the Covid-19 crisis, the probability test was carried out, in line with that carried out for the 2020 financial statements, using the "Risk-adjusted profit approach", i.e. discounting the forecasts of future taxable income on the basis of a corrective factor that is expressive of a specific risk, consistent with the risk premium used for the impairment test of intangible assets with an indefinite useful life, which pushes further back the time period of the estimate of taxable income flows.
The forecasts of taxable income were developed consistent with the Business Plan approved on 4 November 2021.
Considering that the recoverability of DTAs could be negatively influenced by a revision of the cash flows assumed as the basis of the probability test - in line with that suggested by the literature on valuation exercises characterised by uncertainty - the estimate of future taxable income was conducted on the basis of a multi-scenario approach, consistent with the projections and the scenarios used for the impairment testing of intangible assets with an indefinite useful life, illustrated above, to which reference should be made for further details.
Lastly, it should be noted that the recoverability of all DTAs could be negatively influenced by changes in the current tax legislation, which cannot be foreseen at the present time.

Section 11 - "Tax assets and liabilities" contained in Part B - "Information on the consolidated balance sheet" of these Notes provides the disclosure on the breakdown of deferred tax assets, on the checks carried out with regard to their recoverability, on the sensitivity analyses conducted to permit an appreciation of the time horizon for the recovery of the same, based on reasonable changes in the main underlying hypotheses and assumptions.

Estimating provisions for risks and charges

The companies that belong to the Group are defendants in a wide range of legal proceedings and tax disputes and are also exposed to numerous types of contingent liabilities. The complexity of the situations and company transactions that underlie the ongoing disputes, together with issues related to the interpretation of the applicable law, require significant judgement to estimate the liabilities that could arise at the time that the pending disputes are settled. The difficulties in assessment regard both the occurrence, the amount and the timing of any emergence of liabilities, and are particularly evident when the proceeding is at the initial stage and/or the relative preliminary investigation is in progress. The specific nature of the matter in dispute and the consequent absence of case law relating to comparable disputes, as well as different approaches taken by the judicial bodies - both at the different levels of the contentious proceeding, and by bodies at the same level at different times - make the measurement of contingent liabilities difficult, even when provisional rulings are available at the first level of judgement. Past experience demonstrates that in various cases, the rulings made by the judges in the courts of first instance have then been completely overturned on appeal or at the Supreme Court, and this may be in favour or not in favour of Group companies. In this context, the classification of contingent liabilities and the consequent valuation of the provisions needed are based on subjective judgements, which require the use of often extremely complex estimation procedures. Therefore, it cannot be ruled out that, following the issue of final rulings, the provisions for risks and charges made against contingent liabilities relating to legal and tax disputes may prove to be lacking or excessive.

For information on the Group's main risk positions in relation to legal disputes (clawback actions and pending lawsuits) and tax disputes with the Tax Authorities, reference should be made to Section 10 - "Provisions for risks and charges" contained in Part B - "Information on the consolidated balance sheet" of these Notes.

In addition, the provisions for risks and charges may become necessary following commitments made by the Group at the time of the sale of interests in associates or joint ventures, divisions, portfolios of non-performing loans and related partnership agreements. More specifically, the above-mentioned commitments consist essentially of providing protection and guarantee mechanisms for the investment made by the purchasing counterparties. Said mechanisms envisage the acknowledgement, in favour of the purchaser, of an indemnity in the event that specific sales objectives are not met, or the event of inconsistent declarations as to the quality of the information and the documentation on the loans with respect to that provided at the time of the sale. The likely outlay of financial resources to cover said commitments has to be estimated, based on the reasonable evolution of the sales objectives, also considering the time horizon in which the Group may take corrective action to avoid the payment of penalties. For commitments relating to the sale of non-performing loans, the quantification of the provision must instead consider the expected evolution of the outlays relating to claims received from purchasers for alleged breaches of contractual guarantees.
For a more detailed description, reference should be made to Section 10 - "Provisions for risks and charges" contained in Part B - "Liabilities" of these Notes.

Determination of the fair value of property

The Group's accounting policies envisage that real estate assets are measured at fair value, according to the criteria established by accounting standard IAS 40 for Investment property or by standard IAS 16 - and in particular by the revalued amount criterion - for operating properties used for administrative and/or commercial purposes. The update of the values is based on a specific appraisal issued by a leading company, drawn up in compliance with "RICS Valuation" standards[1].
More specifically, with regard to properties for investment purposes, the Group's accounting policies require the fair value to be updated annually, unless there is evidence that an earlier update is necessary. Instead, for properties used in operations, the fair value may be restated more frequently than once a year; this frequency may depend on whether there are significant deviations in property market prices, based on a scenario analysis, on its relevance or on the distinctive characteristics of properties.
As at 31 December 2021, the properties for which the fair value was updated - as on the basis of any sale prices agreed, resulting from the resolutions of the Corporate Bodies and/or functions authorised for said sales - represented over 90% of the Group's total real estate assets. The properties for which a new appraisal was not requested are those used in operations, and worth less than 5 million each, which in total have a book value of around 200 million as at 31 December 2021.

For the above-cited perimeter, the updated fair value is determined by using specific appraisals drawn up by qualified, independent experts, in accordance with the criteria established by standard IFRS 13 for fair value measurement. Given the array of possible valuation approaches permitted by the above-cited standard, the selection of a specific valuation methodology, as well as the selection of the specific estimation parameters and/or assumptions, may have a significant influence on the determination of the fair value, also considering the specific nature and distinctive characteristics of the asset to be valued.
One of the important assumptions made when measuring fair value regards the assessment of what the maximum and best use of the properties is. In this regard, the fair value measurement of property used in operations uses the continuity of their use by the Group in the foreseeable future as reference, insofar as strictly dependent on commercial and administrative activities.
Margins of subjectivity are also present when identifying the perimeter of properties used in operations, for which the appraisals need to be updated, based on the ability to identify significant changes in value in property market prices, which make the request for an updated valuation necessary.

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

In the light of the above, it cannot be ruled out that the use of different methods or estimation parameters - influenced by forecasts relating to the reference scenarios of the real estate market pertinent to the Group, also given the repercussions of the continuing pandemic - may lead to different valuations with respect to those conducted for the 2021 financial statements, with consequent negative impacts on the Group's balance sheet and income statement.
For the purposes of the 2021 financial statements, when selecting the estimation parameters and assumptions, new pieces of information were considered acquired as part of discussions with the ECB, with relation to the credit and counterparty risk of CRE exposures, although on the date of this Financial report, no "draft report" containing the preliminary observations formulated by the cited Supervisory Authority has been received. New pieces of information included, in particular, the negative effects of Covid-19 on particular categories of property, with a view to making the best possible estimate of the fair value, even though the same continues to be characterised by significant margins of subjectivity, given the specific nature of the subject to be assessed.
It cannot therefore be ruled out that, at the time of the final outcome of the inspection conducted by the Supervisory Authority, formalised with the issue of the "Decision" or "Final follow-up letter", new pieces of information, not known at the time of preparation of this Report, may emerge and are to be considered in the fair value measurement of the Group's real estate assets.
For further details on said inspection, refer to the content of the previous paragraph entitled "Determining the impairment on loans disbursed recognised in balance sheet assets".

For further details on the breakdown and changes in real estate assets, please refer to sections "Property, plant and equipment - Item 90", "Non-current assets and disposal groups held for sale and associated liabilities – Item 120 in the assets and item 70 in the liabilities" contained in "Part B – Information on the consolidated balance sheet" of these Notes; for the disclosure on the methods used to determine fair value, please refer instead to Part A.4 - "Fair value disclosure".

Estimating obligations relating to employee benefits

Determining the liabilities associated to employee benefits, with specific reference to defined benefit plans and to long-term benefits, implies a certain degree of complexity; the outcome of the valuations depends, to a significant extent, on the actuarial assumptions used, both in demographic terms (such as mortality rates and rates of employee turnover) and in financial terms (such as discounting rates and inflation rates). Therefore the opinion of management is fundamental, when selecting the most suitable technical basis to evaluate the cases, which may be influenced by the socio-economic context in which the Group operates at the time, as well as the performance of the financial markets. 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.

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The list of valuation processes shown above is included simply to provide readers with a better understanding of the main areas of uncertainty, and it should in no way be considered as implying that, to date, alternative assumptions can prove more appropriate.
In any event, as illustrated above, in order to allow for an appreciation of the effects on the financial statements related to the aforementioned factors of uncertainty, exacerbated by the ongoing Covid-19 pandemic, in 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 2021 have been prepared on the going concern assumption: the Directors do not believe that risks and uncertainties have emerged, that cast doubt on its ability to continue as a going concern. The Directors have considered that the Group is reasonably expected to continue to operate for the enforceable future; therefore the consolidated financial statements have been drawn up on the going concern assumption.

To express this opinion, 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 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 the following three requirements are simultaneously present as regards the investor:

- the power to decide on the relevant activities of the entity;
- exposures or rights from variable returns resulting from its involvement with the entity;
- the ability to use its power to affect the amount of said returns, due to its relationship with the entity (link between power and returns).

More specifically, IFRS 10 establishes that, in order to possess control, the investor must have the ability to direct the relevant activities of the entity, by virtue of a legal right or of a mere state of fact, and must also be exposed to the variability of the results arising from said power.

In light of the above-mentioned regulatory references, the Group must therefore consolidate all types of entity where all three control requirements are met.
Generally, when an entity is considered direct by virtue of voting rights, control results from holding over half of those rights.
In the other cases, establishing the scope of consolidation requires all factors and circumstances that give the investor the practical ability to unilaterally conduct the relevant activities of the entity (actual control). To this end, a set of factors has to be considered, such as, merely by way of example:

- the purpose and the design of the entity;
- the identification of the relevant activities and how they are managed;
- any right held by means of contractual arrangements which awards the power to direct the relevant activities, such as the power to establish the financial and operating policies of the entity, the power to exercise majority voting rights in the decision-making body or the power to appoint or remove the majority of the body with decision-making functions;
- any voting rights that may potentially be exercised and that are considered substantial;
- involvement with the entity in the role of agent or principal;
- the nature and dispersion of any rights held by other investors.

The following paragraphs provide further details on the scope of entities controlled exclusively as at 31 December 2021, broken down into companies controlled through voting rights and structured entities.

Companies controlled through voting rights

With reference to the Group's situation as at 31 December 2021, companies in which a majority of voting rights in the ordinary shareholders' meeting is held are considered to be exclusively controlled, insofar as there is no evidence that other investors have the practical ability to direct the relevant activities.

As regards companies in which half or a lower amount of voting rights are held, as at 31 December 2021, there are no arrangements, statutory clauses, or situations able to establish that the Group has the practical ability to unilaterally direct the relevant activities.
With a view to corroborate the above situation, a short summary of the analyses conducted on the interest held in Bipiemme Vita S.p.A. (hereinafter also Bipiemme Vita), corresponding to 19% of share capital, and on its subsidiary company Bipiemme Assicurazioni S.p.A. (hereinafter also Bipiemme Assicurazioni), by virtue of the voting rights relating to its holding purchase options on the remaining 81% of share capital held by Covéa.

Assessing requirements for control pursuant to IFRS 10 on Bipiemme Vita

On 25 June 2021, Banco BPM and the Covéa Group signed agreements amending the partnership in the bancassurance sector regarding the joint ventures Bipiemme Vita, 19% of which owned by Banco BPM, and the remaining 81% by Covéa, and Bipiemme Assicurazioni, wholly owned by Bipiemme Vita.
These agreements provide for, *inter alia*, the recognition in favour of Banco BPM of an unconditional option to purchase 81% of the share capital of Bipiemme Vita, which can be exercised at any time in the period between 8 September 2021 and 31 December 2023. The exercise price corresponds to 81% of the regulatory Unrestricted T1 capital of Bipiemme Vita as at 30 June 2021, increased by a component to remunerate the capital absorbed by holding the interest for Covéa - conventionally 140% of the Solvency Capital Requirement as at 30 June 2021 - reduced by any dividends received, and increased by any share capital increases of Bipiemme Vita made up until the date on which the interest is transferred.
If the above-mentioned option is not exercised, the partnership may continue until the end of 2028, except where the put and call options recognised respectively to Covéa and Banco BPM are exercised in given time windows.
In any event, the finalisation of the purchase by Banco BPM of the interest held by Covéa in Bipiemme Vita, following the exercise of the above-cited options, will be conditional to obtaining the necessary authorisations from the competent Authorities (IVASS).
In the light of the above, the purchase option held by Banco BPM, on 81% of Bipiemme Vita, which may be exercised between 8 September 2021 and 31 December 2023, represents a potential voting right, insofar as it attributes the right to obtain voting rights on an investor. For the purposes of the preparation of the financial statements as at 31 December 2021, it therefore had to be assessed whether holding the above potential voting rights could be considered a situation of control of Banco BPM over Bipiemme Vita, according to the principles of accounting standard IFRS 10.
Following the analyses conducted, also with the assistance of a leading professional, it was reasonably determined that, as at 31 December 2021, there are no unequivocal and decisive elements to sustain that the purchase option encompasses a relevant potential right to establish control. As at said date, in fact, it was deemed that there were substantial regulatory obstacles, in addition to a considerable degree of uncertainty as to an accurate valuation, from the Bank's perspective, of the economic convenience of exercising said option. More specifically, in the case in hand, it was felt that acquiring the authorisation of IVASS is not merely a formal step, but is a substantial matter that may represent an obstacle to the free and current exercise of voting rights, therefore representing, pursuant to IFRS 10, a lack of evidence of the practical ability to exercise control. As at the date of 31 December 2021, and at the date of preparation of this Annual Report, not only has said authorisation not been granted to Banco BPM, but the Group has not even submitted the application to the above-mentioned Supervisory Authority, insofar as it has not yet fulfilled all of the requirements to be able to take a decision as to the exercise of the option.
For the purpose of the preparation of the financial statements as at 31 December 2021, the interests held in Bipiemme Vita and, indirectly, in Bipiemme Assicurazioni therefore continue to be classified as interests in associates, carried at equity, according to the principle established by accounting standard IAS 28.

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 2021 is necessary, are represented by the several SPEs for securitisation transactions originated by the Group. For those SPEs, the elements deemed significant for identifying control and the resulting consolidation are:

- the purpose of said SPEs;
- exposure to the outcome of the transaction;

- the ability to structure transactions and to direct the relevant activities and take critical decisions through servicing contracts;
- the ability to arrange for their liquidation.

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

- it has the power to direct the relevant activities when:
  - it acts as fund manager and there are no investors with substantial removal rights; or
  - it has a substantial right to remove the fund manager (external to the Group) without just cause or due to the performance of the funds; or
  - the governance of the fund is such that the Group substantially governs the relevant assets;
- it has significant exposure to the variable returns of the fund, as it directly holds a share retained significant, in addition to any other form of exposure related to the fund's economic results;
- it is able to influence said returns through exercising its powers, when:
  - it is the fund manager;
  - it has a substantial right to remove the fund manager (external to the Group);
  - it has a right to participate in the Committees of the fund, to the extent that the Group has the legal and/or practical ability to control the activities performed by the manager.

As at 31 December 2021, the analyses conducted on the investments held by the Group in mutual investment funds and similar, resulted in the exclusion of the existence of control over the same; therefore no fund is included in the scope of consolidation.

Line-by-line consolidation method

Controlled entities are consolidated from the date on which the Group acquires control, according to the purchase method, and cease to be consolidated from the moment 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 2021, all of the exclusively controlled companies have prepared a balance sheet and income statement in accordance with the Group's accounting principles.
Interests in associates and joint ventures held for sale are recorded in compliance with the reference international accounting standard IFRS 5, which regulates the recording of non-current assets held for sale. In this case, the assets and liabilities held for sale are included in the balance sheet items "120. Non-current assets and disposal groups held for sale" and "70. Liabilities associated with assets classified as held for sale".
If the disposal of the interest in associates and joint ventures is classified as discontinued operations (under the terms of IFRS 5), the relative income and expenses are recognised in the income statement, net of taxes, under item "320. Profit (loss) after tax from discontinued operations". Otherwise, the contribution of the investee is shown in the income statement "line by line". For further details please refer to the content of paragraph "8 - Non-current assets and disposal groups held for sale" contained in section "A.2 - Key financial statement items" below.

If the fair value of the assets and liabilities held for sale, net of costs to sell, turns out to be lower than the book value, a value adjustment is recognised in the income statement.

(B) Interests in companies subject to joint control and subject to significant influence

Associates, i.e. companies not controlled in which a notable influence is exercised, are considered to be companies subject to significant influence. The company is assumed to exercise a significant influence in all cases where it holds 20% or more of voting rights in the investee, and, irrespective of the shareholding percentage, whenever it has the power to participate in business and financial decisions of the investees, by virtue of specific legal relations, such as shareholders' agreements, the purpose of which is to ensure that the members of the agreement are represented in the management bodies and to safeguard a consistent management approach, without, however, controlling the same.
Interests in companies subject to joint control and subject to significant influence are measured according to the equity method, based on the most recent financial statements available of the associated company/company subject to joint control, suitably adjusted to take into account any significant events or transactions; for a description of the classification, recognition, measurement and derecognition criteria, please refer to part "A.2 - Key financial statement items" - "5. Interests in associates and joint ventures".
In this regard, it should be noted that, with regard to the interest held in the listed company Anima Holding, carried at equity from 1 April 2020 following the acquisition of significant influence, the contribution to the consolidated income statement for 2021 does not include the profit (loss) recorded by the investee company in the fourth quarter of 2021, while it does record the pertinent profit (loss) recorded by the investee in the last quarter of 2020, of 9.8 million. This depends on the fact that Anima Holding approved its draft 2020 financial statements and will approve those of 2021 after the approval of the results by Banco BPM Group.

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. in liquidation 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.	Ge.Se.So. S.r.l. Share capital € 10,329.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
15.	Lido dei Coralli S.r.l. Share capital € 10,000.00	Sassari	Sassari	1	Bipielle Real Estate	100.000%	100.000%
16.	Oaklins Italy S.r.l. Share capital € 109,000.00	Milan	Milan	1	Banca Akros	100.000%	100.000%
17.	Partecipazioni Italiane S.p.A. in liquidation Share capital € 350,000.00	Milan	Milan	1	Banco BPM	99.966%	100.000%
18.	P.M.G. S.r.l. in liquidation Share capital € 52,000.00	Milan	Milan	1	Banco BPM	84.000%	84.000%
19.	Release S.p.A. Share capital € 595,829,901.44	Milan	Milan	1	Banco BPM	99.907%	99.907%
20.	Sagim S.r.l. Società Agricola Share capital € 7,746,853.00	Asciano (SI)	Asciano (SI)	1	Agriurbe	100.000%	100.000%
21.	Sirio Immobiliare S.r.l. Share capital € 10,000.00	Lodi	Lodi	1	Bipielle Real Estate	100.000%	100.000%
22.	Tecmarket Servizi S.p.A. Share capital € 983,880.00	Verona	Verona	1	Banco BPM	100.000%	100.000%
23.	Terme Ioniche S.r.l.	Cosenza	Lodi	1	Bipielle Real Estate	100.000%	100.000%

Company name	Operational headquarters	Registered office	Type of relationship (1)	Investment relationship		Available
				Holder	% held	% of votes (2)
Share capital € 1,157,190.00						
24. Terme Ioniche Società Agricola S.r.l.	Cosenza	Cosenza	1	Bipielle Real Estate	100.000%	100.000%
Share capital € 100,000.00						
25. BP Mortgages S.r.l. (*)	Milan	Milan	4	-	0.000%	
Share capital € 10,000.00						
26. BPL Mortgages S.r.l. (*)	Conegliano V. (TV)	Conegliano V. (TV)	4	-	0.000%	
Share capital € 12,000.00						
27. ProFamily SPV S.r.l. (*)	Conegliano V. (TV)	Conegliano V. (TV)	4	-	0.000%	
Share capital € 10,000.00						

(1) Type of relationship:
1 = majority of voting rights in the ordinary shareholders' meeting
4 = other forms of control
(2) Availability of votes in the ordinary shareholders' meeting, distinguishing between actual and potential
(*) 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 2020 are shown in the tables below:

Fully consolidated companies	
Incoming company due to acquisition	
Oaklins Italy S.r.l.	100.00%
Outgoing companies due to sale transactions	
Immobiliare Marinai d'Italia S.r.l. (in liquidation)	100.00%
Perca S.r.l.	100.00%
Meleti S.r.l.	100.00%
Outgoing companies due to closure of liquidation/securitisation transactions	
FIN.E.R.T. S.p.A. (in liquidation)	80.00%
Milano Leasing S.p.A. (in liquidation)	99.99%
Italfinance Securitisation Vehicle S.r.l.	9.90%
Outgoing companies due to merger transactions	
Incorporated company	**Incorporating company**
ProFamily S.p.A.	Banco BPM S.p.A.

It should be noted that in January 2021, Banco BPM acquired full control over the investee Release, by acquiring 39,923,532 ordinary shares of the subsidiary from BPER Banca S.p.A. As illustrated in the section on events subsequent to the reporting date, the company was incorporated into the Parent Company with effect as of 21 February 2022. Note that from 1 January 2022, the merger by incorporation of the subsidiary Bipielle Real Estate into the Parent Company became effective.

Furthermore, effective from October, the associated companies Arcene Immobili S.r.l. in liquidation and Arcene Infra S.r.l. in liquidation have been excluded from the category of companies consolidated with the equity method following the start of bankruptcy proceedings.
Lastly, note that during the year, the associated company CF Liberty Servicing S.p.A. changed its company name to Gardant Liberty Servicing S.p.A..

For further details on the above transactions, reference should be made to the section on significant events during the year in the Report on operations and, as regards the acquisition of Oaklins Italy S.r.l., to part G - Business combinations regarding companies or divisions in these Notes.

2. Significant assessments and assumptions used to determine the scope of consolidation

Within the scope of wholly-controlled Companies, inclusion in the scope of the Group is related to the concept of majority voting rights at the shareholders' meeting without exclusion in the case of legal control.

The only exceptions are those of Special Purpose Entities for securitisation transactions. As previously explained, even in the absence of direct equity interests, the Group has contractual rights to manage the relevant activities of the entity and is exposed to the variable returns of the same.

As at 31 December 2021, 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 2020.

3. Interests in exclusively controlled companies with significant non-controlling interests

3.1 Non-controlling interests, availability of non-controlling votes and dividends distributed to non-controlling interests

No information is given for the reasons explained above.

3.2 Interests in companies with significant non-controlling interests, accounting information

No information is given for the reasons explained above.

4. Significant restrictions

As at 31 December 2021, 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 2021, 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 2021) to the date of approval of the draft financial statements by the Board of Directors (1 March 2022), 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.

Issue of new subordinated loan

In January 2022, Banco BPM completed a new issue of subordinated Tier 2 bonds, with a 10-year maturity, which can be repaid in advance five years before maturity, for the amount of 400 million.

The bond has a fixed coupon at 3.375% for the first 5 years; if the early repayment option is not exercised, the coupon for the subsequent period until maturity will be recalculated on the basis of a 5-year swap rate, plus a spread of 340 bps.
The bond, directed to institutional investors, is part of the Group's Euro Medium Term Notes Programme and contributes to further strengthening the bank's already robust capital structure.

Completion of liquidation of subsidiaries

As illustrated in the section regarding significant events during the year contained in the Report on operations, on 16 February 2022, the subsidiary BP Trading Immobiliare S.r.l., which had resolved the early dissolution and start of voluntary liquidation from 1 November 2021, was removed from the relevant Companies' Register. The company in question, therefore, was removed from the scope of Banco BPM Banking Group.

Merger of subsidiaries

As illustrated in the section regarding significant events during the year contained in the Report on operations, the incorporation of Bipielle Real Estate S.p.A. into the Parent Company became effective from 1 January 2022.
Furthermore, on 10 February 2022, the deed of merger of Release S.p.A. into Banco BPM was signed; the operation has legal effect from 21 February 2022, following the registration of the deed of merger in the relevant Companies' Register, while it has accounting and tax effect from 1 January 2022.

The above-illustrated operations were performed without a swap ratio or a cash payment and did not entail any share capital increase of the incorporating company Banco BPM.

Capital requirements for 2022 are notified by the ECB

On 2 February 2022, the European Central Bank (ECB) notified Banco BPM of the SREP decision containing the outcomes of the annual Supervisory Review and Evaluation Process (SREP).

Therefore, also considering the countercyclical capital buffer as at 31 December 2021 for exposures to the countries in which the Group operates, equal to 0.003%, and maintaining the requirement to add to minimum capital requirements unchanged at 2.25%, the minimum requirements that Banco BPM is required to meet for 2022, both at phase-in and fully-phased level, until a new communication is issued, are as follows[1]:

- CET1 ratio: 8.519%;
- Tier 1 ratio: 10.441%;
- Total Capital ratio: 13.003%.

Therefore Banco BPM Group's capital solidity is fully confirmed and, as at 31 December 2021 far exceeds said prudential requirements, both with reference to the effective ratios calculated in accordance with the phased-in criteria in force for 2021, and considering the capital ratios calculated on the basis of the criteria in place when fully-phased.

Launch of the programme to purchase own shares

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

The duration of the programme, which obtained the authorisation of the European Central Bank, was established as the period from 15 February to 28 February 2022. The total maximum counter value was established as 16 million, to

[1] These requirements are set as follows:

- the Pillar 1 minimum requirement equal to 8% (of which 4.5% CET 1, 1.5% in terms of AT1 and 2% in terms of AT2);
- the P2R requirement communicated by the ECB equal to 2.25% to be met by CET1 (56.25%) and TIER1 (75%);
- a capital conservation buffer equal to 2.50%, to be entirely met by CET1;
- the O-SII buffer equal to 0.25% to be met entirely by CET1;
- the countercyclical capital buffer equal to 0.003% to be met entirely with CET1 capital.

support all existing plans both relating to annual incentives (for 2015-2021), and to long-term incentive plans, 2017/2019 and 2021/2023.

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

The Russia - Ukraine war

As illustrated in the paragraph entitled "Outlook for business operations" contained in the Report on operations, on 24 February 2022, Russia announced a military operation in Donbass, which triggered an invasion of Ukraine.
The Russian aggression was immediately strongly condemned by both the European Union and by the United States and all NATO member countries. Said condemnation was followed by the approval of a large range of sanctions against Russia, including the block of technology exports, a ban on doing business with Russian state entities, strategic entities and those that produce gas and oil, as well as the block of the SWIFT system for Russian banks.
The sanctions generated an immediate crisis of the Russian financial systems, which led to a rapid and substantial loss of value of the rouble, the downgrading of the sovereign rating, the potential serious risk of bankruptcy of Russian banks and the collapse of the prices of stock issued by Russian companies.
The effects of the sanctions are, however, also going to impact the western countries that issued them and currently, macroeconomic prospects are very uncertain insofar as the influence of the above-described events on the same will greatly depend on the unforeseeable duration and outcome of the conflict under way.
Today, lower economic growth in Europe and in Italy is expected, due to the rise in energy and commodity prices, which will accentuate the rise in inflation that is already in progress. Assumptions relating to adopting a less accommodative monetary policy by the ECB now appear to be groundless, in light of the need to counter the negative effects of the sanctions and the increased cost of energy and commodities, and therefore expectations of an interest rate hike have consequently disappeared.
As indicated in the introduction, the outbreak of the Russia-Ukraine war represents a fact that should not lead to an adjustment of financial statement balances (so-called non-adjusting events) insofar as the fact itself and the relative consequences emerged after 31 December 2021.
In any event, it should be noted that no significant impacts are envisaged on the direct exposures held by the Group in Russia and Ukraine, given the entity of the same. More specifically, as at 31 December 2021, direct exposure to Russia was represented by loans and securities amounting to 87 million, and by unsecured loans of 44.6 million; instead it has no direct exposures in Ukraine. Also the Group's exposure to the rouble is substantially equalised.
With regard, instead, to the indirect impacts, given the current absolutely unpredictability of developments of the conflict and its consequences on macroeconomic scenarios, it cannot be ruled out that financial statement estimates may have to be revised during the course of 2022, in light of new information that will become available.
To be able to appreciate the potential negative impact of uncertain events that can be conceived on the date of preparation of this Report, please refer to the sensitivity analyses provided with regard to the main items subject to estimate (expected losses on performing loans, recoverability of intangible assets with indefinite useful life, recoverability of deferred tax assets, fair value of financial instruments, liabilities for defined benefits to employees).

Section 5 - Other aspects

Risks, uncertainties and impacts of the Covid-19 pandemic

The following paragraphs illustrate the disclosure envisaged in the Bank of Italy notification dated 21 December 2021[1], through which specific disclosure was confirmed for 2021 as well, introduced from the 2020 financial statements, on the risks, uncertainties and impacts of Covid-19 due to the continuation of the crisis and of the relative support measures still in place.

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 effectively be considered.

[1] "Update of the supplements to the provisions of Circular no. 262 "Bank financial statements: layouts and rules for preparation" regarding the impacts of COVID-19 and the measures to support the economy".

The spread of the Covid-19 pandemic and its implications for public health, economic activity and trade could, at almost two years from the start of the health emergency, continue to significantly influence the markets in which the Group operates.

Although the impact of the pandemic on economic activity considerably diminished over the course of 2021, also thanks to the significant efforts made in the ongoing vaccination campaign, the development of new variants related to the virus in the last quarter did not enable those elements of uncertainty relating to the recovery of economic activity, particularly as regards those sectors particularly impacted by the health crisis, to be significantly reduced. As well as being influenced by the evolution of the pandemic, said recovery will depend on the effectiveness and the duration of the expansive measures to support - household and business income, credit to the economy and market liquidity - undertaken by the competent authorities (Governments, ECB, European Union ...) in response to the health crisis.
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, which are expected to reach pre-crisis levels by the first half of 2022.
Following the collapse of GDP in 2020, an inversion of the trend was then seen, with a strong recovery in 2021, which is expected to continue on into 2022 as well. On the date of preparation of these financial statements, there are, however, still significant elements of uncertainty regarding the development of new variants of the virus, the effective implementation of the National Recovery and Resilience Plan by the Government. For further details on the macroeconomic forecasts used to draw up these financial statements, 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.

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

The following table provides a list of the main documents issued at the date of preparation of this 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)
Statement	29/10/21	European common enforcement priorities for 2021 annual financial reports (ESMA32-63-1186)
Commissione Nazionale per la Società e la Borsa (CONSOB)		
Notification	09/04/20	Covid-19 - Financial Disclosure Notification
Notification	16/07/20	Covid-19 - Financial Disclosure Notification
Notification	16/02/21	Covid-19 - Financial Disclosure Notification
International Organization of Securities Commissions (IOSCO)		
Statement	03/04/20	IOSCO Statement on Application of Accounting Standards during the Covid-19 Outbreak
Bank of Italy		
Communication	21/12/21	Update of the supplements to the provisions of Circular no. 262 "Bank financial statements: layouts and rules for preparation" regarding the impacts of Covid-19 and the measures to support the economy, originally published on 15 December 2020

In this regard, in 2021, the Authorities and standard setters made no significant changes to the considerations already made in 2020 regarding the interpretation of several principles, which continue to be valid. With regard to the financial statement disclosure, note the notification from ESMA dated 29 October 2021, which specifically draws attention to the need to make a full and accurate disclosure of the impacts of Covid-19, on the ECL calculation method, as well as an illustration of any assessments made regarding potential effects relating to climate and environmental risks.

With regard to the latter aspect, please refer to that illustrated in the paragraph above "Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated financial statements", as well as to specific paragraphs ("Environmental risks" and "Information on the inclusion of ESG factors in credit processes") contained in "Part E - Information on risks and related hedging policies" of these Notes.
Instead, the main aspects of attention considered in the financial statement valuations or disclosures, resulting from the Covid-19 crisis, are illustrated below, with particular reference to the changes and improvements made by the Group in 2021.

Moratorium measures and relative classification

With the intention of providing support to the counterparties that were affected by the suspension or limitations of economic activities due to the Covid-19 crisis, the Group conceded support measures to households and businesses, both by virtue of that envisaged by government provisions, and on the basis of bilateral initiatives, which also fall within the scope of ABI agreements, including payment suspensions and/or extending the expirations of active loans (so-called moratoria).

In this regard, it should be noted that for the classification of the moratoria granted from March 2020 until November 2020, the Group had used the so-called "temporary framework" introduced by the guidelines published by the EBA on 2 April 2020, on the basis of which an exemption from the assessment of financial difficulty ("forbearance") was envisaged for measures classified in the scheme of "general payment moratorium". Instead, from November 2020, Banco BPM Group reactivated the ordinary process to assess the status of financial difficulty, with a view to ascertaining whether the requirements to classify the exposure as "forbearance" were met, not opting for the further extension granted by EBA guidelines to apply the cited "temporary framework" until 31 March 2021, on condition that the period of suspension of the moratorium does not exceed nine months overall.

The assessment of financial difficulty therefore became necessary for all moratoria extension requests received in the first half of 2021, pursuant to Italian Decree Law 73/2021 (so-called Sostegni bis [Support two] Decree). For businesses already admitted to the moratoria pursuant to Art. 56 of the Cura Italia [Heal Italy] Decree (Italian Decree Law 18/2020), following the extension to 30 June 2021 established by the Budget Law (no. 178 of 30 December 2020), the Support two Decree further extended the measures until 31 December 2021, subject to a customer application deadline of 15 June 2021. During the first half, the Group therefore undertook the necessary action to correctly address the extension requests received from customers, based on the effective need. At the same time, a specific framework was introduced to assess financial difficulties (forbearance), according to a risk-based approach, also considering the significance of the exposure to be assessed.

As at 31 December 2021, for Banco BPM, the volume of exposures benefiting from Covid-19 support measures represented by moratoria amounted to a total of 14.9 billion, with 11.3 billion expired.

Therefore active moratoria amounted to 3.6 billion, and were substantially represented by moratoria that expired on 31 December 2021, consequent to the extension granted by the above Support two Decree; as at 1 January 2022, the above-cited moratoria had therefore expired. Just considering loans paid in instalments (3.1 billion), 93% of volumes (2.9 billion) were due by the first half of 2022.

In terms of credit quality, it should be noted that 61% of moratoria in place are classified as Stage 2, 32% as Stage 1 and the remaining 7% as Stage 3 and POCI. In this regard, note that the percentage of exposures classified as Stage 2 is conditioned by the prudential approach taken by the Group following the Support two Decree, through which all moratoria with exposures of less than five hundred thousand euro were reclassified to the stage in question. Management figures show that for moratoria in place as at 31 December 2021, there is a concentration in the medium-low risk brackets (62%) and in the sectors with neutral outlooks (64%).

For moratoria already expired as at 31 December 2021 (11.6 billion), a modest default rate of around 1.5% was confirmed, also including the instalments debited in January 2022.

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 general aspects of 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 changes resulting from Covid-19".

Lastly, for quantitative information on the support measures granted by the Group as at 31 December 2021, in terms of gross exposure, value adjustments (total and for the year) and transfers between stages, please refer to the following tables:

- "4.4a Loans at amortised cost subject to Covid-19 support measures: gross value and total value adjustments" in "Section 4 - Financial assets at amortised cost" contained in "Part B - Information on the Balance Sheet" of these Notes;
- "8.1a Net credit impairment losses relating to loans at amortised cost subject to Covid-19 support measures: breakdown" in "Section 8 - Net credit impairment losses/recoveries" contained in "Part C – Information on the Income Statement" of these Notes;
- "A.1.3a Loans subject to Covid-19 support measures: transfers between the different credit risk stages (gross values)" and "A.1.5a Loans subject to Covid-19 support measures: gross and net values", contained in the quantitative information of the section on credit risk in "Part E – Information on risks and related hedging policies" of these Notes.

In this regard, note that in the above-mentioned tables, the figures for moratoria refer to those in place as at 31 December 2021 and are broken down into the following detailed information:

- "Loans subject to forbearance measures compliant with Guidelines": meaning the moratoria granted until 31 March 2021 in compliance with the EBA guidelines on moratoria (EBA/GL/2020/02);
- "Loans subject to moratorium measures no longer compliant with Guidelines and not assessed as forborne": meaning the moratoria which were originally granted in compliance with the above EBA guidelines, but for which an event subsequently took place which made the ordinary forbearance framework applicable, following which the existence of financial difficulties by the customer was ruled out;
- "Loans subject to other forbearance measures": this item encompasses the moratoria granted as regards Covid-19 and which meet the definition of forborne exposure.

For further details on the moratoria that as at 31 December 2021, comply with EBA guidelines, please refer 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 highlighted the need to incorporate the deterioration in the economic situation caused by the Covid-19 scenario but, at the same time, given the situation of uncertainty, pointed out the need to take advantage of the flexibility margins provided for by IFRS 9. Said margins would allow - where there is no supporting evidence for macroeconomic forecasts - expected losses to be estimated by giving a greater weight to past information on long-term macroeconomic forecasts. In addition, where reasonable estimates were available, the Authorities highlighted the need for expected losses to be able to reflect the positive effects of the support measures granted by the public sector.
In more detail, the IASB in its document of 27 March 2020 did not introduce any amendment to IFRS 9 but stated that, using the elements of judgement allowed by that standard, an entity should adjust the approach used to determine expected losses in accordance with new and different circumstances, without applying the existing methodology mechanically. While being aware of the difficulty of this estimation exercise, the IASB noted that the quantification of expected losses must take into account historical, current and prospective information and accepted the possibility of resorting to post-model overlays or adjustments, if the models are not able to fully reflect the effects of the Covid-19 crisis and related government support measures.

Lastly, ESMA specified that the Sovereign state guarantees, provided in conjunction with moratoria or other support measures, must be included in the measurement of expected losses. In this regard, it referred to the "Transitional Resource Group for Impairment" document of December 2015, according to which, to measure expected losses, the guarantee of the exposures does not need to be explicitly established in the contractual clauses.

Having said this, in 2021, the process of revising and fine-tuning the current models, which started in 2020, continued, with a view to more accurately reflecting the expected losses of performing exposures, also as a consequence of the economic disruption caused by the Covid-19 crisis. This process moreover envisaged a series of adjustments to the models, as well as post model managerial adjustments, in order to factor in certain measurement elements not adequately intercepted by current models, which partly confirm that already adopted in the assessment of loans as at 31 December 2020.

For a detailed explanation of the changes to ECL calculation models introduced due to Covid-19 and of the relative developments in 2021, as well as an illustration of the new macroeconomic scenarios considered for the 2021 financial statements, please refer to paragraph "2.3 Measurement methods for expected losses" contained in the section on credit risk in "Part E - Information on risks and relative hedging policies" in these Notes.

Overall, the interventions described above, along with changes in the portfolio, led to an increase in the Group's credit exposures classified as "Stage 2" with respect to those recorded at the beginning of the year. As highlighted in the Group Report on operations (see, for a comparison, particularly, the section on results), for the portfolio represented by loans to customers, gross exposures classified as "Stage 2" as at 31 December 2021 amounted to

11.7 billion (10.97% of total performing exposures), up by 4.5 billion compared to the start of the year (when they totalled 6.82% of all performing exposures).
The total coverage of performing loans was 0.43%, substantially aligned with that recorded as at 31 December 2020 (0.44%). In detail, the average coverage of "Stage 2" exposures was 2.82%, compared to 4.32% as at 31 December 2020.
In this regard, note that a breakdown of the above overall impacts resulting from the separate changes made to the models and the estimation methods cannot be provided, given the complexity and pervasiveness of the changes introduced.

In this regard, it is necessary to specify that the above-mentioned coverage could however be significantly influenced by any different developments of the pandemic, also with regard to the effectiveness of the government support measures, as well as a different evolution of the macroeconomic scenario, also given the recent world political crisis.

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".

Valuation of the Group's real estate assets

As at 31 December 2021, the book value of real estate assets amounted to 2,538.8 million, 1,327.0 million represented by properties used for the administrative/commercial activities of the Group and the remainder held for investment purposes or for sale. 635.7 million of these investments are represented by properties deriving from the collection of non-performing loans (so-called "foreclosed assets").
The impact recorded in 2021 - following the update of the appraisal values or of sales negotiations underway, which regarded over 90% of the Group's real estate assets - was a negative 130.6 million. More specifically, this result was obtained from the imbalance of a negative impact recorded in the income statement of 141.6 million, 75% of which was represented by foreclosed properties, and a positive impact recognised as a balancing entry in shareholders' equity of 11.0 million.
The above-cited valuations, conducted with the assistance of specific appraisals drawn up by leading valuation companies, took the effects that Covid-19 is having on the real estate sector into due consideration, with particular reference to properties used in the hospitality sector and those for office use. These categories of property were obviously significantly impacted by the continuous restrictive measures imposed by the pandemic, and by a different concept of the office, induced by structural processes entailing smart working. In addition, the impact was particularly evident for units located in more peripheral areas and for those of a substantial size.

Financial information

Consob drew attention to the need to illustrate the risks associated with Covid-19 in the financial statements, which may have an impact on the Company's financial position and economic result, any actions taken or planned to mitigate those risks and the potential significant impact on envisaged future performance. 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 "Initiatives of Banco BPM Group within the context of 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.
Instead, the effects of Covid-19 are included in the comment on results, where retained relevant or able to explain a significant change.

Impairment of non-financial assets

ESMA and CONSOB are focusing in particular on the effects of the Covid-19 pandemic on the impairment testing 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 suggest that cash flows should be estimated on the basis of multiple scenarios, in relation to which, detailed information must be provided on the basic assumptions used for cash flow projections and the relative 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 as consistent as possible with the macroeconomic forecasts used for other valuation exercises (deferred tax assets and performing loans), as better 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 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, particularly in 2020, 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, the above mentioned measures have been classified in the case envisaged by IFRS 9 relating to "renegotiations 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. 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 carrying amount 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 2021, refer to table "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.

2) Amendment to accounting standard IFRS 16

Regulation (EU) no. 1421 of 30 August 2021 renewed the subsidies envisaged by the previous Regulation (EU) no. 1434 of 9 October 2020 relating to the accounting treatment of Covid-19 related rent concessions, for a further 12 months. In response to the ongoing pandemic crisis, the amendments provide a practical expedient on the basis of which the temporary reductions and/or suspensions of rent payments for the period from the beginning of the pandemic until 30 June 2022, as a direct consequence of Covid-19, may be recognised on the basis of the accounting rules for "lease modification". The new regulation is effective from financial statements from 1 April 2021 for financial years that start on 1 January 2021 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 2022;
- all other contractual terms must remain substantially unchanged.

As already seen in the 2020 financial statements, for Banco BPM Group, the simplification in question is not relevant with regard to the preparation of the financial statements as at 31 December 2021. This depends on the fact that the renegotiations set in place by the Group could not be directly linked to the Covid-19 health crisis, insofar as, generally, it was aimed at obtaining a permanent rent reduction, regardless of the contingent situation caused by the above-cited crisis.

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 1 March 2022 and will be submitted for approval by the Shareholders' Meeting convened for 7 April 2022.

The Regulation of the European Commission 815/2019 (European Single Electronic Format – ESEF Regulation)

The European Commission Regulation 815/2019 (European Single Electronic Format Regulation - ESEF), issued to implement the Transparency directive (Directive 2004/109/EC), introduced the obligation for issuers with securities listed on EU regulated markets to draw up annual financial reports in the new ESEF format, which represents a combination between xHTML language (for the presentation of the financial reports in a legible format for human

users) and the XBRL markup (eXtensible Business Reporting Language), with a view to facilitating the accessibility, analysis and comparability of consolidated financial statements drawn up according to International Financial Reporting Standards (IFRS). The use of this new format entails the mapping of the information contained in the consolidated financial statements according to the "Inline XBRL" specifications, which envisage the application of the basic taxonomy issued by the ESMA (European Securities and Markets Authority).[1]
The provisions contained in the cited Regulation apply to annual financial reports from 1 January 2021.

This Annual Report was prepared in compliance with that envisaged by the ESEF Regulation approved by Banco BPM's Board of Directors on 1 March 2022, and will be made public within the terms of the law.

Independent audit

The separate financial statements and the consolidated financial statements as at 31 December 2021 are subject to independent auditing by the auditing firm PricewaterhouseCoopers S.p.A., in application of the appointment conferred on this firm with resolutions of the shareholders' meetings of Banco Popolare Soc. Coop. and Banca Popolare di Milano S.c. a r.l. of 15 October 2016. The above-cited appointment was awarded for financial years from 31 December 2017 to 31 December 2025, in compliance with the duration envisaged by law (9 years). The full auditors' report, together with the annual financial report, is made available to the public, pursuant to Art. 154-ter of Italian Legislative Decree 58/98.

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

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

IAS/IFRS accounting standards and related SIC/IFRIC interpretations endorsed that must be applied when preparing the 2021 financial statements

<u>Regulation (EU) no. 2097 of 15 December 2020 – "Extension of the Temporary Exemption from Applying IFRS 9" - Amendments to IFRS 4</u>
Given the decision of the IASB to postpone the date of first application of IFRS 17 relating to insurance contracts to 1 January 2023, the Regulation in question therefore amended IFRS 4, with a view to extending the application of IFRS 9 to 1 January 2023 (Deferral Approach), with a view to avoiding potential temporary accounting problems resulting from the difference between the effective date of IFRS 9 Financial Instruments and the effective date of IFRS 17.
The current configuration of the Group does not entail performing direct insurance activities.
Nevertheless, the changes in the regulations in question do affect the insurance companies which are associated to Banco BPM. For the latter, the temporary exemptions envisaged by IFRS 4 (see paragraph 20O) must therefore be considered as deferred to 2023, with the consequence that the above-cited companies will continue to apply accounting standard IAS 39 to measure financial instruments until 1 January 2023, instead of standard IFRS 9 adopted by the Group. The exemption to the general principle of the net equity criterion, by virtue of which the investor and the entity subject to significant influence must apply harmonised accounting standards, for the years that start before 1 January 2023, is explicitly envisaged within the above-cited temporary exemptions.

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[1] The obligation to mark-up the information contained in the consolidated financial statements foresees two different times:
- from the financial year beginning on 1 January 2021, 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, statement of 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, contained in the Notes. In October 2021, XBRL Italia published a supplement to the basic taxonomy, which envisages numerous extensions made necessary also to ensure compliance with the structure of bank financial statements prescribed by Circular no. 262 of the Bank of Italy.

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

For further details on the Regulation that introduces Phase 2 of the IBOR Reform and on the disclosure provided by the Group, please refer to the paragraph below "Interest rate benchmark reform ('IBOR Reform')".

Regulation (EU) no. 1421 of 30 August 2021 – "Amendments to IFRS 16"

The Regulation makes a further amendment with respect to the amendment to IFRS 16 introduced last year to take into account Covid-19-related rent concessions. The amendment in question extends the period of time beyond which the practical expedient is applied, on the basis of which lessees do not have to recognise the temporary reductions or payment suspensions of lease contracts for the period between the start of the pandemic and 30 June 2022 as "lease modifications", by one year from 30 June 2021 to 30 June 2022. The "lease modification" treatment would require the lease amortisation plan to be amended, with the consequent recalculation of the liability; with the amendments in question, on the other hand, as a practical expedient, it is permitted to treat unpaid rent as a variable payment, to be recognised as a lower cost in the income statement, without having to recalculate the financial liability.

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

Banco BPM Group did not opt for said simplification as illustrated in more detail in the previous paragraph "Risks, uncertainties and impacts of the Covid-19 pandemic".

Endorsed IAS/IFRS accounting standards and SIC/IFRIC interpretations, the application of which takes effect after 31 December 2021

The standards or the amendments whose application starts after 31 December 2021, and for which the Group, where envisaged, had not opted for early application, are illustrated below.

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

With the Regulation in question, several limited amendments to IAS 16, IAS 37 and IFRS 3 were endorsed, approved by the IASB on 14 May 2020. In detail:

- the amendments to IAS 16 prohibit an entity from deducting from the cost of a tangible asset all income deriving from the sale of the goods produced in the period during which the asset must be brought to the location and in the condition required in order to operate in the manner intended by the management;
- the amendment to IAS 37 specifies which costs must be considered to assess whether a contract is onerous. More specifically, it specifies that the "cost of fulfilling" a contract, to assess whether it is onerous, comprises the costs that relate directly to the contract; they may be incremental, or also the costs that the entity cannot avoid after entering into the contract;
- the amendment to IFRS 3 envisages an update of the standard so that the recognition of identifiable assets acquired and of identifiable liabilities assumed is made on the basis of the most recent version of the Conceptual Framework.

In addition, the Regulation transposed the annual improvements cycle of certain standards (IFRS 1, IFRS 9, IAS 41 and the illustrative examples to IFRS 16) aimed at correcting oversights or conflicts between standards.

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

Regulation (EU) no. 2036 of 19 November 2021 – IFRS 17 "Insurance Contracts"

On 18 May 2017, the IASB issued the new accounting standard IFRS 17, which regulates the accounting treatment of insurance companies. On 25 June 2020, the IASB published several amendments to IFRS 17, which did not affect the basic principles, but instead provided assistance in its implementation, as well as several simplifications in the disclosure of financial performance. The amendment in question also provided, for entities that are engaged in insurance activities, the postponement of the first time adoption of IFRS 17 to 1 January 2023; the postponement also regards the application of IFRS 9, with a view to making the first time adoption of both of the above-mentioned standards coincide.

With respect to the previous standard IFRS 4, which allowed insurance companies a certain discretion in identifying and measuring insurance assets and liabilities, to the detriment of comparability of financial statement information disclosed, the new standards IFRS 17 introduces an integrated approach to the recognition of insurance contracts,

with the aim of guaranteeing a relevant disclosure, able to faithfully reflect the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.
More specifically, based on the new standard, when the contract is signed, the entity must recognise a liability, the amount of which is given by the algebraic sum of the present value of expected contractual cash flows - adjusted by means of an appropriate "risk adjustment" for financial risks - and of an expected economic margin - the so-called "Contractual Service Margin" or CSM - representing the present value of future profits. The above-cited elements - clash flows and contractual service margin - must be measured at each reporting date, to assess the consistency of the estimates with respect to current market conditions.
With reference to the measurement of insurance revenues, IFRS 17 envisages an exposure in the income statement "by the margins" recorded during the life of the policies, namely when the company effectively obtains the estimated profits, with respect to the exposure of the insurance premiums collected by the insurance company.
With regard to the disclosure of performance, standard IFRS 17 introduces a separate recognition of two components that contribute to the income of insurance companies: namely the profit resulting from the "coverage" provided - the so-called technical margin - and that resulting from "financial" components.
In light of the above, IFRS 17 introduces new logic to calculate the income of insurance companies, also with a view to achieving better comparability of the financial disclosure, which will have an impact on insurance products and on the way the performance of insurance companies is measured, based on the profit margins of the product with respect to the current aggregate of premiums collected.
The first time adoption of the cited standard will therefore have an impact on the assessment of the Group's interests in insurance companies (Bipiemme Vita, Vera Vita and Vera Assicurazioni); an impact that is currently unforeseeable insofar as it will depend on methodological choices that are currently being defined by the above-mentioned companies.

IAS/IFRS accounting standards and relative SIC/IFRIC interpretations issued by the IASB/IFRIC, awaiting endorsement

The following is a summary of the standards, interpretations or amendments that have been approved by the IASB, but are pending endorsement.

<u>Amendments to IAS 1 "Classification of Liabilities as Current or Non-current – Deferral of Effective Date"</u>
On 23 January 2020, the IASB issued the amendment to IAS 1 "Classification of Liabilities as Current or Non-current", with a view to clarifying that the classification of liabilities as current or non-current, depends on the rights existing at the end of the reporting period. The relative application, initially envisaged for 2022, was postponed to 1 January 2023 with the amendments approved by the IASB on 3 June 2020.
Note that on 19 November 2021, with regard to the cited amendments to IAS 1, the IASB issued the Exposure Draft "Non-current Liabilities with Covenants", which regards the issue of the classification of liabilities as current or non-current, in the event in which the decision of an entity to defer extinguishing the same by at least twelve months is subject to the fulfilment of conditions. Through said ED, the IASB proposes to amend the requirements introduced with the above-cited amendments of 2020, and postpone the date of entry into force to not before 1 January 2024, with the exception of early adoption.

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

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

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

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

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

Amendments to IFRS 17 "Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information"
On 9 December 2021, an amendment was issued to the rules of transition to standard IFRS 17, for entities that simultaneously apply the transition to standards IFRS 9, given the different requirements envisaged for the above-said standards for the redetermination of the comparative balances; IFRS 17 envisages, effectively, that the comparative information has to be redetermined, which instead is allowed but not requested by IFRS 9.
The amendment in question therefore regards financial assets for which comparative information must be disclosed on the date of transition of IFRS 17 and IFRS 9, which nevertheless is not redetermined pursuant to IFRS 9, with the aim of avoiding temporary accounting mismatches between the measurement of the financial assets and of insurance contracts, therefore contributing to improving the relevance of the comparative information for financial statement users. Based on the amendment in question, the entity is permitted to present comparative information on the financial assets as if the classification and measurement requirements of IFRS 9 had been applied; the above option is applicable to individual financial instruments and does not require the impairment criteria established by IFRS 9 to be adopted.

Interest Rate Benchmark Reform ("IBOR Reform")

IBOR Reform – regulatory aspects

The Interbank Offered Rates (IBORs or benchmark interest rates) are variable parameters that play a fundamental role in financial stability, as they influence the characteristics and the value of financial instruments (e.g. derivative contracts, government bonds, corporate bonds) and of credit (bank loans to consumers and to businesses). These rates, some of the most commonly used are the Euribor (Euro Interbank Offered Rate) and the LIBOR (London Interbank Offered Rate), are calculated and communicated by the contributing banks. If there are no effective underlying transactions that are consistent with the requirements of the regulation, the latter had to base their communications on their own professional opinions, exposing the IBOR to potential manipulation and making its performance in anomalous market conditions difficult to predict.
The issues that arose following episodes of manipulation, above all of the LIBOR rate, led the Financial Stability Board (hereinafter also FSB) to publish several recommendations in 2014 to reform IBOR rates by 2021, with the aim of strengthening the current methods, bringing them closer to effective transactions and promoting the development of more robust benchmark rates. In this context, with European Regulation no. 1011/2016 (Benchmark Reform, BMR) a new regulatory benchmark framework was introduced with the objective of bringing the market rates and the relative calculation methods in line with international standards, ensuring the accuracy and the integrity of the same, which had been exposed to risk by several episodes of manipulation and by the significant reduction in trading in the interbank market. Essentially, the cited Regulation contains provisions regarding the supply, the

contribution and the use by supervised entities, including banks, of the benchmark rates and the rules that all parties involved must comply with as a function of their role. For the most widely used rates, more prescriptive measures are envisaged, which take their systemic importance into account. More specifically, the users of the benchmark rates, including Banco BPM Group, are asked for 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 rate, and which envisages one or more alternative benchmark rates (so-called fallback clause), to which reference could be made to replace the rates whose supply has been suspended, indicating the reasons.
The interest rate reform, launched in this way, has therefore entailed a gradual process of revision and/or replacement of the main financial benchmarks with alternative Risk-Free Rates (RFR), based on effective transactions concluded in the market, with consequent availability only the next day ("T+1" rates).
Following the BMR Regulation and the recommendations of the FSB, the Reform has led to the establishment of numerous working groups to identify potential alternative rates in the event of the cessation of the previous ones; in Europe, we draw attention to the working group comprised by financial institutions, the ECB and the European Commission, which adopted the risk-free €STR rate from 2 October 2019, recalibrated considering the EONIA plus a spread of 8.5 bps until 3 January 2022.
During 2021, given the cessation of important rates, further regulatory documents were published, including:

- Regulation (EU) no. 168 of 10 February 2021, of the European Parliament and of the Council which defines, inter alia, the criteria for the replacement of specific benchmarks in cessation, giving the European Commission the power to designate one or more legal replacements, if the contract does not envisage a fallback clause or the same is inadequate;
- the statement on 5 March 2021 of the FCA (Financial Conduct Authority), which sets the cessation dates for the LIBOR (31 December 2021 for all GBP, EUR, CHF and JPY LIBOR tenors and 1-week and 2-month USD LIBOR tenors; 30 June 2023 for overnight and 1, 3, 6 and 12-month USD LIBOR tenors). On the subject of discontinuing the LIBOR, the joint statement of 24 June 2021 is also worth noting, with which the European Commission, the ECB, EBA and ESMA urged market operators to reduce their exposure towards the LIBOR in all currencies - including the USD - and in all tenors - terminating their application in new contracts and limiting the use of "synthetic" LIBOR rates (calculated with an alternative methodology) only for contracts already in place that are difficult to update - and to draw up robust written plans that indicate alternative interest rates for all contracts that use the LIBOR as their benchmark;
- the Implementing Regulations (EU) of the European Commission no. 1847 and no. 1848, of 14 and 21 October 2021 respectively, through which the legal replacements for specific CHF LIBOR tenors and of the EONIA rate were designated.

As regards the Euro currency, April 2021 marked the start of the publication of the Risk-Free Rate called "€STR Compounded Average Rate". On 11 May 2021, the "Working Group on Euro risk-free rates" published its final recommendations resulting from two public consultations carried out in November 2020, indicating the applicable alternative rates for contracts in Euro, separated by financial instrument category and by customer segment. More specifically, the above Working Group recommended using a term structure based on the €STR with the addition of a "credit spread adjustment" to offset, based on historical data (previous five years) the average spread with the Euribor.

To meet the requirements of the BMR Regulation, from 2019, Banco BPM Group launched a special project called "IBOR Transition" which brought organisational and IT processes, contracts and internal regulations in line with the provisions of the BMR Regulation.
As illustrated below, the project focused on two areas of impact of regulation represented by index-linked loans, in Euro and in currency, and by derivative contracts.
As regards new loans in Euro with repayment by instalments, which envisaged the EUR LIBOR as the replacement rate, a new standard fallback clause was defined using a term structure based on the €STR, and the procedural implementations to manage the rates were made (updating the product catalogue) and amending loan agreements by updating the fallback clause.
With regard to active loans, whilst awaiting regulatory provisions for the renegotiation of the agreement, the Bank has completed the sampling to recover the information on fallback rates and has arranged for the concrete application of the replacement rates "ex lege" (defined by the European Commission) for EONIA and CHF LIBOR.
For loans without repayment by instalments (and relative associated current accounts) the new benchmark rates for the main currencies (indicated by the corresponding Authorities of the reference countries) were applied and included in the Catalogue, while index-linking to a fixed interest rate was opted for minor currencies; lastly the campaign for renegotiating agreements was launched.

With regard to derivative contracts with market counterparties, the Bank applied the solution identified by the ISDA (International Swaps and Derivatives Association) for fallback rates, subscribing to the Addendum to the standards applicable to new contracts and the protocol which extends their applicability to other existing instruments. In this regard, note that the majority of the derivative contracts of Banco BPM and of the subsidiary Banca Akros are subject to clearing with a Central Counterparty (Clearing House). For the LCH and EUREX Clearing Houses, the transition from the EONIA rate to the €STR rate was completed in October 2021, with the closure of active contracts and their simultaneous replacement with new contracts with the same characteristics, but indexed to the new €STR rate. In addition, the residual positions indexed to the LIBOR were closed (around 20 contracts relating to Banca Akros).
With regard to derivative contracts to hedge loans with customers (index linked to the Euribor), given the amendment of the fallback clauses of the loans, the Working Group finalised an agreement between Banco BPM and Banca Akros, which envisages the non-application of the ISDA protocol to internal derivative contracts, so as to wholly transfer the hedging risk to Banca Akros, which handles overall risk management on the market.
With regard to securities lending transactions, the migration from the EONIA to the €STR of the rate applied to margin accounts was completed, partly through direct negotiations with the main counterparties, and the remainder through the application of the above-cited ex lege replacement rate.
Lastly, customers were provided with adequate information in their periodic statements (loan statement as at 31 December 2021); in addition the dedicated section on the Banco BPM website was updated, at www.gruppo.bancobpm.it/IBOR and on Banca Aletti and Banca Akros' websites, with a link to the Parent Company website.

Impacts of the IBOR Reform on the accounts

To address accounting issues relating to the IBOR Reform, the IASB undertook a project called "Interest Rate Benchmark Reform" developed in two different stages:

- Stage 1: the aim of the changes made was to search for adequate 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 "pre-placement issues"). In particular, this stage introduced several exemptions to the recognition of hedging relationships, with a view to avoiding the effects of discounting relating merely to the situation of uncertainty as regards the interest rate benchmark reform. To assess the economic relationship, the changes introduced effectively envisage that the entity must assume that the benchmark rate, to determine the interest rates of the hedged instrument and of the hedging instrument are not changed following the interest rate reform. These amendments were endorsed with Regulation (EU) no. 34 of 15 January 2020, and were applied in advance by the Group, starting from the financial statements as at 31 December 2019;
- Stage 2: the aim of the amendments introduced with this stage, endorsed by Regulation (EU) no. 25 of 13 January 2021, applicable from 1 January 2021, was to find adequate solutions to manage the accounting impacts resulting from the effective replacement of the rates (so-called replacement issues). More specifically, this stage provides practical expedients to minimize the effects of the replacement of the benchmark rates, with specific reference to the accounting treatments of the changes of contractual flows and to the management of hedges, with a view to permitting their continuation. With reference to the first aspect, a practical expedient is proposed, namely that the changes to contractual flows for the new interest rates - if made as a direct consequence of the interest rate reform and on an economically equivalent basis with respect to the previous rates - must be considered a prospective adjustment of the effective interest rate, just like a revision in the variable interest rate. Instead, with regard to hedge accounting, several exceptions were introduced to IAS 39 and IFRS 9 intended to prevent the termination of the hedging relationship due to the update in the documentation concerning such relationships (for the modification of hedged risk, the hedged item, the hedging derivative, or the method for evaluating hedge effectiveness) on condition that said modifications are a direct consequence of the reform and are carried out on an economically equivalent basis with respect to the previous rates.
  This stage also introduced a specific qualitative and quantitative disclosure on the nature and risks to which the entity is exposed deriving from financial instruments connected to the reform, on the way such risks are managed, as well as on the progress of the entity in the transition to the new alternative benchmark rates. For detailed disclosures on the state of progress of the IBOR transition project in Banco BPM Group, see the point above. The paragraph below illustrates the quantitative information and the risks associated with the instruments subject to reform and relative management methods.

Information on the instruments that have yet to shift to an alternative rate, disaggregated by benchmark rate, pursuant to paragraphs 24I and 24J of IFRS 7

The following table shows the contracts indexed to IBOR rates, which are to be terminated, outstanding as at 31 December 2021, in terms of number and counter value. Note that the scope refers to active contracts as at 31 December, whose expiry is subsequent to the cessation of the rate (3 January 2022 for the EONIA, 31 December 2021 for the LIBOR on GBP, EUR, CHF, JPY, USD and AUD tenors[1], and the 1-week and 2-month USD LIBOR tenors; 30 June 2023 for overnight and 1,3,6,12 month USD LIBOR tenors).

Exposure to "IBOR Transition" discontinued rates Figures as at 31 December 2021										
Amounts in millions of euro	**Product categories**									
	Non-derivative financial assets				**Non-derivative financial liabilities**		**Derivatives**			
	Loans and advances		**Debt securities**		**Current accounts and deposits**		**OTC**		**With Clearing Houses**	
	number of contracts	**amount**	**number of contracts**	**amount**	**number of contracts**	**amount**	**number of contracts**	**notional**	**number of contracts**	**notional**
Contracts indexed to IBOR rates:	**469**	**574**	**1**	**15**	**3,327**	**(337)**	**50**	**1,756**	**6**	**49**
indexed to EONIA	**6**	**62**	**1**	**15**	**9**	**(35)**	**-**	**-**	**-**	**-**
indexed to LIBOR	**463**	**512**	**-**	**-**	**3,318**	**(302)**	**50**	**1,756**	**6**	**49**
of which: USD	***331***	***506***	-	-	***2,572***	***(256)***	***50***	***1,756***	***3***	***27***
of which: GBP	***38***	***1***	-	-	***280***	***(22)***	-	-	-	-
of which: CHF	***75***	***4***	-	-	***298***	***(11)***	-	-	***1***	***13***
of which: JPY	***13***	-	-	-	***96***	***(10)***	-	-	***2***	***9***
of which: AUD	***6***	-	-	-	***72***	***(3)***	-	-	-	-

There are only residual exposures indexed to EONIA, in terms of number and counter value, as the migration to €STR of derivative contracts has now been completed and even that of marginal accounts has almost been completed. For these exposures, from 3 January 2022, the €STR rate is applied ex lege, plus a credit spread adjustment of 8.5 bps.

With regard to LIBOR rates, the main positions, both on-balance sheet and derivatives, are indexed to the USD LIBOR rate, which will continue to be listed until 30 June 2023. More specifically:

- for LIBOR-indexed derivatives, in addition to positions in USD LIBOR, there is a very marginal number of exposures remaining: one contract indexed to the Swiss Franc (maturity January 2022) and two to the Yen (maturity May 2022);
- with regard to assets represented by loans, there are 463 contracts, with a total counter value of 512 million. More specifically, these regard 71 structured finance positions, for a total of 483 million (of which 70 indexed to the USD LIBOR and 1 to the GBP LIBOR, under renegotiation); 40 mortgage agreements indexed to the CHF LIBOR rate, amounting to 4 million, to which the alternative rate envisaged ex-lege will be applied; 352 multi-currency current accounts for a total of 24 million;
- for liabilities, there are 3,318 multi-currency current accounts in place with a total balance of 302 million.

Note that the Network is renegotiating the shift of multi-currency accounts to risk-free rates with customers.

Lastly, note that, following the recommendations of the main Authorities on the subject, Banco BPM has given instructions that the USD LIBOR should no longer be used in future transactions.

[1] In the case of the AUD LIBOR, the rate to be discontinued on 31 December 2021 is a synthetic LIBOR (AUD-BBSW), a proxy of the original rate which ceased in March 2013.

Risks relating to financial instruments subject to the IBOR reform and relative management

As 2021 draws to an end, the most critical part of transition of IBOR rates can be considered to be completed for the Group, with the almost full migration of the risks related to the cessation of the EONIA and LIBOR rates. The exposures that remain, substantially limited to those indexed to the USD LIBOR (listed until 30 June 2023), will further decrease over time due to natural expiry or renegotiation and will in any event be subject to intervention by the date of cessation of the rate.
With regard to active derivatives, the positions indexed to EONIA and LIBOR rate have been closed, with the exception of the USD LIBOR. The risks relating to the envisaged cessation of the USD LIBOR rather than the possible cessation of the EURIBOR were substantially mitigated by the subscription to the ISDA Protocol, which Banco BPM and Banca Akros and many of its counterparties adhered to.
As regards loans, there is still an area of potential risk relating to the use of the EUR LIBOR as an alternative rate to the main rate (EURIBOR or BCE rate), which was mitigated in 2021 with the revision of all contractual forms used for new loans, adopting the €STR as the alternative rate.
Any residual risk regards the stock of mortgage loans signed before the revision of the contracts (around 280,000). In the event of the cessation of the Euribor, many of these contracts could be left without a valid rate, entailing their resolution and the consequent repayment of the debt, namely the continuation of the contract at the legal rate, currently 0.01% as at 31 December 2021. In this regard, on the date of these financial statements, there is no assumption to discontinue the Euribor, which could nevertheless be ceased if the "hybrid" method is retained too dependent on the subjective valuations of intermediaries. In this regard, note that, in 2019, albeit in a context of formal continuity, the Euribor underwent significant changes to its calculation method (known as the hybrid method), with a view to maintaining its use also beyond 1 January 2022. With regard to the Euribor, the cited method envisages that the rate is calculated on the basis of a three-level hierarchy, represented by the use of market transaction data from the previous day (level 1), the interpolation of data in the event of the temporary unavailability of market data (level 2), and expert opinion as occurred prior to the reform (level 3).
In Italy, discussions are still in progress with the competent Authorities for the publication of a regulatory provision, which permits the unilateral amendment of contracts (with particular reference to the clause relating to the alternative rate, eliminating any reference to the EUR LIBOR). Note that a further mitigation factor is in any event represented by the power, entrusted to the European Commission, to define an *ex-lege* rate in the event of the cessation of the Euribor.

Other significant aspects relating to Group accounting policies

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

TLTRO III – Targeted Longer-Term Refinancing Operations

Description of main characteristics

TLTRO III "Targeted Longer-Term Refinancing Operations" are financing operations conducted by the ECB on a quarterly basis - more specifically, between September 2019 and December 2021, with a total of ten drawdowns - for the purpose of maintaining favourable borrowing conditions for banks. Each operation lasts for three years, with the exception of any early repayment option, which may be exercised according to the timeline established for each operation. More specifically, for the first seven operations (September 2019 - March 2021) the early repayment may be exercised quarterly, once twelve months have passed from the settlement of each operation, starting from September 2021; for the last three operations (June 2021 - December 2021), the repayment may be made quarterly from June 2022.
Following the emergency linked to the Covid-19 pandemic, some of the criteria initially envisaged by the ECB in 2019 were improved, between March and December 2020, with specific reference to the maximum amount that can be financed and the relative remuneration.
With regard to the remuneration of the loans, following these revisions, the interest rate is set at a level equal to the average rate of the Eurosystem's main refinancing operations (MRO - "Main Refinancing Operations"), currently 0%, except for the period from 24 June 2020 to 23 June 2022 (known as the special interest rate period), in which a rate 50 basis points below will apply.

There is also an incentive mechanism that allows for access to more favourable rate conditions, depending on the achievement of certain benchmarks, which depends on net loans disbursed. In more detail, it is possible to benefit from the average rate on deposits (Deposit Facility) for the entire duration of the operation, currently -0.5%, instead of the MRO rate, with a further reduction of 50 basis points for the "special interest rate period".
Said interest is settled on maturity of each operation or at the time of early repayment.

Accounting treatment

The accounting treatment of the operations in question, and in particular, the recognition of interest depending on the different remuneration mechanisms, does not appear to refer directly to any IAS/IFRS accounting standard. This is confirmed by the request that the ESMA made to the IFRS Interpretations Committee (IFRIC), namely the committee tasked with providing official interpretations of the international accounting standards, on 9 February 2021, to receive clarification as to the accounting treatment to apply to the loans on question.
In light of the above, given that on the reporting date of this annual financial report, no official interpretations of the accounting treatment of TLTRO III operations has been received, Banco BPM Group established the reference accounting policy, on the basis of the provisions of IAS 8, as illustrated below.
Based on the accounting policies of Banco BPM Group, the provisions of accounting standard IFRS 9 "Financial instruments" are deemed to be applicable to TLTRO III loans, insofar as the remuneration conditions defined by the ECB are considered on a par with market conditions, as the ECB defines and implements monetary policy in the Eurozone. More specifically, the approach envisaged by IFRS 9 for financial instruments with variable interest rates is deemed to apply (paragraph B5.4.5), in line with the treatment adopted in the past for the loans obtained through the previous TLTRO programmes. In particular, with reference to the application procedures, it is retained that the interest should be recognised on the basis of the rates in place on each occasion, and applicable for each reference period, based on the probability of managing to reach specific benchmark objectives. This means that the special interest for the period between 24 June 2020 and 23 June 2022 will be recognised in the above-cited period, to the extent that achieving the same is retained likely. The selection of the above-cited accounting treatment took into consideration that: (i) the special interest regards, in equal measure, all drawdowns, regardless of the residual duration of the loans (ii) the early repayment of the tranches, after the benchmark objective assessment period, is made at a value equal to the nominal value, plus the interest accrued at said date, without applying any penalty (iii) the entity of the special interest in the period between June 2020 and June 2022 is expected to vary in order to guarantee a minimum level of favourable conditions (for example, in the case in which the Deposit Facility rate was -0.45%, the additional remuneration in the period in question would be -0.55%).

Uncertainties of accounting treatments

As illustrated above, given the importance of the topics at European level and of the different accounting practices adopted, on 9 February 2021, the ESMA asked the IFRS Interpretations Committee (IFRS IC) to provide clarification on the accounting treatment for TLTRO III operations.
In the meetings held on 8-9 June 2021, the above-mentioned Committee published the Tentative Agenda Decision, without however providing binding instructions on the matter, referring the issue to the "Post Implementation Review" (PIR) project relating to the Classification and Measurement of IFRS 9. The above-cited agenda is currently being examined by the IASB.
In light of the above, on the date of preparation of these financial statements, no official interpretation on the matter has been issued; nevertheless, it cannot be ruled out that, on completion of the analyses under way by the IASB, different guidelines may 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 up until 31 December 2021.

Active loans and relative interest pertaining to FY 2021

As at 31 December 2021, the TLTRO III operations subscribed by the Group amounted to 39.2 billion and pertained entirely to the Parent Company.
The interest pertaining to FY 2021 amounted to 352.2 million and were assessed to the maximum measure possible, namely at a negative rate of -1%, corresponding to the interest rate of Deposit Facilities (-0.5%), plus a further reduction in the special interest rate period (-0.5%). On date of preparation of this report, to be able to benefit from the most favourable remuneration, all of the benchmark objectives were achieved; the latest benchmark recorded actually related to the evolution of net loans disbursed ("net lending") for the period from 1 October 2020 to 31 December 2021.

Tax credit relating to the "Relaunch" Decree, purchased following the sale by direct beneficiaries or previous purchasers

In order to combat the negative economic effects of the Covid-19 pandemic, Law no. 77 of 17 July 2020, converted with amendments into Decree Law no. 34 of 19 May 2020 ("Relaunch" Decree) - containing urgent measures on health, support for labour and the economy, as well as social policies linked to the Covid-19 pandemic emergency - a series of tax incentives were introduced which make it possible to benefit from deductions linked to expenses incurred for specific work, for example to increase the level of energy efficiency of existing buildings ("ecobonus") or to reduce their seismic risk ("sismabonus"), for up to 110% of the expenses incurred.
These incentives, applied to households and businesses, are proportional to a percentage of the expense incurred and are disbursed in the form of tax credits or tax deductions and, in certain cases (for example for the ecobonus and the sismabonus) they make it possible to take advantage of an advance contribution via a discount on the consideration due to the supplier, to which a tax credit will be recognised.
The law therefore introduces the possibility for the taxpayer to opt - in the place of the direct use of the deduction - for an advance contribution in the form of a discount from suppliers of goods or services ("invoice discount") or, alternatively, for the sale of the credit corresponding to the deduction due to other parties, including credit institutions and other financial intermediaries (tax credit).
In this context, if the taxpayer opts for the sale of the deduction to the Bank, the tax credit acquired may be used to offset other tax payables of the same Bank; any unused share cannot be requested as a refund from the tax authorities, but may in turn be sold to third-party purchasers, in accordance with the procedures and provisions envisaged by the law in force at the time.

The specific nature of the above-illustrated tax credits is such that it does not relate to a specific international accounting standard; in this case, IAS 8 provides that company management should decide which accounting treatment is considered most appropriate to guarantee financial statement users relevant and reliable information.
To this end - taking into account the instructions provided on 5 January 2021 by the Bank of Italy, Consob and IVASS in document no. 9 of the Coordination Round Table on the application of IAS/IFRS "Accounting treatment of tax credits linked to the "Heal Italy" and "Relaunch" Decree Laws, purchased following the sale by direct beneficiaries or previous purchasers" - Banco BPM Group defined its own accounting policy by making reference to certain accounting provisions contained in IFRS 9. More specifically, the tax credits in question are retained to substantially correspond to a financial asset, and therefore the provisions envisaged by the afore-cited standard can, by analogy, be applied, if compatible with the characteristics of the operation.
In particular, the credits acquired fall under the "Hold to Collect" business model, as the objective is to hold them and use them for future offsetting with the Group's tax payables.
As a result, applying, by analogy, the provisions set forth in IFRS 9, the credits acquired are initially recognised at fair value, equal to the consideration paid to the customer to purchase the tax credit, and subsequently measured at amortised cost, taking into account their value and offsetting timing. Instead, the provisions relating to the calculation of expected losses (ECL), pursuant to IFRS 9, are not applicable: the recoverability of tax credits effectively depends on the tax capability of the purchaser, namely the ability to offset the tax credits purchased with the tax debts of the purchaser, as they cannot be refunded by the Tax Authority. Said credits are recognised in the residual item "130. Other Assets", insofar as, as regards international accounting standards, they do not represent tax assets, public grants, intangible assets or financial assets, in line with that illustrated in the joint document cited above.
The interest accrued, based on the amortised cost criterion, is recognised in the income statement in item "10. Interest and similar income".

As at 31 December 2021, the nominal value of the tax credits purchased in total as at 31 December 2021 amounted to 912.1 million, almost entirely related to purchases made in FY 2021 (908.9 million). Considering the credits offset, amounting to 25.6 million euro, the residual nominal value as at 31 December 2021 amounted to 886.5 million. The corresponding book value, shown in balance sheet item "130. Other assets", based on amortised cost, which takes into account the purchase price and the net interest accrued as at 31 December 2021, amounted to 817.4 million.
As at 31 December 2021, contractual commitments were also made with third parties for future purchases of tax credit for a total amount of around 2 billion.
The amount of the credits purchased and of the purchase commitments made is compatible with the estimates of payables for payment obligations with the State Tax Authorities, which may be offset with the credits purchased, as offsetting is the only way to collect said credits.

Issue of Additional Tier 1 (AT1) financial instruments

As indicated in the "Significant events during the year" section of the Report on operations, on 12 January 2021, Banco BPM issued Additional Tier 1 instruments for an amount of 400 million to institutional investors. These were, specifically, subordinated instruments classified in Additional Tier 1 capital, under the terms of Regulation no. 575 of 2013 (CRR).
The securities are perpetual and may be called by the issuer, in accordance with the regulations in force from 19 January 2026; if not called, the call may be exercised every six months thereafter, at the ex-dividend date.
The six-monthly coupon, non-cumulative, was set at an annual rate of 6.5%. If the option of early redemption envisaged, for 19 January 2026, is not exercised, a new fixed-rate coupon will be determined adding the original spread to the mid-swap rate in euro at five years to be recorded at the moment of the recalculation date. This new coupon will remain fixed for the next five years and until the next recalculation date.
This issue is in addition to those made on 11 April 2019 and 14 January 2020, for 300 million and 400 million, respectively. For both issues, the securities are perpetual and may be called by the issuer from 18 June 2024 and 21 January 2025; if they are not called, the call may be exercised every five years in the first case and every six months for the second issue. The six-monthly coupon, non-cumulative, was set at an annual rate of 8.75% and 6.125%, respectively. If the option of early redemption, envisaged for 18 June 2024 and 21 January 2025, is not exercised, a new fixed-rate coupon will be determined adding the original spread to the mid-swap rate in euro at five years to be recorded at the moment of the recalculation date. This new coupon will remain fixed for the next five years and until the next recalculation date.
For the above issues, in line with the provisions of the CRR for AT1 instruments, the issuer has full discretion in deciding not to pay the coupons, for any reason and for an unlimited period of time. Cancellation is instead obligatory if certain conditions occur, including the occurrence of a trigger event, namely when the Common Equity Tier 1 (CET1) of Banco BPM (or consolidated CET1) is lower than 5.125%. In addition, interest is not cumulative, as any amount that the issuer decides not to pay or would be obliged not to pay will not be accumulated or payable at a later date. It is also envisaged that on the occurrence of a trigger event, the capital would be irrevocably and obligatorily written down by the amount needed to bring the CET1 (of Banco BPM or of the Group) to 5.125%. The capital written down could be reinstated (written up), on fulfilment of certain conditions, and in any event at the issuer's complete discretion, even in the event that Banco BPM decided to repay the issue early. Based on the above, 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 2021, the price received from the above-cited issues, after deducting the directly attributable transaction costs, net of the related tax charge (7.2 million), is shown under shareholders' equity item "140. Equity instruments", for an amount of 1,092.8 million.
Consistent with the nature of the instruments, the coupons are recognised as a reduction of shareholders' equity, in item "150. Reserves", if and for the amount at which they were paid. During 2021, the shareholders' equity was reduced by 46.2 million, as a result of the payment of the coupons relating to the AT1 issues (63.8 million), net of the related tax charge (IRES tax) of 17.6 million. This specifically regarded two six-monthly coupons relating to issues made in 2019 and 2020, of 26.3 million and 24.5 million respectively, and the six-monthly coupon for the 2021 issue, which amounted to 13.0 million.

"Hold to Collect" Business Model - sales

During 2021, sales of debt securities were approved, classified in the portfolio of "Financial assets at amortised cost" for a nominal amount of around 2 billion, almost entirely attributable to forward sale transactions of several Italian Government securities by the Parent Company. As at 31 December 2021, the economic effects of the above-cited transactions were not significant, insofar as the forward sales will only be recognised on the forward settlement date, namely in FY 2022.
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" - HTC 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 exceptional circumstances.
In that regard, note that the sales approved by the Group in 2021 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, approved by Banco BPM in 2021 correspond to around 9.3% of the nominal value of securities in issue as at 1 January 2021 and therefore within the materiality threshold of 10% of the nominal value of the securities

portfolio at the beginning of the year, defined in the above-mentioned accounting policies. The annual frequency threshold, defined in terms of twelve annual transactions, was also respected. 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".
In addition, in 2021 the forward sales of Italian government bonds ensuing from the execution of forward contracts entered into in the second half of 2020 were finalised, for a total of 1,575 million in terms of nominal value, in observance of the annual eligibility threshold for sales of 10% envisaged for FY 2020. The result of such sales, accounted for in item "100. Gains (losses) on disposal or repurchase of: a) financial assets at amortised cost" recorded a gain of 102 million.
Lastly, it should be noted that the management of debt securities classified in the "HTC" and "Hold To Collect and Sell" portfolios continues to be in line with the choices made in previous years; in fact during the year, there were no changes to the business model that led to the need to reclassify the securities portfolio, as there were also no changes to accounting policies relating to eligibility criteria for HTC sales.

Project Rockets - sale transactions 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, on 3 June 2021, the sale of a portfolio of exposures classified as bad loans was finalised through a securitisation transaction ("Project Rockets") with a view to obtaining the state guarantee for senior securities (the Guarantee for Securitisation of Bad Loans - GACS), pursuant to the Decree of the Ministry of the Economy and Finance of 15 July 2021[1].
The transaction which was carried out by Banco BPM with Credito Fondiario as Master and Corporate Servicer and CF Liberty Servicing S.p.A. (now Gardant Liberty Servicing S.p.A.) as Special Servicer of the portfolio, has as its underlying assets bad loans originated by the Group for a gross amount of roughly 1.5 billion, of which around half not secured (amount referring to the valuation date established in the contract at 31 December 2020).
On 3 June 2021, the contract of sale between Banco BPM and the SPE "Aurelia SPV S.r.l." was signed.
In order to finance the acquisition of the loans, on 22 June 2021 the special purchase vehicle issued the following three tranches of ABSs:

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

With regard to the senior securities, on 19 January 2022, a notice was received regarding the award of the GACS, pursuant to Italian Decree Law 18/2016, made with the decree of the Ministry of the Economy and Finance signed on 23 December 2021.

In compliance with the retention rule established by supervisory provisions, Banco BPM Group maintained ownership of 5% of the Mezzanine and Junior tranches, while on 25 June 2021, it sold 95% of the Mezzanine securities and 95% of the Junior securities to Orado Investments S.A.R.L - a subsidiary of the Elliott funds. Instead, 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, as the risks and benefits of the aforementioned portfolio were substantially transferred. The consolidated economic effect, directly and indirectly correlated with the portfolio to be disposed, totalled a negative 134.6 million, and was recognised in the following income statement items:

- "100. a) Gains (losses) on disposal of financial assets at amortised cost", for a negative 214.4 million, corresponding to the lower consideration of the disposal with respect to the book value of the loans;
- "10. Interest income" for 6.9 million, ensuing from the positive effect due to the passage of time, recognised until the date of the disposal for the positions sold;
- "130. a) Net credit impairment losses/recoveries relating to financial assets at amortised cost" for a positive 72.9 million, corresponding to the indirect effect ensuing from the release of funds recognised as at 31 December 2020 due to the sale scenario, in order to adjust the new sale objectives with respect to those remaining after the sale of the portfolio in question.

[1] Decree published in the Official Gazette of 3 August 2021, which extended the guarantee scheme for transactions of this nature, already envisaged by the MEF Decree of 3 August 2016, as amended, to 14 June 2022.

In light of the above, as at 31 December 2021 the Group held:

- all Senior securities classified in the portfolio of "Financial assets at amortised cost: b) Loans to customers", for a book value of 341.7 million;
- 5% of the Mezzanine securities and 5% of the Junior securities classified in the portfolio of "Other financial assets mandatorily measured at fair value" for a book value of 0.6 million, entirely related to the Mezzanine tranche. The measurement at fair value used the price of the sale transaction, illustrated above, as a benchmark, which was considered as level 3 in the fair value hierarchy.

For the sake of full disclosure, "Financial assets at amortised cost" included a limited recourse loan granted to the SPE amounting to 15.7 million, remunerated at a fixed annual interest rate of 1.75%, also in order to establish a cash reserve equal to 4.5% of the existing senior securities. 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.

Realignment of mismatches between the tax value and the higher book value (D.L. 14 August 2020)

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

In June 2021, Banco BPM and several Group companies (Bipielle Real Estate, Release and Banca Akros) decided to take advantage of the option to realign the tax value of some properties with the higher book values recognised in the financial statements as at 31 December 2020. The realigned amount totalled 1,003.5 million, 702.9 million of which regarded property used in operations (IAS 16), and 300.6 million regarded property held for investment purposes (IAS 40). The benefit of the realignment amounted to a total of 277.5 million, equal to the difference between the cost for the substitute tax (30.1 million) - corresponding to 3% of the realigned value - and the taxation determined on the basis of the ordinary taxation rates of the companies affected by the realignment (307.6 million). 202.9 million of said benefit related to property used in operations and 74.6 million to property held for investment purposes.
For the effective achievement of the above benefit, a (recapture) mechanism is envisaged on the basis of which, if the unit whose tax value has been realigned to the book value is sold to third parties before 1 January 2024, the calculation of tax gains and losses - respectively to be taxed and deducted - would be carried out by assuming the tax value prior to the realignment as reference, reducing the taxes due by the substitute tax already paid.

In accounting terms, this benefit is achieved by means of the reversal of deferred tax liabilities (DTL) recognised in the balance sheet against the tax misalignment and the recognition of the tax payable for the substitute tax to be paid.
The above-mentioned effects were/will be recognised for accounting purposes by crediting the income statement or the equity reserves, based on the nature and methods with which the deferred taxation to be released on the misalignments in question had been recognised, as illustrated in more detail below.
For property held for investment purposes, given that said properties could be sold even before the end of the recapture period, it was retained that the reversal of deferred tax liabilities could be recognised only when it is certain that the temporary differences that led to the recognition of the above-mentioned liabilities no longer exist, namely at the end of the recapture period (1 January 2024). For this reason, no economic benefit was recorded in the financial statements as at 31 December 2021 against the realignment of the values of the above-mentioned properties.

On the contrary, for property used in operations, as their sale before the end of the recapture period is not envisaged, the non-existence of the temporary differences can be retained as certain, and consequently the relative deferred tax liabilities were reversed. The total capital benefit recognised as at 31 December 2021 was 202.9 million, of which 81.7 million against the income statement and 121.2 million against valuation reserves.

Lastly, it should be noted that, following the aforesaid realignment, for Banco BPM and the individual companies that carried out the realignment, a taxability restriction in the event of distribution (known as a tax-suspended reserve) had to be recognised for an amount corresponding to the higher realigned values net of the substitute tax. In this regard, note that, following the mergers of Bipielle Real Estate and Release into the Parent Company, the obligation to establish a tax restriction for the realignments resolved by the above-mentioned subsidiaries is fulfilled by the Shareholders' Meeting of Banco BPM. This means that for Banco BPM, the tax restriction to append on the reserves, resulting from the exercise of the right of realignment of the tax value of the properties to their book value - carried out by the same Parent Company and by the merged companies Bipielle Real Estate S.p.A. and Release S.p.A. - totalled 605.6 million. In the determination of said restriction, the clarifications provided by the Tax Authority in circular 6/E dated 1 March 2022 are applied, based on which the tax restriction on the reserves of the merging company must be established if and within the limit in which a merger surplus is recognised.

Please recall that the realignment in question is additional to that already approved by the Parent Company's Board of Directors on 26 January 2021 with respect to the realignment of intangible assets. The realigned value as at 31 December 2020 of the cited assets totalled 426.9 million (263.4 million represented by trademarks and 163.5 million by client relationships).
Based on the afore-mentioned realignment, the economic benefits of which were already recognised in the financial statements of Banco BPM as at 31 December 2020, on 15 April 2021, the Shareholders' Meeting decided that a tax suspension on reserves should be recognised for the amount of 414.1 million.
With regard to the alignment of the value of trademarks (263.4 million), note that by virtue of the legislative changes introduced with Italian Law 234/2021 (2022 Budget Law), published in the Official Gazette on 31 December 2021, the tax amortisation period[1] of the amounts was extended from 18 to 50 years. The realignment option exercised was still economically convenient. In this regard, note that the legislative changes in question did not have any economic impact on FY 2021.

Investments in the Voluntary Scheme of the Interbank Deposit Guarantee Fund

Under the agreements signed on 14 February 2022 by the Interbank Deposit Guarantee Fund (IDGF) with BPER Banca, it is envisaged that the Voluntary Scheme transfers the interest held in Banca Carige (80%) to BPER Banca at a symbolic price of 1 euro, and the subordinated loan for a consideration corresponding to its nominal value; the above-mentioned transactions will be finalised, after obtaining the legal authorisations, following the capitalisation of Banca Carige, by the IDGF, for the amount of 530 million.
As at 31 December 2021, Banco BPM and the Group banks – Banca Akros and Banca Aletti – indirectly hold an interest in Banca Carige and in other financial instruments through the Voluntary Scheme of the IDGF. As at 31 December 2021, the value of the afore-mentioned interests recognised in the consolidated financial statements of Banco BPM were fully written down.

Contributions to guarantee deposit systems and resolution mechanisms

Following transposition into the national legislation of Directives 2014/49/EU (Deposit Guarantee Schemes Directive –"DGSD") of 16 April 2014 and 2014/59/EU (Bank Recovery and Resolution Directive – "BRRD") of 15 May 2014, starting from financial year 2015, credit institutions are obliged to provide the financial resources necessary for the financing of the Interbank Deposit Guarantee Fund (IDGF) and the National Resolution Fund (merged into the Single Resolution Fund (SRF) starting from 2016), through payment of ex ante ordinary contributions to be paid annually, until a certain target level is reached. 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

[1] In accounting terms, the above-mentioned trademarks are considered intangible assets with an indefinite useful life, and therefore are not subject to amortisation.

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 2021, 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 2021 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[1].

For further details on the contributions charged during 2021, please refer to that illustrated in "Section 12 - Administrative expenses" in Part C – Information on the Income Statement" of these Notes.

A.2 - KEY FINANCIAL STATEMENT ITEMS

The accounting standards adopted to prepare the consolidated financial statements as at 31 December 2021 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 2020.

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".

[1]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".

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 income statement item "80. Net trading income". The same economic effects related to financial assets designated at fair value and to those mandatorily measured at fair value are recognised in item "110. Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss", in sub-items "a) financial assets and liabilities designated at fair value and b) other financial assets mandatorily measured at fair value through profit and loss" respectively.

Derecognition criteria

Financial assets are derecognised when the contractual rights to receive the cash flows generated by the assets have expired, or when the financial assets are 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, net of the relative tax, 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. The only component recognised in the income statement is dividends collected ("70. Dividends and similar income").

For equity instruments recognised in this category, not listed on an active market, the cost criteria is used as an estimate of the fair value only to a residual extent and limited to a few circumstances, namely if all of the valuation methods illustrated in the item above "Financial assets at fair value through profit and loss" cannot be applied, or in the presence of a large range of possible measurements of the fair value, with regard to which, cost represents the most relevant estimate.

For information on how fair value is determined, please refer to the criteria previously illustrated for "Financial assets at fair value through profit and loss" and "Part A.4 – Fair value disclosure", below.

Derecognition criteria

Financial assets are derecognised when the contractual rights to receive the cash flows generated by the assets have expired, or when the financial assets are 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, with the exception of those "on demand", to banks - in any form - and debt securities that meet the requirements described above.
Loans originated through finance leases are also included in this item and, in line with IFRS 16, they are recognised as receivable as they transfer the risks and rewards to the lessee, including assets waiting to be granted under finance lease, including real estate under construction.
Also included are "repurchase agreements" with the obligation to sell securities at a future date and "securities lending" transactions with a cash guarantee deposit which is fully available to the lender, for the spot amount paid, if the characteristics of these transactions do not entail recognition in the proprietary portfolio of the security being carried over or lent, since no risk or reward has been acquired from them.
Lastly, the category in question includes operating receivables connected with the provision of financial services as defined in the Consolidated Banking Law and in the Consolidated Finance Law.

Recognition criteria

Financial assets are initially recognised on the settlement date in case of debt securities and on the disbursement date for loans. Upon their initial recognition, financial assets classified in this category are designated at fair value, which generally corresponds to the price paid, including any transaction costs or revenues that are directly attributable to the instrument.

Specifically, loans are initially recognised on the disbursement date based on the fair value of the financial instrument. The recognition is usually equal to the amount disbursed, or the subscription price, including costs/income directly associated to the individual loan and that can be determined from the start of the transaction, although settled later on. Costs are excluded, that, although carrying the above characteristics, are repaid by the borrowing counterparty or fall under normal internal administrative costs.

If the date on which the credit contract is signed and the date on which the funds agreed are disbursed are not the same, a commitment to disburse funds is recognised, which will be closed out when the loan is effectively disbursed.

Income item measurement and recognition criteria

Following initial recognition, the financial assets in question are measured at amortised cost, equal to the initial recognition value decreased by repayments of principal, decreased/increased by the amortisation - calculated according to the effective interest rate method - of the difference between the amount disbursed and the amount repayable at maturity, typically comparable to the costs/income directly associated with the individual loan.
The effective interest rate is determined by calculating the rate that is equivalent to the asset's present value of future principal and interest cash flows, to the amount disbursed including costs/income associated with the asset. The estimate of cash flows must take into account all the contractual provisions which could influence the amounts and maturities, without considering the expected loss on the asset. This accounting method, based on financial logic, spreads the economic effect of all transaction costs, commissions, bonuses or discounts considered an integral part of the effective interest rate method throughout the residual life of the asset. The amortised cost method is not used for short-term assets, whose limited life span makes the application of discounting immaterial. Said assets are measured at historical cost and their costs/income, if any, are recognised in the income statement on a straight-line basis throughout the loan contract life. The same measurement criterion is used for assets without a defined maturity or demand loans.

The book value of financial assets at amortised cost is adjusted to account for any provisions on expected losses. At each annual or interim reporting date, the aforementioned assets are subject to impairment for the purpose of estimating the expected losses in value relating to credit risk (ECL - Expected Credit Losses). Said losses are recognised in the income statement in item "130. Net credit impairment losses/recoveries". If it is found that no reasonable expectations of recovery exist, the gross exposure is written off: in this case, the gross exposure is reduced by the amount considered not recoverable, as a balancing entry to the reversal of provisions covering the expected losses and the impairment in the income statement, for the part not covered by the provisions. For more information on the accounting treatment of write-offs please refer to the content of the paragraph on "derecognition criteria" below.

More specifically, the impairment model provides for the classification of assets into three distinct "Stages" (Stages 1, 2, and 3), based on changes to the debtor's credit risk, corresponding to different criteria for measuring expected losses:

- Stage 1: includes performing financial assets for which no significant impairment of credit risk has been observed with respect to the date of initial recognition or for which the credit risk is considered low. Impairment is based on an estimate of the expected loss over one year (expected loss resulting from possible default on the financial asset within one year from the reference date);
- Stage 2: includes performing financial assets that have undergone significant impairment of credit risk with respect to initial recognition (known as SICR - "Significant Increase in Credit Risk"). Impairment is proportional to the estimate of expected loss over the entire residual life of the financial asset;
- Stage 3: includes non-performing financial assets, characterised by a 100% probability of default, to be measured by estimating the expected loss over the entire life of the instrument.

For performing assets, expected losses are determined using a collective process based on certain risk parameters, namely the Probability of Default (PD), the Loss Given Default (LGD) and the Exposure at Default (EAD), deriving from internal models for calculating regulatory credit risk that are suitably adjusted to account for the specific requirements set out in accounting regulations.

Non-performing assets, i.e. assets for which, in addition to a significant increase in credit risk, there is objective evidence of impairment, are measured with an analytical or lump-sum measurement process based on uniform risk categories, designed to establish the present value of expected future recoverable cash flows, discounted on the basis of the original effective interest rate or a reasonable approximation if the original rate is not directly available.

Non-performing assets include exposures to which the status of bad loan, unlikely to pay or past-due for more than ninety days has been attributed in accordance with the definitions established by the supervisory provisions in force (Bank of Italy Circular no. 272 "Matrix of accounts") and referred to by Bank of Italy Circular no. 262, as they are considered to be consistent with the accounting regulations set out in IFRS 9 for objective evidence of impairment.

In the presence of sales scenarios, the determination of the cash flows is based on the forecast of flows recoverable through the internal management activity as well as on the basis of the flows obtainable from any sale on the market, according to the multi-scenario approach described in paragraph "16 - Other information, Methods for determining impairment losses on financial assets" below.

Expected cash flows also consider expected recovery times and the estimated net realisable value of any guarantees.

For fixed rate positions, the original effective rate used to discount the expected recovery flows, determined as illustrated above, remains unchanged over time, even if there is a change in the contractual rate due to financial difficulties of the debtor.
For positions with floating interest rates, the rate used for the discounting of cash flows is updated in relation to the indexation parameters (i.e. Euribor), while keeping the originally established spread constant.

The original value of financial assets is reinstated in subsequent years, due to an improvement in the credit quality of the exposure compared to that which had led to the previous write-down. Recoveries are recognised in the income statement under the same item and, in any case cannot exceed the asset's amortised cost had no adjustments been carried out in the past.

For more information on the impairment model, please see the information set forth in the following paragraph "16 - Other information, Methods for determining impairment losses on financial assets".

For non-performing loans classified in Stage 3, accrued interest is calculated on the basis of amortised cost, that is on the basis of the exposure - determined using the effective interest rate - adjusted for expected losses.
For non-performing loans that do not accrue contractual interest, such as bad loans, this interest corresponds to the reversals of the impairment losses related to discounting the recovery forecasts due to the simple passing of time.

Derecognition criteria

Financial assets are derecognised when the contractual rights to receive the cash flows generated by the assets have expired, or when the financial assets are 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.

<u>Exceptional circumstances</u>
Examples of exceptional circumstances in which sales are considered permissible may be:

- significant business combinations/restructurings whose pursuit requires a reorganisation of Group assets and liabilities;
- sales made to handle liquidity crises, where the event could not have been reasonably foreseen (stress scenarios).

Reclassification criteria

Financial assets at amortised cost can be reclassified into the accounting categories of "Financial assets measured at fair value through other comprehensive income" and "Financial assets at fair value through profit and loss". This reclassification can occur in the very rare circumstance that an entity decides to modify its business model for managing financial assets. The transfer value is represented by the fair value on the date of its reclassification and prospectively from that date. Gains or losses resulting from the difference between the amortised cost of the financial asset and its fair value are recognised:

- in the income statement, in the event of reclassification under "Financial assets at fair value through profit and loss";
- in shareholders' equity to a specific valuation reserve, in the event of reclassification to "Financial assets measured at fair value through other comprehensive income".

4- Hedging transactions

It should be noted that Banco BPM Group avails of the IFRS 9 option to continue to fully apply the hedge accounting rules set forth by IAS 39, in the version endorsed by the European Commission (the carved out version).

Classification criteria

Asset and liability items include financial hedging derivatives, which at the reporting date of the financial statements or interim report showed a positive and negative fair value, respectively.

Hedges seek to neutralise potential losses recognisable on a given financial instrument or a group of financial instruments, attributable to a specific risk, by offsetting them with the gains recognisable on a different financial instrument or group of financial instruments in the event that said risk should actually materialise.
The following types of hedges are provided for:

- fair value hedges, which seek to hedge exposure to changes in the fair value of a financial statement asset or liability, attributable to a specific risk. It is also possible to activate macro fair value hedging, with the goal of reducing fair value fluctuations attributable to the interest rate risk, of monetary amounts deriving from a portfolio of financial assets and liabilities (including "core deposits"). Net amounts deriving from the mismatch of assets and liabilities cannot be subject to macro hedging;
- cash flow hedges, which seek to hedge the exposure to changes in future cash flows attributable to specific particular risks associated with financial statement items or a highly likely expected transaction;
- hedges of foreign currency transactions, which seek to hedge the risks of investment in a foreign company expressed in foreign currency other than the Group's reference currency (euro).

At the level of the consolidated financial statements, only derivatives entered into with an external counterparty to the Group may be designated as hedging instruments. The results associated with internal transactions carried out between various Group entities are eliminated.

Derivatives can be designated as hedges, provided that the hedging relationship between the hedged instrument and the hedging 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

Financial hedging derivatives are recognised at fair value, at the date on which the relative contracts are entered into, and are classified as assets in item "50. Hedging derivatives" or as liabilities in item "40. Hedging derivatives" depending on whether the value is positive or negative.

Income item measurement and recognition criteria

Subsequent to initial recognition, hedging derivatives continue to be measured at fair value. In particular:

- for fair value hedges, the changes in fair value of the hedged element are offset by the changes in fair value of the hedging instrument. Said offset is recognised by charging the changes in value to the income statement, in item "90. Fair value gains/losses on hedging derivatives", referring both to the hedged element (referring to the changes generated by the underlying risk factor), as well as to the hedging instrument. Any resulting difference, which represents the partial ineffectiveness of the hedge, represents the net effect on the income statement. If the hedging relationship ends, the hedged instrument reacquires the measurement approach of the class to which it originally belonged; for instruments measured at amortised cost, the cumulative revaluations/write-downs recognised as a result of changes in fair value of the hedged risk are recognised in the income statement under interest income and expense throughout the residual life of the hedged item, on the basis of the effective interest rate. If the hedged item is sold or repaid, the share of fair value not yet amortised is recognised immediately in income statement item "90. Fair value gains/losses on hedging derivatives";
- for cash flow hedges, the portion of changes in the fair value of the derivative that is determined to be an effective hedge is recognised in shareholders' equity (item "120. Valuation reserves"), while it is recognised in the income statement only when changes in cash flows to be offset arise in the hedged item. The portion of gains or losses of the hedging instrument that is considered ineffective is charged to the income statement (item "90. Fair value gains/losses on hedging derivatives"). Said portion is equal to any difference between the cumulative fair value of the hedging instrument and the cumulative fair value of the hedged instrument. In any event, the fluctuations in fair value of the hedged item and the related hedge must lie within the 80%-125% range. If the cash flow hedge is no longer considered effective or the hedging relationship is terminated, the total amount of profits or losses on the hedging instrument, previously recognised in "Valuation reserves", is recognised in the income statement only when the hedged transaction will take place or when it is no longer deemed possible that the transaction will take place. In this last circumstance, the profits or losses are transferred from the shareholders' equity item to the income statement item "90. Fair value gains/losses on hedging derivatives";
- hedges of investments in foreign currency are accounted for using the same method as for cash flow hedges.

For debt securities classified in the "Financial assets measured at fair value through other comprehensive income" portfolio, designated as specific fair value hedges, the changes in value attributable to the hedged risk - which in absence of the same would be recognised as a balancing entry of a specific valuation reserve - are recorded in income statement item "90. Fair value gains/losses on hedging derivatives", offsetting against the result of the hedge instrument.
For equity instruments classified in the "Financial assets measured at fair value through other comprehensive income", given the decision made by the Group to apply the rules of IAS 39 to hedge instruments, they cannot be designated as fair value hedges (price or exchange rate risk), insofar as the valuation effects of the hedging derivative must be recognised in the income statement, while the valuation and realisation effects of the hedged equity instruments are recognised in shareholders' equity, without any exception for recycling to the income statement, unless they are dividends.

Derecognition criteria

Should the above tests fail to confirm the effectiveness of the hedging, both retrospectively and prospectively, hedge accounting, as described above, is discontinued. In that situation, the hedging derivative contract is reclassified under "Financial assets at fair value through profit and loss" and, specifically, under Financial assets held for trading.
In addition, the hedging relationship stops when:

- the derivative expires, is discharged or exercised;
- the hedged item is sold, expires or is repaid;
- it is no longer highly likely that the future hedged transaction will be carried out.

5 - Interests in associates and joint ventures

Classification criteria

This item includes interests in associates or companies subject to joint control, which are carried at equity.
Associates are companies which are not subsidiaries, over 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 (including "potential" voting rights), and, irrespective of the shareholding percentage, whenever it has the power to participate in business and financial decisions of the investees, by virtue of specific legal relations, such as shareholders' agreements, the purpose of which is to ensure that the members of the agreement are represented in the management bodies and to safeguard a consistent management approach, without, however, controlling the same.
Companies subject to joint control are enterprises where the joint control is based on a contract or other agreement whereby it is necessary to obtain the unanimous consensus of all the parties sharing the control to make strategic financial and operating decisions. This takes place when the voting rights and control over the economic activity of the investee are shared jointly by Banco BPM and another party. Furthermore, an equity investment is qualified as under joint control when, even though voting rights are not shared jointly, the unanimous consent of all parties sharing control is required to take decisions regarding significant activities.

Recognition criteria

Financial assets are initially recognised on the settlement date. Upon their initial recognition, financial assets classified in this category are carried at cost, including any goodwill paid for at the time of acquisition, which, therefore, is not independently, separately recorded.

Income item measurement and recognition criteria

Interests in associates and joint ventures are measured with the equity method. This method envisages that the initial book value is subsequently increased or decreased to reflect the share of profit or loss of the investees attributable to the Group generated after the acquisition date, as a balancing entry to the consolidated income statement item "250. Gains (losses) of associates and joint ventures". Dividends received from investees are deducted from the book value of the investment.
Should it be necessary to carry out adjustments due to changes in shareholders' equity of the investee that have not been recognised in the investee's income statement (e.g. as a result of the designation at fair value of "Financial assets measured at fair value through other comprehensive income", as a result of the valuation of actuarial gains/losses on defined benefit plans), the share of the above changes attributable to the Group is recognised directly in the shareholders' equity item "120. Valuation reserves".
When applying the equity method, the most recent available financial statements of the associated company or company subject to joint control are used, suitably adjusted to take into account any significant events or transactions that have taken place between the last available financial statements of the investee company and the reporting date of the consolidated financial statements. If the investee company adopts accounting standards that are different to those of the Group, changes are made to the financial statements of the investee.
After applying the equity method, investments in associates or jointly controlled entities are tested for impairment when there is objective evidence of impairment that could have an impact on the investee's cash flows and consequently on the recoverability of the book value of the investment.
The process of recognising any impairment, therefore, involves checking for possible indicators that are considered to show objective evidence of impairment, such as:

- significant financial difficulties of the investee company (for example, significant negative changes in the book value of shareholders' equity, reduction or interruption of the distribution of dividends, achievement of operating results below a physiological threshold, compared to the objectives of the budget or the long-term plan or down compared to previous years or compared to the situation that existed on the acquisition date of the investment);
- breach of contract, for example a default or failure to make payment by the investee;
- the extension of allowances for economic or legal reasons relating to the financial difficulties of the investee, which otherwise would not have been taken into consideration;
- the announcement or notice of a financial restructuring plan or the existence of a high probability that the investee may announce restructuring operations or may be declared bankrupt;

- the disappearance of an active market relating to the investment held due to the financial difficulties of the investee;
- significant changes that adversely affect the investment in the technological, market, economic or legal environment in which the investee operates;
- a significant or prolonged decrease in fair value below its cost. The Group considers a decrease in fair value of more than 30% below the purchase cost to be a significant decrease. The Group considers a continuous decrease in fair value for an uninterrupted period of more than 24 months to be a prolonged decrease.

If there is evidence that the value of an investment may be impaired, the recoverable value of the investment is estimated, which is the higher of the fair value, net of costs to sell, and the value in use. The value in use is calculated by discounting the future cash flows that the investment could generate, including the final disposal value of the investment. An impairment loss is recognised in the income statement (in item "250. Gains (losses) of associates and joint ventures") if the book value, including goodwill, is lower than the recoverable value. If the reasons for an impairment loss are no longer valid due to an event occurring after the impairment was recognised, write-backs are recognised in the income statement, up to the amount of the impairment previously recognised, in the same item.

Derecognition criteria

Interests in associates and joint ventures are derecognised when there is a 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, investment property, works of art, technical plants, furniture, fittings and equipment of any type that is planned to be used for a timeframe of more than one year. Specifically:

- assets held for use in the production or supply of goods and services are classified as "property, plant and equipment used in operations" and recognised in accordance with IAS 16;
- property held for rental to third parties or for capital appreciation through sale is classified as "property, plant and equipment held for investment" and follows the rules set out in IAS 40;
- property held to enhance the value of the investment through renovation or requalification for its subsequent sale is classified as inventories and follows the rules of IAS 2.

Also recognised in this item are rights of use (ROU) of property, plant and equipment acquired with lease contracts, as lessee, irrespective of the legal classification of the same (Right of Use).

The item includes finally the improvement and incremental costs on third party assets; these are costs to renovate rented property, incurred to render them suitable for their intended use. More specifically, improvement costs that represent identifiable and separable property, plant and equipment items, are classified in the specific category to which they refer (e.g. technical plant, equipment). Otherwise, improvement costs that are not identifiable and separable from the property, such as walls, are booked as an increase in rights of use, recognised on the basis of the provisions of IFRS 16.

Recognition criteria

Property, plant and equipment items are initially carried at cost, which includes the purchase price and all accessory charges directly attributable to the acquisition of the asset and bringing it to working conditions.
Extraordinary maintenance costs which entail an increase in future economic benefits are included in the asset's book value, while other ordinary maintenance costs are charged to the income statement.

For property posted under property, plant and equipment held for investment purposes, following the closure of the original credit position (known as "datio in solutum" - transfer in lieu of payment) the initial recognition value is equal to the fair value, taken from a specific appraisal.
The difference between the initial recognition value of the property and the book value of the previous credit exposure, subject to derecognition, is recognised under "Net credit impairment losses/recoveries" up to the amount of the gross receivable existing at the date of recognition. Taking account of the criterion of fair value measurement of investment property, as described below, in the situation where the fair value on initial recognition exceeds the value of the gross receivable, the excess value is recognised to the income statement under "Fair value gains (losses) on property, plant and equipment and intangible assets".
Where, at the time of finalising the transaction, the competent corporate bodies have made the decision to sell the property within a short time, the book value of the property shall be equal to its "immediate sale value", also deriving from a specific appraisal, unless negotiations are under way that give rise to the assumption of a higher recoverable amount.
In any event, if, on the date of recognition of the property, concrete negotiations for sale are under way, demonstrated by commitments undertaken by the interested parties and resolved by the competent corporate bodies, the initial recognition value must take account of the exit price resolved, net of any costs to sell, where it is lower than the "fair value" deriving from the appraisal.

For property, plant and equipment represented by rights of use, the initial recognition value is equal to the sum of the lease liability (present value of the future instalments to be paid for the contractual term), the lease payments made before or at the date from which the lease runs, the initial direct costs and any costs estimated for dismantling or reinstatement of the asset underlying the lease.

Income item measurement and recognition criteria

Subsequent to initial recognition, property, plant and equipment in ownership or acquired through rights of use are carried at cost, less any depreciation and impairment, excluding:

- properties used in operations and valuable works of art, for which the Group has adopted the option permitted by IAS 16, to measure them using the revaluation model;
- investment properties, for which the Group has adopted the option permitted by IAS 40, to measure them based on their fair value;
- property, plant and equipment that fall within the regulation of IAS 2, which are measured at the lower of the cost and net realisable value, which is the estimated sale price less estimated completion costs and other costs necessary to make the sale.

Property, plant and equipment used in operations: subsequent measurement

<u>Depreciation</u>

Property, plant and equipment used in operations are systematically depreciated throughout their estimated useful life, using the straight-line method, with the exception of:

- land, whether purchased separately or as part of the value of the buildings standing on it, as considered to have an unlimited life;
- works of art, considering that the useful life of a masterpiece cannot be estimated and its value normally is destined to increase with time.

The depreciation charge must be able to reflect the wear and tear on the assets over time as a result of their use, considering extraordinary maintenance costs which could result in an increase in the value of the assets.

The depreciable value is represented by the cost of the asset - for assets measured at cost - or the revalued amount - for assets measured based on the revaluation method - net of the residual value at the end of the depreciation process, where deemed significant.

With regard to improvements to third party assets, represented by identifiable and separable property, plant and equipment, depreciation is determined according to the useful life of said assets, as illustrated above. Otherwise, for improvements that are not identifiable and separable from the leased property, the depreciation is calculated according to the shortest period between that in which the improvements and the additional expenses can be used and the residual duration of the lease contract, including the renewal period, if there is evidence in this regard.

Write-downs due to impairment

For assets measured at cost, at each annual or interim reporting date, if there is any indication that an asset may be impaired, the asset's book value is compared with its recoverable amount, that is, equal to the higher of the asset's fair value, net of costs to sell, and its value in use, understood as the present value of future cash flows originated by the asset. Any adjustments are recognised in the income statement under "Depreciation and impairment losses on property, plant and equipment". Whenever the reasons for the impairment loss are no longer valid, recoveries are recognised in the same item, which must not exceed the asset's value had no impairment taken place in the past, net of accrued depreciation.

Owned property used in operations and valuable works of art: revaluation method

For owned real estate assets used in operations and valuable works of art, the Group has adopted the revaluation method as the criterion for measurement.
Based on said method the assets shall be recognised at a revalued amount, equal to their fair value at the revaluation date, net of depreciation and any cumulative impairment losses. Based on that method:

- if the book value of the asset increases following revaluation (i.e. there is a positive difference between the revalued amount and the book value of the asset prior to revaluation), the increase must be recognised in a specific "valuation reserve" (subject to recognition in the statement of other components of comprehensive income without reclassification to the income statement), unless this is a recovery of a write-down previously recorded to the income statement. In this latter case, the increase must be recognised as income to the income statement up to the amount of the previous write-downs, and only any remaining amount is included in a valuation reserve;
- if the book value of an asset has decreased following the revaluation (i.e. there is a negative difference between the revalued amount and the book value of the asset prior to revaluation), the decrease in value must be recorded as a balancing entry:
  - o 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");
  - o to shareholders' equity up to the amount of the credit balance of the revaluation reserve for those assets, and the excess to the income statement, as the revaluation of negative valuation reserves is not permitted.

Investment property: fair value method

For investment property, falling within the scope of application of IAS 40, the Group adopts fair value measurement. Based on this method, following initial recognition, all investment property is measured at fair value. Consequently, the above-mentioned property is not depreciated nor impairment tested.

Based on the fair value method:

- increases in fair value must be recognised in the income statement, as income ("Fair value gains (losses) on property, plant and equipment and intangible assets");
- decreases in fair value must be recognised in the income statement, as charges ("Fair value gains (losses) on property, plant and equipment and intangible assets").

In the event of sale, the difference between the consideration for the sale and the book value must be recognised in the income statement, as "Gains (losses) on disposal of investments".

For the methods of determining the fair value and the frequency of revaluation of real estate assets and valuable works of art, please refer to the criteria illustrated in the subsequent “Part A.4 – Fair value disclosure”.

Derecognition criteria

Property, plant and equipment are derecognised from the balance sheet at the time of disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal.

Capital gains and losses deriving from the liquidation or disposal of property, plant and equipment are calculated as the difference between the net sale consideration and the book value of the asset and are recognised as a balancing entry to:

- the income statement: for assets used in operations measured at cost and investment property (item “Gains (losses) on disposal of investments”);
- shareholders’ equity: for assets used in operations measured based on the revaluation method. The revaluations of real estate credited to the valuation reserves of shareholders’ equity may be transferred to other shareholders’ equity reserves (Other profit reserves), where the property is derecognised. Therefore, in the event of sale of the property, the valuation reserves are transferred to another item of shareholders’ equity (from “valuation reserves” to “other reserves”), without, however, the possibility of transiting through the income statement.

The rights of use acquired through leases are eliminated from the balance sheet at the end of the term of the lease contract.

7- Intangible assets

Classification criteria

Intangible assets are non-monetary, identifiable and non-physical assets originating from legal or contractual rights, owned to be used on a long-term basis, which are likely to generate future economic benefits, and whose cost can be reliably measured.
Intangible assets 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. Taxation charge related to profit or loss from continuing operations") with the exception of those relating to items charged or credited directly to shareholders' equity, for example the valuations of financial instruments measured at fair value through other comprehensive income or of derivative contracts for cash flow hedges, for which the recognition of the relative taxes is made, for the sake of consistency, to shareholders' equity (namely in item "120. Valuation reserves").

In particular, current tax liabilities (assets) for the current and previous years reflect the amount of income taxes that are expected to be paid (recovered) to/from the tax authorities, based on a prudent estimate, applying the tax rates and tax regulations in force at the reporting date (interim reporting). Current tax assets and liabilities are shown as a net balance in the balance sheet, in case the settlement is executed based on the net balance, owing to the existence of a legal right to offsetting.

Deferred tax assets and liabilities are calculated based on temporary differences arising between the tax values of the individual assets and liabilities and their book values, without any time limits.
Deferred tax assets are recognised in the financial statements or the interim reports when it is probable that they can be recovered, which is assessed based on the ability of the company concerned and of the Group, as a result of the "tax consolidation" scheme, to continue to generate positive taxable income in future financial years, also taking account of the tax provisions in force at all times, such as Law no. 214/2011, which permits the conversion of certain deferred tax assets that meet specific conditions, into credits. Deferred tax liabilities are recognised in the financial statements or interim reports, with the sole exceptions of assets recognised in the financial statements at an amount higher than the value recognised for tax purposes and of reserves subject to tax on distribution, where it is reasonable to believe that no operations will be performed deliberately that would trigger taxation.
Recognised deferred tax assets and liabilities are systematically measured to account for any changes in regulations or tax rates, as well as for any changes in the subjective positions of the Group companies.

10- Provisions for risks and charges

Classification criteria

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

Provisions for risks and charges: post-employment benefits and similar obligations
As explained in the paragraph below "16 - Other information, Provisions for employee severance pay and other employee benefits", the sub-item "Post-employment benefits and similar obligations" includes defined-benefit plans, namely pension funds backed by a capital repayment and/or return guarantee in favour of beneficiaries. Benefits to be paid in the future are measured by an external actuary, using the "projected unit credit method", as required by IAS 19.
Actuarial gains and losses, defined as the difference between the book value of the liability and the present value of the commitments at the end of the period, are accounted for in full directly to shareholders' equity under the item "Valuation reserves".

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

Income item recognition and measurement criteria

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

- there is a current obligation (legal or implicit) as a result of a past event;
- it is likely that an outflow of resources 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 reporting 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 "16 - 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 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 effects consequent to the change in own credit risk, which are recognised in a specific valuation reserve (item "120. Valuation reserves"), unless this treatment creates or amplifies a mismatch in the profit (loss). An accounting mismatch is created or amplified when the recognition of the effects of own credit risk in an equity reserve is such so as to entail a more significant disharmony in the income statement than that which would arise from recognising the entire change in fair value of the liability in the income statement. In this last case, the entire change in fair value of the liability, including the effect of the change in own credit risk, must be recognised in the income statement.
The effects correlated with the change in own credit risk are presented in the statement of comprehensive income, net of the related taxes, under other comprehensive income without reclassification to the income statement.

The amount recognised in the specific shareholders' equity reserve (item "120. Valuation reserves") will never be reversed in the income statement, even if the liability should have expired or been extinguished. In this instance, it will be necessary to reclassify the cumulative gain (loss) in the specific valuation reserve to another item of shareholders' equity ("150. Reserves").

Derecognition criteria

Financial liabilities are derecognised from the financial statements or interim reports when expired or cancelled. For financial liabilities represented by securities issued, derecognition is carried out also in case of repurchase: the difference between the book value of the liability and the purchase price is recorded in income statement item "110. Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss", with the exception of profits/losses related to the change in own credit risk, which are recognised in a specific equity reserve, as previously illustrated. The subsequent placement of own securities following their repurchase is considered, for accounting purposes, as a new issue, recognised at the new placement price, with no effects on the income statement.

14 - Foreign currency transactions

Classification criteria

Assets and liabilities in foreign currency include those denominated explicitly in a currency other than the euro as well as those which envisage financial indexing clauses linked to the exchange rate between the euro and a specific currency or a specific basket of currencies.

To determine the conversion procedures to be used, assets and liabilities in foreign currency are broken down between monetary and non-monetary items.

Monetary elements consist of sums in cash and assets and liabilities expressing the right to receive or the obligation to pay fixed or determinable amounts in cash (receivables, debt securities, financial liabilities). Non-monetary elements (such as equity instruments) are assets or liabilities that do not contemplate the right to receive or the obligation to pay fixed or determinable amounts in cash.

Recognition criteria

Upon initial recognition, foreign currency transactions are recorded in the functional currency, and the exchange rate applied to the amount expressed in foreign currency is the one in effect at the date of the transaction.

Income item measurement and recognition criteria

At each annual or interim reporting date, items expressed in foreign currencies are measured as follows:

- cash items are translated at the exchange rate in effect at the closing date;
- non-cash items carried at their historical cost are translated at the exchange rate in effect at the transaction date;
- non-cash items measured at fair value are translated at the exchange rate in effect at the closing date.

Exchange rate differences originated by the settlement of cash items, or by the translation of cash items at rates other than the initial ones, or by the conversion of the previous financial statements, are charged to the income statement at the time they arise.

When a gain or loss from a non-cash item is carried at equity, the relevant exchange rate difference is also carried at equity. Conversely, when a gain or loss on a non-monetary element is recognised in the income statement, the associated exchange rate difference is also recognised in the income statement.

For information about the conversion of the financial statements of foreign subsidiaries that use a currency other than the reference currency of the Parent Company (euro), please refer to section "Scope of consolidation and methods", contained in "A.1 - General part".

15 - Insurance assets and liabilities

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, current accounts and demand deposits with Central Banks, with the exception of the minimum reserve, as well as demand loans to banks. The latter term includes cash and cash equivalents that may be withdrawn at any time without notice or with notice of 24 hours or a working day.
The item is recognised at face value. The face value of foreign currencies is translated into Euro at the closing exchange rate at the period-end date.

Fair value change of financial assets and financial liabilities in macro fair value hedge portfolios

These items include, respectively, fair value changes in financial assets or liabilities subject to macro hedging of interest rate risk, based on the respective balance, whether positive (item "60. Fair value change of financial assets in macro fair value hedge portfolios") or negative (item "50. Fair value change of financial liabilities in macro fair value hedge portfolios"), whose balancing entry in the income statement is item "90. Fair value gains/losses on hedging derivatives", as for specific fair value hedges.

Other assets

This item includes assets not attributable to the other balance sheet asset items. For example, this item may contain:

- gold, silver and precious metals;
- accrued income other than that capitalised on the related financial assets, including those deriving from contracts with customers pursuant to the IFRS 15 standard;
- receivables associated with providing non-financial goods or services;
- payable tax items other than those recognised in "110. Tax assets".

These may also include any remainders (of the "debtor's balance") of items in transit or suspended not attributed to the specific accounts, because they are of immaterial amounts.

Other liabilities

This item records liabilities not attributable to the other balance sheet liability items.
For example, this item contains:

- payment agreements that under IFRS 2 must be classified as payables;
- payables associated with the payment of non-financial goods or services received;
- accrued liabilities other than those to be capitalised on the related financial liabilities, including those deriving from contracts with customers pursuant to the IFRS 15 standard;
- sundry receivable tax items other than those recognised in "60. Tax liabilities" connected, for example, to withholding agent activities.

Provisions for employee severance pay and other employee benefits

Pursuant to IAS 19, employee benefits include all types of remuneration envisaged in exchange for the work performed by employees or by virtue of the termination of the employment relationship. Specifically, these are divided into:

- short-term benefits (other than those for termination of the employment relationship) which are expected to be settled within 12 months from the end of the financial year in which the employees rendered their services;

- post-employment benefits such as, for example, employee severance pay and pension funds;
- benefits for the termination of employment due to employees following the company's decision to end the employment prior to the date of retirement;
- long-term benefits (other than those for termination of the employment relationship) which are expected to be settled over a time frame of more than 12 months from the end of the financial year in which the employees rendered their services.

Types of post-employment benefits
The benefits in question include Provisions for employee severance pay and Pension funds, and are classified into two categories, "defined benefit plans" and "defined contribution plans" on the basis of the characteristics of the plans.
More specifically, in defined contribution plans, the cost is represented by contributions accrued during the year, since the company only has the obligation to pay the contributions defined by contract to a fund, and has therefore no legal or implicit obligation to pay other amounts in addition to said contributions in the event that the fund does not have sufficient assets to pay all the benefits to employees.
In defined benefit plans, the actuarial and investment risk, namely the risk that contributions are insufficient or that the assets in which contributions are invested do not generate a sufficient return, is borne by the company.
With regard to Provisions for employee severance pay, following the supplementary pension reform, under Italian Legislative Decree no. 252 of 5 December 2005, new regulations were introduced for provisions for employee severance pay accrued beginning from 1 January 2007, recognised for accounting purposes. In particular, for companies which had at least 50 employees in 2006, from an accounting perspective, the portion of provisions for employee severance pay accrued from 1 January 2007 is considered a "defined contribution plan"; the charge is, in fact, limited to the benefits established under the Italian Civil Code, without applying any actuarial methodology. Otherwise, the provisions for employee severance pay accrued up to 31 December 2006 will continue to be accounted for as a "defined benefit plan".

Valuation of post-employment benefits represented by defined benefit plans
For defined benefit plans, the liability is calculated by an external actuary using the "Projected Unit Credit Method". On the basis of the cited method, all future disbursements have to be estimated on the basis of demographic and financial assumptions, and are then discounted to take into account the time that will pass before the actual payment, and to be re-proportioned on the basis of the ratio of the years of service accrued and the theoretical seniority estimated at the time the benefit is disbursed. The actuarial value of the liability calculated in this way must then be adjusted by the fair value of any assets underlying the plan (net liabilities/assets).
The actuarial gains and losses that originate from changes in the previous actuarial assumptions, as a result of the actual experience or as a result of changes to the actuarial assumptions themselves, lead to the re-measurement of the net liability and are recognised as a balancing entry to a shareholders' equity reserve. Said gains and losses are recorded in the "Statement of comprehensive income".
The change in the liability resulting from an amendment or a reduction in the plan is recognised in the income statement as a gain or loss. In detail, an amendment is made when a new plan is introduced, rather than if an existing plan is withdrawn or amended. On the other hand, there is a reduction when there is a significant decrease in the number of employees included in the plan, such as in the case of plans for reduction of redundant personnel (access to the Solidarity Fund).

Valuation of long-term benefits
The "Projected Unit Credit Method" described above, is also used to measure long-term benefits, such as "seniority bonuses" awarded to employees. Unlike that described for "defined benefit plans", actuarial gains and losses relating to the measurement of long-term benefits are recognised immediately in the income statement.

Valuation reserves

This item includes valuation reserves associated with equity instruments designated at fair value through other comprehensive income, financial assets (other than equity instruments) measured at fair value through other comprehensive income, foreign investment hedges, cash flow hedges and exchange rate differences, property, plant and equipment, the share of valuation reserves related to interests in associates and joint ventures carried at equity, actuarial gains (losses) on defined benefit plans and profit/loss connected to the change in own credit risk relating to fair value option liabilities. 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;
- fee and commission income from services is recognised on the basis of contractual agreements in place, in the period in which said services are rendered. The fees and commission considered in the amortised cost to determine the effective interest rate are recognised under interest;
- profits and losses from initial recognition of the fair value of financial instruments are recognised in the income statement at the time of recognition of the transaction, based on the difference between the price paid or collected and the fair value of the instrument, only when the fair value can be determined by referring to current observable market transactions or using valuation techniques the inputs of which are observable market parameters. Otherwise, these profits and losses are distributed over time, taking the nature and the term of the instrument into account;
- gains and losses deriving from the sale of financial instruments are recognised in the income statement when the sale is completed, with the relative transfer of the risks and rewards, based on the difference between the amount received and the book value of the instruments.

Share-Based Payments

Share-based payments are payments made to employees, as a consideration for work performed, settled with equity-linked instruments, which may, for example, consist of the assignment of:

- stock options;
- rights to receive shares when specific targets are reached.

For accounting purposes, in accordance with IFRS 2, payments based on own shares are configured as equity-settled plans, to be recorded on the basis of the fair value of the services received.
Considering how difficult it is to directly estimate the fair value of work received in exchange for the assignment of shares, it is possible to indirectly measure the value of services received, by referring to the fair value of the equity-linked instruments at their assignment date.
Employee incentive plans based on own shares are therefore recorded in the income statement (item "190. a) Personnel expenses") as a balancing entry to a corresponding increase in shareholders' equity (item "150. Reserves"), on the basis of the fair value of the financial instruments assigned at the assignment date and on the basis of the accrual basis of the service provided.
In detail, when assigned shares cannot be immediately "used" by the employee but can be used when the employee has completed a given term of service, the company shall pay the cost as a consideration for the service provided throughout the vesting period.
For subsidiaries, incentive plans based on the Parent Company's shares, and not on own shares, are cash settled plans. In accordance with IFRS 2, in the respective company financial statements, the cost pertaining to the period is therefore recorded among personnel expenses, as a balancing entry to an increase in the liability item "Provisions for risks and charges". In the context of the consolidated financial statements, these plans, as they are settled through shares of the Parent Company, are instead represented as equity-settled plans on the basis of the treatment described above.

Repurchase agreements, securities lending and forward agreements

Repurchase or forward agreements whereby the Group sells securities to third parties with the obligation to repurchase them upon maturity of the transactions at a predetermined price are recognised in payables due to banks or to customers, depending on the counterparty. Likewise, repurchase or forward agreements whereby the Group acquires securities from third parties with the obligation to resell them upon maturity of the transactions at a predetermined price are recognised in loans to banks or to customers (accounting categories of the "Financial assets at amortised cost"), depending on the counterparty. The difference between the spot and forward price of the above-mentioned transactions is recognised as interest (expense or income depending on the case) on an accrual basis throughout the life of the transaction. Securities lending transactions in which the guarantee is represented by cash which is fully available to the lender are recognised in the financial statements like the above-mentioned repurchase agreements.

In the case of securities lending transactions with a guarantee consisting of other securities, or with no guarantee, the lender and the borrower continue to recognise the security subject to the loan and any security provided as a guarantee, respectively, in the balance sheet assets. The remuneration of this transaction is recognised by the lender in item "40. Fee and commission income" and by the borrower in item "50. Fee and commission expense".

Offsetting financial instruments

In accordance with IAS 32, paragraph 42, financial assets and financial liabilities may be offset and the net balance may be reported in the financial statements if the entity:

- has a legally enforceable right to make said offsets, currently exercisable in all circumstances, where they refer to regular business operations or to situations of default, insolvency or bankruptcy of the parties;
- intends either to settle the transactions on a net basis, or to settle the same on a gross basis, the substantial effects of which are equivalent to a settlement on a net basis.

For derivative instruments covered by netting arrangements, which meet the requirements illustrated above, Circular no. 262 envisages that all trading derivatives and all hedging derivatives may be offset. If the imbalance of trading derivatives is the opposite sign of that of the imbalance of all hedging derivatives, said imbalances are to be reported on a net basis: usually, the net balance is allocated to the trading book rather than as hedging derivatives,

depending on the prevailing absolute value of the imbalance of trading derivatives compared to that of hedging derivatives.
In accordance with the requirements of accounting standard IFRS 7, further information is provided in the tables contained in Part B - Other information in these notes to the financial statements. In particular, these tables set out:

- the book values of assets and liabilities that meet the requirements set out by IAS 32, paragraph 42, before and after netting in the accounts;
- exposures subject to master netting arrangements that did not give rise to netting, but could activate it as a result of specific circumstances;
- the collateral guarantees connected thereto.

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 lessee to renew the lease at the end of the first period, the Group considers the initial term of the rental contract (e.g. 12 years for 6 + 6 year rental contracts) and, once this term has ended, the following first renewal period (e.g. next 6 years), where there is no reasonable evidence that may lead to another renewal period or, vice versa, the end of the contract. In addition, it is assumed that the lease contract is renewed in the subsequent period if in the 18 months before expiry of the first period or of the subsequent renewal the lessee has not given notice to the lessor.

After recognition:

- the right-of-use asset must be measured at cost on the basis of IAS 16 and subject to depreciation and any impairment along the term of the contract or the useful life of the asset;
- the liability is measured at amortised cost, that is it is increased following the accrual of the interest payable and gradually reduced as a result of payment of the instalments.

In the event of changes in the payments due for the lease, the liability must be redetermined, as a balancing entry to the right-of-use asset. The change may result in the recognition of a separate lease (if the subject of the contract in force increases) or a change to the existing contract (lease modification). In the event of a lease modification, the change in the lease payable on the date of effectiveness of the modification, recognised as a balancing entry to the right of use, with the exception of the gains and losses resulting from the (partial or total) derecognition of the lease, which are included in the income statement.

Accounting in the lessor's financial statements

If the Group acts in the capacity of lessor, the IFRS 16 accounting model envisages that it must be stated whether the assets have been granted under a finance lease or under an operating lease, according to the different accounting treatment applicable to the two types.

More specifically, a lease is classified as finance lease if it transfers substantially all the risks and rewards to the lessee. Finance leases, in practice, are loan contracts with which the lease company purchases an asset, on behalf of the lessee, granting it the right of use.

The accounting in the lessor's financial statements is done with the financial method, through recognition of a loan of an amount equal to the principal of the instalments to be received (plus "up-front" external transaction costs not recovered and minus "up-front" transaction revenues that contribute to the remuneration of the receivable), as if it were a loan operation.

Subsequently, the receivable is measured at amortised cost, equal to the initial recognition value decreased by repayments of principal, decreased/increased by the amortisation - calculated according to the effective interest rate method - of the difference between the amount disbursed and the amount repayable at maturity, typically comparable to the costs/income directly associated with the individual receivable. The receivables are subject to impairment rules. For more details of the rules on accounting for receivables measured at amortised cost please see the contents of point "3. Financial assets at amortised cost" of this Part A.2.

For operating lease transactions, in the financial statements of the lessor, the owned assets granted under the lease continue to be recognised and the lease payments are recognised in the income statement as revenues. At Group level, the case regards owned properties rented; in this event, said properties continue to be recognised under "Property, plant and equipment held for investment purposes", based on the relative valuation criterion (fair value). In the income statement, income deriving from the rental of the above-mentioned assets is included in "other operating income".

Off-balance sheet credit exposures - guarantees given and commitments

General off-balance sheet credit exposures are represented by the guarantees issued and by the irrevocable commitments to disburse funds at predetermined terms and conditions entailing the assumption of a credit risk and fall within the scope of the impairment provisions of IFRS 9.
The initial recognition value of guarantees given equals the fair value, which normally corresponds to the amount received on issuing the guarantee.
Subsequently, the guarantees given are measured at the higher of the amount recognised on initial recognition, net of any amortisation charge, and the amount estimated to fulfil the obligation.
For the purposes of calculating expected losses, the same allocation methods in the three stages of credit risk described in IFRS 9 and already described in part "3 - Financial assets at amortised cost" and "2 - Financial assets measured at fair value through other comprehensive income", as well as in part "16 - Other information, Methods for determining impairment losses on financial assets", are used.
As indicated in part "10 - Provisions for risks and charges", the provisions relating to the write-down of guarantees given and commitments to disburse funds are recognised under balance sheet item "100. Provisions for risks and charges: a) commitments and guarantees given". In accordance with the provisions contained in Circular no. 262 of the Bank of Italy, the balancing entry is the income statement item "200. Net provisions for risks and charges: a) commitments and guarantees given".

Business combinations, goodwill and changes in interest holdings

A business combination represents the transfer of control of an enterprise (or an integrated group of assets and goods, conducted and managed consistently).
A combination may give rise to an investment relationship between the 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 business and/or of the assets acquired. When the acquisition is made by means of a single exchange transaction, the date of exchange coincides with the acquisition date, unless the parties agree to a transfer of control before the date of exchange.

Calculation of the cost of the business combination

The price transferred in a business combination equates to the fair value, as of the acquisition date, of the assets transferred, the liabilities incurred and the equity instruments issued by the 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.

Business Combinations Under Common Control

Transactions achieved for reorganisation purposes, between two or more businesses or corporate assets forming part of the Group, are not considered to be business combinations. These transactions (business combinations under common control) are excluded from the scope of application of IFRS 3 and, in the absence of a reference standard, are accounted for with reference to Assirevi's preliminary interpretative documents/guidelines, or in continuity of the values of the entity acquired in the financial statements of the 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. Specifically:

- Stage 1 includes both originated and acquired performing financial assets that display no significant deterioration in credit risk (SICR - Significant Increase in Credit Risk) with respect to the initial recognition date;
- Stage 2 includes performing financial assets with significant deterioration in credit risk (SICR) on the valuation date compared to the initial recognition, albeit not impaired;
- Stage 3 includes all exposures for which one or more events capable of negatively impacting cash flows are found (evidence of impairment), namely exposures that are considered non-performing.

For Stage 1 exposures, the expected loss is accounted for, on the date of initial recognition and on each subsequent reporting date, for up to one year; for Stage 2 and 3 exposures, expected losses are recognised over the entire residual lifetime of the instrument.

An exception to the foregoing is represented by financial assets that are considered non-performing from the time of their acquisition or origin (POCI - Purchased or Originated Credit Impaired). Please refer to the paragraph "Acquired or originated impaired financial assets" for more information on this.

For Banco BPM Group, the scope of the exposures classified in Stage 3 corresponds to that of non-performing loans, identified in accordance with the definitions established by the supervisory provisions in force (Bank of Italy Circular no. 272 "Matrix of accounts") and referred to by Bank of Italy Circular no. 262 "Bank financial statements: layouts and rules for preparation", insofar as retained consistent with IAS/IFRS standards in terms of objective evidence of impairment. Specifically, the circulars identify the following categories of non-performing assets:

- Bad Loans: these represent the set of on and off-balance sheet exposures with respect to a party in a state of insolvency (even if not ascertained in court) or in substantially equivalent situations, irrespective of any loss forecasts developed by the bank;
- Unlikely to Pay: these represent on and off-balance sheet exposures for which the conditions are not met for the classification of the debtor under bad loans and for which it is deemed unlikely that the debtor will meet its credit obligations (for principal and/or interest) in full without recourse to actions such as the enforcement of guarantees. This assessment is carried out irrespective of the presence of any amounts (or instalments) past due and unpaid. Classification as unlikely to pay is not necessarily linked to the explicit presence of anomalies, such as non-repayment, but it is linked to the existence of elements indicative of a situation of risk of default by the debtor (for example, a crisis in the industrial sector in which the debtor operates);
- Non-performing past due and/or overdue exposures: on-balance sheet exposures, other than those classified as bad or unlikely to pay loans which, at the reference date, have a past due and/or overdue position for more than 90 days, in accordance with the thresholds of significance provided for by law. For Banco BPM Group, non-performing past due and/or overdue exposures are determined by making reference to the position of the individual debtor.

In addition, in line with EBA standards, Bank of Italy regulations have introduced the definition of "forborne exposures". In particular, these are exposures benefiting from forbearance measures, which consist of concessions, in terms of changes to and/or the refinancing of an existing loan, granted only to debtors in financial difficulty, or to prevent the financial difficulty of the same, which could have a negative effect on his ability to fulfil his original contractual obligations. They are not granted to a debtor with the same risk profile but who is not in financial difficulty. These forbearance measures must be identified in terms of individual credit lines and may regard the exposures of debtors classified both as performing and non-performing.
For exposures with forbearance measures classified as unlikely to pay, the return to performing exposures, and in particular in Stage 2 exposures, can occur only after one year has elapsed since it was granted (the probation period) and all the other conditions laid out in paragraph 157 of the EBA's ITS are met.
In any event, renegotiated exposures must not be considered forborne when the debtor is not in a situation of financial difficulty: these are renegotiations granted for commercial reasons.

Impairment losses on performing financial instruments

Regarding performing financial assets, i.e. those assets not considered impaired, as defined above, it is necessary to assess, at each reporting date and at the individual relationship level, the existence of a significant increase in credit risk (SICR – "Significant Increase in Credit Risk") by comparing the credit risk associated with the financial instrument at the time of valuation and at the time of initial disbursement or acquisition. This comparison is made on the basis of quantitative and qualitative criteria. More specifically, in order to identify the existence of a significant deterioration in credit quality and the subsequent transfer of the financial instrument from Stage 1 to Stage 2, Banco BPM Group has identified the following criteria (Stage Assignment):

- relative quantitative criteria, based on statistical observations or on changes in the PD beyond a specific threshold considered as a backstop indicator, retained an indication of a significant increase of credit risk over time;
- absolute qualitative criteria, represented by the identification of trigger events or by the surpassing of absolute thresholds as part of the credit monitoring process;
- backstop indicators, namely credit delinquency factors, the emergence of which leads to the assumption that there has been a significant increase of credit risk, unless there is evidence to the contrary.

Once the allocation to the various stages of credit risk has been defined, the expected losses (ECL) are determined by assigning the following risk parameters to each individual transaction or tranche:

- PD (Probability of Default): represents the probability that a performing exposure can move to impaired status over the course of one year. This factor is quantified using internal exposure rating models or on the basis of average segment/portfolio data;
- LGD (Loss Given Default): the percentage of loss in the event of default, quantified on the basis of historical experience of recoveries discounted on the basis of impaired accounts;
- EAD – (Exposure at Default): the exposure at the moment of default.

Value adjustments for expected losses are then quantified as a product of PD, LGD and EAD.
The models used to estimate these parameters employ the same parameters used for regulatory purposes, making specific adjustments to account for the different requirements and purposes between accounting and prudential regulations.

For more details on the model for determining expected losses on performing exposures, with specific reference to the criteria of stage assignment, to the calculation methods for risk parameters, to the forecast macroeconomic scenarios and to the related probabilities of occurrence, refer to that illustrated in Paragraph "2.3 Measurement methods for expected losses" contained in Part E of these Notes, in the section on credit risk.

Impairment losses on non-performing financial instruments

As illustrated above, for non-performing financial assets, to which a 100% probability of default is associated, the amount of adjustments for expected losses relating to each loan is equal to the difference between its book value (interim situation) at the time of valuation (amortised cost) and the present value of expected future cash flows, calculated by using the original effective interest rate or a reasonable approximation if the original rate is not directly available. Cash flows are estimated on the basis of expected recovery over the entire lifetime of the asset, after taking into account the estimated realisable value of any guarantees.
To estimate the expected cash flows collected and the related time frames, the receivables in question undergo an analytical evaluation process. For some similar categories of non-performing loans, the assessment processes establish that the loss forecasts are based on a "lump-sum" calculation method, to be applied analytically to each individual position. The scope of exposures subject to lump-sum valuation is represented by:

- bad loans and unlikely to pay with exposures below or equal to an established threshold of 1 million;
- the total number of non-performing past due exposures, regardless of the relevant exposure threshold. In particular, these are loans which show uninterrupted overdrafts or late payments, automatically identified by the Group's IT procedures, based on the cited rules of the Supervisory Authority.

The "lump-sum" calculation method entails valuation approaches that are differentiated based on the counterparty's stage of risk at the time of quantification (Bad Loans, Unlikely to Pay, Past Due), the type of exposure (secured or unsecured), and the presence of guarantees other than mortgages (sureties, pledges, Confidi - consortium guarantees). In detail, for secured exposures the measurement is based on the valuation of the underlying assets (collateral), while for unsecured exposures, the expected loss is defined as a complement of the recovery curves based on the observation of internal time series, considering any mitigating elements deriving from the presence of other guarantees. In addition, for the purposes of estimating losses, the time value is considered, i.e. the estimated time required to recover the receivable, differentiated on the basis of the vintage, as well as the probability of exposures classified as Unlikely to Pay changing to bad loan status (danger rate).

Depending on the non-performing status and type of exposure, the recovery value is determined using a going concern approach rather than a gone concern approach.
The going concern approach is implemented if it is considered that the debtor's operating activity may continue to generate, in the foreseeable future, cash flows to be used for the payment of financial debts to all creditors, based on expected repayment schedules. The approach in question establishes, as a source of repayment, the profitability available deriving from the customer's operating activity or from other financial sources, as well as the estimated amount deriving from the enforcement of any collateral or personal guarantees (for the portion not covered by the available profitability). The available profitability assessment must be carried out prudentially using different analyses, depending on the type of customer and the data acquired by it.
The gone concern approach is used when the customer's operating activity is found or is expected to cease and the main source of repayment is the amount deriving from the enforcement of collateral (pledge or mortgage), as is the

case for all exposures classified as non-performing. In addition, possible repayment flows from seizable assets owned by the debtor or any guarantor must be evaluated.
In line with the targets for the sale of non-performing credit exposures, established on each occasion by the Board of Directors, the quantification of expected losses of the aforesaid exposures includes forward-looking elements, via the introduction of specific sales scenarios, where the Group's NPL strategy establishes that the aforementioned loans may be recovered through sale on the market, with a view to pursuing a de-risking strategy aimed at reducing the NPL ratio, i.e. the percentage of non-performing loans compared to total loans. From 2020, the sales targets, previously related to bad loans only, also included portfolios of exposures classified as unlikely to pay.

Consequently, the estimate of the expected losses of these positions reflects not only the recovery through ordinary operations (work out), but also the presence, appropriately calibrated, of the sales scenario and therefore, of the relevant cash flows.
As expressly provided for by the ITG[1] of the IASB, it is possible to consider the flows recoverable through sale when determining the expected losses, to the extent that it is possible to develop expectations and assumptions inferred on the basis of reasonable and demonstrable information (please see the following document: "Meeting Summary – 11 December 2015 - Inclusion of cash flows expected from the sale on default of a loan in the measurement of expected credit losses").
In line with the sales targets established on each occasion by the Board of Directors, the Group's exposures classified as bad loans or unlikely to pay, are valued by configuring two different estimates of expected cash flows:

- the first is determined assuming recovery from the debtor based on internal activity, according to the ordinary valuation guidelines followed by the Group as illustrated above (work out scenario);
- the second is determined assuming recovery by assigning the receivable (sale scenario), whose estimate is taken from the amount defined for internal recovery.

The estimate of recoverable flows is therefore equal to the weighted average of the probabilities assigned to the two scenarios of the estimated cash flows that the Group expects to receive in the two aforesaid scenarios. Expected losses are therefore determined on the basis of the difference between the gross value of the credit exposure and the estimated lower recoverable flows.
The method of estimating expected losses therefore involves the following steps:

- the segmentation of the portfolio into different clusters considered relevant for the analysis of the portfolio, according to the status (bad loans or unlikely to pay), the date on which they were classified as non-performing (vintage), the amount of the exposures, the existence of planned sales;
- the assignment of a different probability of sale to each cluster, consistent with the achievement of the level of target transfers resolved by the relevant corporate bodies;
- the determination of the recovery flows through sale, based on an internal model of discounting the recoverable cash flows, on the basis of the Discounted Cash Flow technique and some parameters considered representative from the point of view of the potential buyer, with the aim of reaching a price for the hypothetical sale of each cluster, suitably calibrated in order to take into account the comparable transactions observed on the market.

Taking into account that loans likely to be sold cannot be individually identified on the reporting date, the model provides that each loan is associated with a probability of sale.
The expected loss for the loans in question is therefore equal to the weighted average of the probabilities assigned to the two scenarios of the estimated cash flows recoverable in the two scenarios (workout and sale).
Probability is assigned to the various scenarios assuming the segmentation of the Group's total portfolio of exposures classified as bad loans or unlikely to pay, in accordance with the main characteristics that influence the value attributed by the market to loans of this type (vintage, amount of the exposures).

The assignment of the probabilities to the various clusters is guided by the amount of the target 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

[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.

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; 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, determined by the performance of the certificate's underlying asset. Based on the way in which the products in question are managed, at Group level, the eligible accounting portfolios are those of "Financial liabilities designated at fair value", as illustrated below, or "Liabilities held for trading" if actively managed as part of an overall trading portfolio held to make a short-term profit;
- "other certificates": these are products without any protection, with conditional protection, or with unconditional protection equal to or less than 50% of the initial capital. For these products, the value depends exclusively or prevalently on the performance of the parameter to which they are indexed. For this reason, they are classified as "derivative financial instruments", and in particular among the options issued. For these instruments, the only eligible accounting portfolio is that of "Financial liabilities held for trading".

Therefore, from June 2020, the Parent Company Banco BPM started to issue certificates with unconditional capital protection, mainly for the purpose of funding and classified in the accounting portfolio of "Financial liabilities designated at fair value". The above classification is due to the presence of embedded derivatives which, in the absence of the fair value option, should be separated from the host instrument, as able to significantly alter the contractual cash flows. In this case, the fair value measurement of the entire contract, namely of the entire certificate, would be less onerous than the separate valuation of the host instrument and of the related embedded derivatives.
In addition, said classification would enable a "natural hedge" to be pursued with respect to operational hedging derivatives which, at Group level, are stipulated according to a "mass" approach, with the aim of hedging the entire Group exposure.

With regard to recognition criteria for the balance sheet and income statement components of the certificates recognised under "Financial liabilities designated at fair value" and of the related operational hedge instruments, note that:

- the entire margin for the Group resulting from the issues in question is included in item "110. Net gains (losses) from financial liabilities measured at fair value through profit and loss". Said item also includes the valuation effects related to the fair value measurement - consequent to the change in the market parameters to which the certificate is indexed, with the exception of changes in own credit risk - as well as the spreads paid to customers, periodically or at maturity. The effects resulting from changes in own credit risk are recognised as a balancing entry of a specific equity reserve (item "120. Valuation reserves"), as described in more detail in paragraph "13. Financial liabilities designated at fair value";
- derivatives that are associated operationally with financial liabilities at fair value are classified as "Financial assets at fair value through profit and loss: a) Financial assets held for trading" or "Financial liabilities held for trading". The valuation losses and gains, as well as the effects realised including any spreads collected and paid are recognised in income statement item "80. Net trading income".

Fair value and procedure to calculate the effects relating to its own credit risk

For the bond and certificate issues in question, fair value is measured first by referring to prices observable in markets considered active, such as regulated markets, electronic trading networks (e.g. Bloomberg) or organised trading systems or equivalent.
Lacking prices observable in active markets, the measurement is based on the prices of recent transactions on the same instrument in non-active markets rather than on valuation techniques based on a cash flow discounting model, which must consider all factors considered significant by market participants in determining a hypothetical trade.
In particular, to determine credit risk, the spreads implicit in the comparable issues of the same issuer obtained on active markets are used rather than the curve of the credit default swaps in the name of Banco BPM with an equal degree of subordination as the security subject to the assessment.
For further details on how fair value is determined, please refer to that described in detail in the specific section in "Part A.4 – Fair value disclosure".
The impact resulting from the change in 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 2021, as in previous financial years, there was no change in Banco BPM Group's business model, i.e. the way in which the Group manages financial instruments.

A.4 - FAIR VALUE DISCLOSURE

QUALITATIVE INFORMATION

Fair value is defined as the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants, at the current conditions on the measurement date in the main market or in the most advantageous market (exit price). Underlying the fair value measurement is the assumption that the entity is a going concern, namely that it is in a fully operational situation and that it does not intend to liquidate or significantly reduce its operations or undertake transactions at unfavourable conditions. Fair value is not therefore the amount that the entity would receive or pay in the event of forced transactions or sales below cost.

Fair value is a market valuation approach not specifically referring to estimates concerning possible future cash flows developed by the individual entity; indeed, fair value must be determined by adopting the assumptions that market participants would use in determining the price of assets and liabilities, presuming that they are acting in their own best economic interest.
To measure the fair value of financial and non-financial assets and liabilities, IFRS 13 establishes a three-level fair value hierarchy, based on the source and the quality of the inputs used:

- **Level 1**: the inputs are represented by listed prices (unadjusted) on active markets for identical assets and liabilities;
- **Level 2**: the inputs are represented by:
  - prices listed on active markets for similar assets and liabilities;
  - prices listed on non-active markets for identical or similar assets and liabilities;
  - parameters observable on the market or corroborated by market data (e.g. interest rates, credit spreads, implicit volatility, exchange rates) and used in the valuation technique;
- **Level 3**: the inputs used are not observable on the market.

For financial instruments, measured in the financial statements at fair value, the Group has implemented a "Fair Value Policy" that assigns the highest priority to prices listed on active markets (level 1) and the lowest priority to the use of unobservable inputs (level 3), as more discretionary, in line with the above-illustrated fair value hierarchy. More specifically, this policy establishes:

- the rules for identifying market data, the selection/hierarchy of the sources of information and the price configurations needed to measure the financial instruments listed on active markets and classified as level 1 of the fair value hierarchy ("Mark to Market Policy");
- the valuation techniques and the relative input parameters in all cases in which the Mark to Market Policy cannot be adopted ("Mark to Model Policy").

Mark to Market

To measure the fair value, the Group uses, whenever available, information based on market data obtained from independent sources, as considered the best evidence of the fair value. In this case, the fair value is the market price of the same instrument being measured, namely without changes or reorganisations of the same instrument, inferable from the prices listed on an active market (classified as level 1 of the fair value hierarchy). A market is considered active when the list prices express actual and regular market transactions and are readily and regularly available through stock markets, brokers, intermediaries, sector companies, listing services or authorised entities.

Mark to Model

If the "Mark to Market Policy" is not applicable, due to the absence of prices directly observable in markets considered active, valuation techniques must be adopted that maximise the use of information available on the market, based on the following valuation approaches:

1. Comparable Approach: in this case, the instrument's fair value is derived from the prices observed in recent transactions on similar instruments in active markets, suitably adjusted to take into account differences in the instruments and in the market conditions, rather than from the prices of recent transactions on the same instrument as that subject to valuation not listed in active markets;
2. Model Valuation: if there are no transaction prices observable for the instrument to be measured or for similar instruments, a valuation model needs to be adopted; this model must be of proven reliability in estimating the hypothetical "operating" prices and therefore must be widely acknowledged by market operators.

The classification as level 2 rather than level 3 is established on the basis of the market observability of the significant inputs used to determine the fair value. A financial instrument must be classified in its entirety at a single level; therefore if inputs belonging to different levels are used in the valuation technique, the entire valuation must be classified in correspondence with the level of the hierarchy at which the lowest level input is classified, when deemed significant to the calculation of the fair value as a whole.

The following types of investment are considered level 2:

- financial instruments represented by OTC derivatives and by repurchase agreements on debt securities ("Bond Repo") when the inputs of the pricing models used to calculate the fair value, are observable in the market or, if not observable, are deemed that they do not significantly influence the fair value measurement;
- equity instruments not listed on active markets, measured using the market multiples technique, referring to a selected sample of comparable companies with respect to the subject of the valuation, or measured on the basis of the effective transactions made in a period of time reasonably close to the reference date;
- debt securities of third parties or own issues, not listed on active markets, for which the inputs, including the credit spreads, are taken from market sources;
- UCIT units 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 share indices, dividends, repo rates
	Single asset American options	Black and Scholes – Binomial tree (equity) – trinomial tree (forex)	
	European options on controlled volatility index	Local volatility – Monte Carlo	Equity/forex volatility, interest rate and exchange rate curves, spot prices of share indices, repo rates
	Controlled volatility index options representative of an investment portfolio	Black and Scholes hybrid, Hull and White with two factors - Monte Carlo with Jumps	Equity/forex/interest rate volatility, correlations, interest rates, exchange rates, spot prices of share indices, dividends, repo rates, Crash Put market prices
	Exotic options on basket equity	Local volatility – Monte Carlo	Equity/forex/interest rate volatility, correlations, interest rates, exchange rates, spot prices of share indices, dividends, repo rates, retail credit curve
	American Barrier Options on basket equity	Local volatility – Monte Carlo	
	Autocallable options on basket equity	Hybrid Black and Scholes, two-factor Hull and White – Monte Carlo	
	Autocallable options on exchange rates	Local volatility – Monte Carlo	Forex, interest rate and exchange rate volatility
	American Barrier Options on exchange rates	Trinomial tree	Forex, interest rate and exchange rate volatility
	Dividend Swaps and Total Return Swaps	Discounted Cash Flow - Analytical	Interest rates, exchange rates, dividends, repo rates
Credit derivatives	Credit Default Swaps	Discounted Cash Flow - Analytical	Interest rates, Credit Default Swap curve

The techniques and parameters for determining fair value and the criteria for assignment under the fair value hierarchy are defined and formalised in a specific fair value policy adopted by the Group. The reliability of the fair value measurements is also guaranteed by the verifications carried out by a Risk Management department. This department, which is independent from the Front Office units that hold the positions, periodically reviews the list of pricing models to be used under the Fair Value Policy: these models must represent market standards or best practices and the related calibration techniques must guarantee a result in line with valuations capable of reflecting the "current market conditions". Specifically, to correctly determine the fair value, each product is associated to a pricing model generally accepted by the market and selected based on the characteristics and market variables underlying said product. For highly complex products or in the event that the existing valuation model for the products is deemed lacking or inadequate, an internal process is launched to supplement the current models. Based on this process, the Risk Management department conducts an initial stage of validation of the pricing models, which may be native to the position keeping system or issued by a specific internal department. This is followed by a stage conducted by the same department, to guarantee constant reliability of the previously validated model.
In detail, the validation aims at verifying the theoretical robustness of the model through independent repricing, possible calibration of the parameters and comparison with counterparties' prices. If the validation is successful, the use of the models is still subordinate to approval by specific internal committees of the Group. Following the

validation stage, continuous revision is planned in order to confirm the accuracy and adherence to the market of the pricing models used by the Group, through suitable actions, if necessary, on the models and the related underlying theoretical assumptions. In order to cover the risk that the pricing models, though validated, may generate fair values not immediately comparable with market prices, a suitable adjustment will be made for "model risk", as described above.

Non-financial assets measured at fair value on a recurring basis

For Banco BPM Group, non-financial assets measured at fair value on a recurring basis are represented by owned real estate assets and valuable works of art.

Fair value of owned real estate assets

The fair value of properties, whether used in operations or for investment purposes, is determined by availing of specific appraisals drawn up by qualified independent companies operating in the specific field, capable of providing property appraisals based on the RICS Valuation standard.[1]
Those standards guarantee that:

- the fair value is determined in line with the indications of the international accounting standard IFRS 13, insofar as consistent with the notion of "arm's length value" defined as "the estimated amount at which an asset would be sold or purchased, at the valuation date, by a seller or a buyer without specific links, both interested in the purchase and sale, at arm's length conditions, following suitable marketing in which the parties acted in an informed and aware manner, without coercion";
- the experts have the professional, ethical and independence requirements in line with the provisions of international and European standards.

For properties of a significant amount, i.e. for properties with a value exceeding 5 million, full appraisals are conducted, i.e. conducted via an inspection of the property, in addition to a detailed analysis of the available documentation. For the remaining properties, a desktop appraisal is instead possible, i.e. appraisal based on the examination of documentation, without any physical inspection of the property by the appraiser.
With regard to the frequency of update of the appraisals, based on Group policy:

- for properties for investment purposes, an annual update is necessary, unless there is evidence that an earlier review is needed, considering that the measurement criterion for those assets is fair value;
- for properties used in operations it is possible to request an update after more than one year, to be defined based on the specific characteristics of the property (such as, by way of example, the materiality, the location) and the changes in the real estate market, based on a scenario analysis, for the purpose of ensuring that the book value does not differ significantly from that which would have been determined using the fair value at the reporting date.

The methodologies used to determine the fair value can be based on the discounted cash flow method, the market multiples method or the transformation method, based on the characteristics of the property subject to valuation.

Lastly, it should be clarified that, based on IFRS 13, there is an assumption that the current use of the asset represents the highest and best use of the same, unless the market or other factors suggest that market participants could utilise the asset in a different way, in order to maximise the relative value ("highest and best use"). In line with these provisions, the valuation approach was therefore defined on the basis of the current use of the properties, on the assumption that it represents the highest and best use, and considering, in limited cases, potential alternative uses. More specifically, as regards properties used in operations, the valuation was conducted from the perspective of continuity of use of the same, namely assuming that the Group will continue to occupy the property on the basis of the lease payment aligned to market conditions for the foreseeable future. For certain real estate investments, the measurement of the fair value may have taken the potential "upgrade" of the current use of the property into account, if it was retained that market participants are able to increase its potential through the future development of the property, for the purpose of defining a hypothetical transaction price.

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

Fair value of valuable works of art

The fair value measurement of works of art is determined through specific appraisals issued by qualified, independent companies.
In determining the value of the works, the following elements are considered: the quality of the style, the size (in some cases these are museum-level works), the degree of conservation, origin, presence of a notification of restriction by the state, and the historical and artistic notes proposed in the sheets drawn up by the assigned researchers. More specifically, the reference value for measurement in the financial statements is the "commercial or market value", i.e. the estimated minimum revenues expected on the sale of the work in a short period of time, assumed as a few months. For the purposes of measurement in the financial statements, thus, the "insured value", which is normally higher than the commercial value by a range of 20%-30%, was not considered, as that value configuration refers to the hypothetical opportunity to repurchase on the market a work equivalent to the one lost, at a significantly higher cost than the sale cost.
The Group policy states that the appraisal may be updated with a frequency of more than one year, to be defined based on the characteristics of the work of art and the performance of the market, taking account of the objective of ensuring that the book value is a reasonable approximation of the fair market value.

Fair value hierarchy of real estate assets and works of art

The fair value of property and works of art is classified in level 3 of the fair value hierarchy set out by the accounting standard IFRS 13, as it significantly depends on the estimates made by the management, which feature elements of judgement and subjectivity, in relation to the unique, distinctive characteristics of the object to be evaluated.
In particular, the selection of relevant inputs (income flows, discount rates, value per square meter, prices of similar transactions) for measuring the fair value of properties is influenced by the specific characteristics of the properties in question, such as, by way of example, their geographical and commercial position, accessibility and infrastructure, the urban context, the state of conservation, the size, any easements, the state of outdoor/indoor facilities. In addition, in the presence of situations where marketing and sale is difficult, further adjustments may be necessary based on the sales policy that the company management intends to pursue.
Theoretically, there could be circumstances deemed absolutely exceptional, in which the fair value of the properties could be considered in level 2, i.e., determined based on parameters considered observable in active markets. In that case, there must be a sufficient volume of transactions that have taken place in a recent period of time with respect to the valuation date and no significant adjustments can be made, due to the high similarity between the unit to be valued and the units involved in the said transactions (e.g. residential units that are part of a building/area with a sufficient number of comparable units or offices located in a business district with several similar buildings featuring comparable offices).
In that regard, it must be noted that, at the reporting date, the fair value of real estate assets and works of art is fully classified in level 3.

Financial assets and liabilities at amortised cost in the financial statements

For financial assets and liabilities recognised in the financial statements based on amortised cost, classified in the accounting categories of "Financial assets at amortised cost" (loans to banks and customers) and "Financial liabilities at amortised cost" (due to banks and customers and debt securities in issue), the determination of fair value is important only for reporting purposes, in line with the provisions of the reference accounting standard IFRS 7. In particular:

- for performing medium/long-term loans (mostly loans represented by mortgage loans and leases), fair value is determined on the basis of cash flows, suitably adjusted for expected losses, on the basis of PD and LGD parameters. These flows are discounted using a market interest rate adjusted to take account of a premium considered to express risks and uncertainties. For the above loans, the fair value is entirely classified at level 3 of the fair value hierarchy;
- for "non-performing" loans (bad loans, unlikely to pay and past due), the fair value is typically recorded as net book value and is included in level 3 of the fair value hierarchy. In this regard, it should be noted that, recently, the Italian market for NPLs (Non-Performing Loans) saw the completion of significant transactions for the sale of non-performing loans. However, the prices of the above transactions were affected by the specific characteristics of the 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 "Financial assets and liabilities measured at fair value on a recurring basis", to which reference is made also as regards the assignment of fair value in the three-level fair value hierarchy;
- for demand or short-term receivables and payables, the book value is considered a good approximation of fair value, as permitted by IFRS 7. The relative fair value, which is typically recorded as book value and included in level 3.

With regard to medium-long term performing and non-performing loans, note that the methods and the assumptions used to estimate fair value are based on subjective valuations (level 3). For this reason, the fair value shown in the financial statements for reporting purposes only, could be significantly different to the values calculated for different purposes, just as it may not be comparable to those provided by other financial institutions.

A.4.2 Processes and sensitivity of valuations

For an examination of the techniques, inputs and valuation processes adopted by the Group for the instruments classified in level 3 of the fair value hierarchy, please refer to the previous paragraph.
Exposures in level 3 financial instruments totalled 1,110.4 million and are mostly represented by equity instruments, UCIT units and loans mandatorily measured at fair value as illustrated below.

Equity instruments and UCIT units

Investments in equity instruments and in UCIT units, classified as level 3, totalled 740.8 million (corresponding to 66.7% 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 319.0 million (corresponding to 28.7% 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 93.5 million, a reduction of 10% in the cash flows with respect to those used to measure the fair value, which are largely based on the plans certified and approved, would result in a decrease of around 7.8% 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 2021 which had a different level of fair value than as at 1 January 2021, it was assumed that the transfer between levels occurred with regard to the balances at the beginning of the reference period.

A.4.4 Other information

For derivative contracts included in the same Netting arrangement, to calculate counterparty risk, the Group did not use the option of measuring net exposure considering all of the instruments covered by the above-mentioned arrangement, as illustrated in paragraph "A.4.1 Fair value levels 2 and 3: valuation techniques and input used" above. In the presence of collateral agreements (CSA), the exposure associated with the individual derivative is determined in relation to its marginal contribution to the expected net exposure generated by all the contracts stipulated with a given counterparty within the same CSA.

QUANTITATIVE INFORMATION

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: distribution by fair value hierarchy

Given the above, the table below provides a breakdown of the assets and liabilities measured at fair value on a recurring basis, in the fair value hierarchy. As defined by the cited standard IFRS 13, recurring valuations refer to assets and liabilities measured at fair value in the balance sheet, based on that envisaged or permitted by the reference international accounting standards.

Assets/liabilities measured at fair value	31/12/2021			31/12/2020		
	L1	L2	L3	L1	L2	L3
1. Financial assets at fair value through profit and loss	3,379,057	2,044,482	913,571	3,491,133	4,705,654	846,738
a) financial assets held for trading	2,518,850	2,017,586	2,189	2,833,138	4,413,483	1,727
b) financial assets designated at fair value	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	860,207	26,896	911,382	657,995	292,171	845,011
2. Financial assets measured at fair value through other comprehensive income	10,312,065	166,209	196,805	10,408,048	115,435	187,313
3. Hedging derivatives	-	127,076	-	-	75,046	-
4. Property, plant and equipment	-	-	2,482,871	-	-	2,657,823
5. Intangible assets	-	-	-	-	-	-
Total	**13,691,122**	**2,337,767**	**3,593,247**	**13,899,181**	**4,896,135**	**3,691,874**
1. Financial liabilities held for trading	385,882	13,747,049	-	2,052,688	10,634,315	541
2. Financial liabilities designated at fair value	-	1,405,190	-	-	955,781	-
3. Hedging derivatives	-	227,972	-	-	585,680	-
Total	**385,882**	**15,380,211**	**-**	**2,052,688**	**12,175,776**	**541**

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

Financial assets measured at fair value on a recurring basis

As at 31 December 2021, financial instruments measured significantly on the basis of non-observable parameters (Level 3) were 82.1% comprised of instruments classified as "Financial assets at fair value through profit and loss", and 17.7% of instruments classified in the portfolio of "Financial assets measured at fair value through other comprehensive income"; the remainder is classified as "Financial assets held for trading".
More specifically, level 3 financial assets amounted to 1,110.3 million and are represented by the following types of investment:

- unlisted equity instruments of 235.1 million, mostly valued on the basis of internal equity models, Discounted Cash Flow techniques or with transaction prices, which do not meet the requirements to be assigned to level 2;
- UCIT units of 505.7 million, represented by private equity, private debt and similar funds (451.9 million), real estate funds (50 million) and hedge funds (3.8 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 319.0 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 48.5 million, mainly relating to structured credit securities (45.6 million);
- Over The Counter (OTC) derivatives amounting to 2.0 million, for which the fair value was conclusively measured by means of non-observable parameters or 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 172.0 million;
- level 2 includes Over The Counter (OTC) derivatives measured on the basis of models that use observable market parameters to a significant extent, or on the basis of prices originating from independent sources, for 1,948.5 million.

Financial liabilities measured at fair value on a recurring basis

Level 1 financial liabilities refer to listed trading derivatives for 114.8 million and to technical overdrafts listed in active markets for 271.1 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 9,714.9 million, financial and credit derivatives for 1,843.7 million and issues of Certificates unconditionally guaranteed by Banca Akros for 2,188.5 million. With regard to "Financial liabilities designated at fair value", these include instead Certificates with unconditionally guaranteed capital, issued by Banco BPM, for a book value of 1,394.4 million (742.2 million at December 2020).

Transfers between fair value levels (Level 1 and Level 2) for financial assets and liabilities measured at fair value on a recurring basis

During 2021, the significant transfers refer to a limited number of securities. Specifically:
- transfers from level 2 to level 1 amounted to 1.2 million (value at beginning of year) belonging to the portfolio of "Financial assets held for trading";
- transfers from level 1 to level 2 amounted to 3 million (value at beginning of year) belonging to the portfolio of "Financial assets measured at fair value through other comprehensive income".

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 2021, 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 2.7 million, and were comprised by:
- adjustments for CVA which resulted in a cumulative loss, in terms of lower assets/higher liabilities, of 10.0 million;
- adjustments for DVA which resulted in a cumulative benefit, in terms of higher assets/lower liabilities, of 12.7 million.

As at 31 December 2020, cumulative fair value adjustments to take account of counterparty risk (CVA/DVA) were positive overall for 1.5 million, equal to the imbalance between negative adjustments for CVA (-13.0 million) and positive adjustments for DVA (+14.5 million).
The resulting impact on the income statement for 2021 was therefore a positive 1.2 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 2,432.8 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 106.0 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	**846,738**	**1,727**	**-**	**845,011**	**187,313**	**-**	**2,657,823**	**-**
2. Increases	**210,110**	**1,307**	**-**	**208,803**	**30,857**	**-**	**100,399**	**-**
2.1. Purchases	68,810	-	-	68,810	2,653	-	51,477	-
2.2. Profits charged to:	94,230	529	-	93,701	26,294	-	47,852	-
2.2.1. Income statement	94,230	529	-	93,701	1	-	26,322	-
- of which capital gains	82,608	527	-	82,081	-	-	25,448	-
2.2.2. Shareholders' equity	-	X	X	X	26,293	-	21,530	-
2.3. Transfers from other levels	10,341	3	-	10,338	1,910	-	-	-
2.4. Other increases	36,729	775	-	35,954	-	-	1,070	-
3. Decreases	(143,277)	(845)	-	(142,432)	(21,365)	-	(275,351)	-
3.1. Sales	(43,122)	(2)	-	(43,120)	(2,079)	-	(17,012)	-
3.2. Redemptions	(23,322)	-	-	(23,322)	(1,304)	-	-	-
3.3. Losses charged to:	(44,493)	(843)	-	(43,650)	(17,521)	-	(191,089)	-
3.3.1. Income statement	(44,493)	(843)	-	(43,650)	-	-	(180,540)	-
- of which capital losses	(31,773)	(843)	-	(30,930)	-	-	(162,845)	-
3.3.2. Shareholders' equity	-	X	X	X	(17,521)	-	(10,549)	-
3.4. Transfers to other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	(32,340)	-	-	(32,340)	(461)	-	(67,250)	-
4. Closing balance	**913,571**	**2,189**	**-**	**911,382**	**196,805**	**-**	**2,482,871**	**-**

The "Transfers from 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 no longer possible to rely on transaction prices or on observable parameters that led to the assignment to level 3 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) measured at fair value through other comprehensive income" for the other securities.
- "50. Property, plant and equipment".

A.4.5.3 Annual changes in liabilities measured at fair value on a recurring basis (level 3)

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

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	31/12/2021				31/12/2020 (*)			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets at amortised cost	140,448,388	19,268,151	284,849	126,955,952	141,249,323	21,747,434	387,498	126,674,823
2. Property, plant and equipment held for investment purposes	-	-	-	-	-	-	-	-
3. Non-current assets and disposal groups held for sale	-	-	-	-	-	-	-	-
Total	**140,448,388**	**19,268,151**	**284,849**	**126,955,952**	**141,249,323**	**21,747,434**	**387,498**	**126,674,823**
1. Financial liabilities at amortised cost	166,561,146	12,153,100	1,175,513	153,500,607	151,420,894	13,059,867	1,871,203	136,929,751
2. Liabilities associated with assets classified as held for sale	-	-	-	-	-	-	-	-
Total	**166,561,146**	**12,153,100**	**1,175,513**	**153,500,607**	**151,420,894**	**13,059,867**	**1,871,203**	**136,929,751**

(*) The figures relating to the previous year have been restated to take into account the amendments introduced by the 7th update of Circular no. 262 of the Bank of Italy

Assets and liabilities not measured at fair value

Financial assets and liabilities classified in level 1 and level 2 of the fair value hierarchy refer to debt securities/bonds in the portfolio (assets) or own issues (liabilities), for which listed prices available in active markets or valuation techniques whose relevant parameters are observable on the market were used. In greater detail, securities held in assets are mainly represented by government bonds classified in level 1.

The remaining financial assets and liabilities at amortised cost (loans, deposits, current accounts, other payables) are classified in level 3, as:

- fair value was determined on the basis of unobservable parameters, mainly attributable to estimates of expected losses determined on the basis of unobservable market indicators; or
- the fair value was not measured, as it was deemed approximately equal to the book value, as permitted by accounting standard IFRS 7.

For said types of financial instruments, the selection of techniques and parameters used in estimating the fair value to indicate in the financial statements only for disclosure purposes, as well as the appreciation of the significance of the unobservable inputs require significant judgements. It cannot therefore be ruled out that a different approach to said parameters or the use of alternative valuation techniques may lead to significantly different fair values, also depending on the purpose for which the same are being calculated.

For the disclosure on the methods of determining the fair value of financial assets and liabilities at amortised cost, refer to that illustrated in the previous paragraphs "Financial assets and liabilities at amortised cost in the financial statements".

Assets and liabilities measured at fair value on a non-recurring basis

In line with the provisions envisaged by Circular 262 for assets and liabilities measured at fair value on a non-recurring basis, a disclosure of the three-level fair value hierarchy has to be provided. By way of example, this case would arise if a tangible asset, usually measured on the basis of the cost criterion, were to be measured at fair value, net of costs to sell, following its IFRS 5 classification as a non-current asset held for sale.
In this regard, it must be clarified that as at 31 December 2021, as in the previous year, no disclosure on the fair value hierarchy of assets and liabilities measured at fair value on a non-recurring basis is not provided, as the Group does not own this type of asset.

A.5 DISCLOSURE OF "DAY ONE PROFIT/LOSS"

Pursuant to IFRS 7, paragraph 28, in the area of Group financial instruments, note that at the reporting date, there were no impacts deriving from the "Day 1 Profit/Loss", understood as the difference between the fair value at the time of initial recognition (transaction price) and the amount determined at that date using a measurement technique.

PART B – INFORMATION ON THE CONSOLIDATED BALANCE SHEET

ASSETS

Section 1 - Cash and cash equivalents - Item 10

1.1 Cash and cash equivalents: breakdown

	Total 31/12/2021	Total 31/12/2020 (*)
a) Cash	787,733	858,079
b) Current accounts and demand deposits with Central Banks	28,008,297	8,000,000
c) Current accounts and demand deposits with banks	357,286	552,608
Total	**29,153,316**	**9,410,687**

(*) The figures relating to the previous year have been restated to take into account the amendments introduced by the 7th update of Circular no. 262 of the Bank of Italy.

The sub-item b) "Current accounts and demand deposits with Central Banks" is mainly comprised by a short-term deposit with the Bank of Italy of 28.0 billion.

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 31/12/2021			Total 31/12/2020		
	L1	L2	L3	L1	L2	L3
A. On-balance sheet assets						
1. Debt securities	1,057,713	2,051	-	2,033,591	4,905	-
1.1 Structured securities	53,225	-	-	88,342	4,337	-
1.2 Other debt securities	1,004,488	2,051	-	1,945,249	568	-
2. Equity instruments	1,270,245	-	18	695,179	-	18
3. UCIT units	18,888	-	134	4,692	-	144
4. Loans	-	194,122	-	-	1,923,234	-
4.1 Repurchase agreements	-	194,122	-	-	1,923,234	-
4.2 Other	-	-	-	-	-	-
Total (A)	**2,346,846**	**196,173**	**152**	**2,733,462**	**1,928,139**	**162**
B. Derivative instruments	-	-	-	-	-	-
1. Financial derivatives	172,004	1,821,274	2,037	99,676	2,485,033	1,565
1.1 held for trading	172,004	1,786,116	2,037	99,676	2,479,944	1,565
1.2 connected with the fair value	-	34,956	-	-	5,086	-
1.3 other	-	202	-	-	3	-
2. Credit derivatives	-	139	-	-	311	-
2.1 held for trading	-	139	-	-	311	-
2.2 connected with the fair value	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	**172,004**	**1,821,413**	**2,037**	**99,676**	**2,485,344**	**1,565**
Total (A+B)	**2,518,850**	**2,017,586**	**2,189**	**2,833,138**	**4,413,483**	**1,727**

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

Sub-item "1.2 Other debt securities" includes subordinated financial assets issued by banks and insurance companies of 45.7 million classified as level 1. The previous year they amounted to 49.2 million, classified as level 1 and 0.1 million as level 2.

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	31/12/2021	31/12/2020
Share Funds	17,901	4,815
Real Estate Funds	1,121	21
Total	**19,022**	**4,836**

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

Items/Amounts	Total 31/12/2021	Total 31/12/2020
A. On-balance sheet assets		
1. Debt securities	**1,059,764**	**2,038,496**
a) Central Banks	-	-
b) Public Administrations	828,411	1,825,805
c) Banks	141,056	88,368
d) Other financial companies	54,114	76,502
of which: insurance companies	9,975	12,199
e) Non-financial companies	36,183	47,821
2. Equity instruments	**1,270,263**	**695,197**
a) Banks	22,327	14,772
b) Other financial companies	94,980	48,570
of which: insurance companies	1,988	2,355
c) Non-financial companies	1,152,946	631,812
d) Other issuers	10	43
3. UCIT units	**19,022**	**4,836**
4. Loans	**194,122**	**1,923,234**
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	192,086	962,046
d) Other financial companies	2,036	961,188
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total (A)	**2,543,171**	**4,661,763**
B. Derivative instruments		
a) Central Counterparties	61,060	48,073
b) Other	1,934,394	2,538,512
Total (B)	**1,995,454**	**2,586,585**
Total (A+B)	**4,538,625**	**7,248,348**

2.3 Financial assets designated at fair value: breakdown by product

As at 31 December 2021, as in the previous year, the Group had no assets classified in the portfolio in question.

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

As at 31 December 2021, 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 31/12/2021			Total 31/12/2020		
	L1	L2	L3	L1	L2	L3
1. Debt securities	40,601	-	48,520	40,407	-	49,348
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	40,601	-	48,520	40,407	-	49,348
2. Equity instruments	252,623	26,896	38,277	41,686	292,171	32,377
3. UCIT units	566,983	-	505,559	575,902	-	434,639
4. Loans	-	-	319,026	-	-	328,647
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	319,026	-	-	328,647
Total	**860,207**	**26,896**	**911,382**	**657,995**	**292,171**	**845,011**

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

Exposure to debt securities amounts to a total 89.1 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 40.6 million (nominal value of 40 million) compared to 39.1 million (nominal value of 35.4 million) in 2020 classified in the same level;
- Asset Backed Securities (ABS) for 45.6 million (46.3 million in 2020), of which 44.4 million with subordination clauses, finalised through the following vehicles: Pharma Finance S.r.l., Bnt Portfolio SPV, Red Sea SPV, Leviticus SPV, Tiberina SPV, Titan SPV, Aurelia SPV, Sun SPV and Luzzatti Pop Npls 2021 SRL. 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 investments directly held in Banca Carige and Berenice SPV 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.

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

The table below presents the breakdown of UCIT units.

Items/Amounts	31/12/2021	31/12/2020
Share Funds	223,828	165,923
Balanced Funds	5,859	28,639
Bond Funds	608,554	587,934
Flexible Funds	-	5,015
Hedge Funds	3,820	6,225
Real Estate Funds	49,976	52,236
Private Debt and similar funds	180,505	164,569
Total	**1,072,542**	**1,010,541**

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

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

	Total 31/12/2021	Total 31/12/2020
1. Equity instruments	**317,796**	**366,234**
of which: banks	-	6,720
of which: other financial companies	270,933	56,583
of which: non-financial companies	46,863	302,930
2. Debt securities	**89,121**	**89,755**
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	23,565	23,569
d) Other financial companies	62,685	63,115
of which: insurance companies	17,036	16,838
e) Non-financial companies	2,871	3,071
3. UCIT units	**1,072,542**	**1,010,541**
4. Loans	**319,026**	**328,647**
a) Central Banks	-	-
b) Public Administrations	3,303	3,623
c) Banks	-	-
d) Other financial companies	108,000	108,003
of which: insurance companies	-	-
e) Non-financial companies	160,265	161,692
f) Households	47,458	55,329
Total	**1,798,485**	**1,795,177**

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 31/12/2021			Total 31/12/2020		
	L1	L2	L3	L1	L2	L3
1. Debt securities	10,283,038	52,684	-	10,383,882	-	1,302
1.1 Structured securities	6,564	-	-	6,531	-	1,302
1.2 Other debt securities	10,276,474	52,684	-	10,377,351	-	-
2. Equity instruments	29,027	113,525	196,805	24,166	115,435	186,011
3. Loans	-	-	-	-	-	-
Total	**10,312,065**	**166,209**	**196,805**	**10,408,048**	**115,435**	**187,313**

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

Exposure in debt securities amounted to a total of 10,335.7 million (10,385.2 million as at 31 December 2020) and was mainly represented by bonds issued by governments and banks.

Subordinated assets amounted to 114.2 million (107.0 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 125.2 million (114.5 million in terms of nominal value), classified under level 1.

The exposure held in equity instruments amounted to a total of 339.4 million (325.6 million as at 31 December 2020). 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 euro to each unit, which is also confirmed by recent transactions on the share capital of the Bank of Italy. 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 61.1 million and 35.0 million, respectively.

Equity instruments deriving from the recovery of impaired financial assets came to 57.0 million.

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

Items/Amounts	Total 31/12/2021	Total 31/12/2020
1. Debt securities	**10,335,722**	**10,385,184**
a) Central Banks	-	-
b) Public Administrations	7,494,826	7,533,717
c) Banks	1,491,945	1,636,868
d) Other financial companies	967,075	858,961
of which: insurance companies	67,484	73,953
e) Non-financial companies	381,876	355,638
2. Equity instruments	**339,357**	**325,612**
a) Banks	174,671	177,667
b) Other issuers:	164,686	147,945
- other financial companies	63,337	61,695
of which: insurance companies	20	16
- non-financial companies	101,349	86,250
- 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	**10,675,079**	**10,710,796**

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

	Gross value					Total value adjustments				
	Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Acquired or originated impaired	Stage 1	Stage 2	Stage 3	Acquired or originated impaired	Total partial write-offs *
Debt securities	10,272,950	7,486,752	65,899	-	-	(2,745)	(382)	-	-	-
Loans	-	-	-	-	-	-	-	-	-	-
Total 31/12/2021	**10,272,950**	**7,486,752**	**65,899**	**-**	**-**	**(2,745)**	**(382)**	**-**	**-**	**-**
Total 31/12/2020	**10,243,005**	**7,524,927**	**144,937**	**-**	**-**	**(2,085)**	**(673)**	**-**	**-**	**-**

(*) 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 2021, 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 31/12/2021						Total 31/12/2020 (*)					
	Book value			Fair value			Book value			Fair value		
	Stage 1 and Stage 2	Stage 3	Acquired or originated impaired	L1	L2	L3	Stage 1 and Stage 2	Stage 3	Acquired or originated impaired	L1	L2	L3
A. Loans to Central Banks	**10,036,899**	**-**	**-**	**-**	**-**	**10,036,899**	**7,826,884**	**-**	**-**	**-**	**-**	**7,826,884**
1. Fixed-term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Minimum reserve	10,036,899	-	-	X	X	X	7,816,232	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	10,652	-	-	X	X	X
B. Loans to banks	**2,737,091**	**-**	**-**	**837,726**	**79,028**	**1,848,444**	**3,595,329**	**-**	**-**	**699,298**	**183,155**	**2,746,114**
1. Loans	1,840,979	-	-	-	-	1,848,444	2,741,188	-	-	-	-	2,746,114
1.1. Current accounts	-	-	-	X	X	X	-	-	-	X	X	X
1.2. Fixed-term deposits	154,496	-	-	X	X	X	75,366	-	-	X	X	X
1.3. Other loans:	1,686,483	-	-	X	X	X	2,665,822	-	-	X	X	X
- Reverse repurchase agreements	293,490	-	-	X	X	X	854,645	-	-	X	X	X
- Loans for leases	666	-	-	X	X	X	1,311	-	-	X	X	X
- Other	1,392,327	-	-	X	X	X	1,809,866	-	-	X	X	X
2. Debt securities	896,112	-	-	837,726	79,028	-	854,141	-	-	699,298	183,155	-
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	896,112	-	-	837,726	79,028	-	854,141	-	-	699,298	183,155	-
Total	**12,773,990**	**-**	**-**	**837,726**	**79,028**	**11,885,343**	**11,422,213**	**-**	**-**	**699,298**	**183,155**	**10,572,998**

(*) The figures relating to the previous year have been restated to take into account the amendments introduced by the 7th update of Circular no. 262 of the Bank of Italy.
L1 = Level 1
L2 = Level 2
L3 = Level 3

Item B.1.3 "Other loans – other" includes security deposits for "ISMA" and "CSA" contracts for 434.5 million (751.0 million in 2020), 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 0.6 million, associated with revenues accruing in 2021 but not yet received as of the end of the year.

Item B.2 "Debt securities" includes subordinated securities for an amount of 56.0 million.
For details on non-performing assets, please see "Part E - Information on risks and related hedging policies, Section 2 - Risks of prudential consolidation, 1.1 Credit risk".

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

Transaction type/Amounts	Total 31/12/2021						Total 31/12/2020 (*)					
	Book value			Fair value			Book value			Fair value		
	Stage 1 and Stage 2	Stage 3	Acquired or originated impaired	L1	L2	L3	Stage 1 and Stage 2	Stage 3	Acquired or originated impaired	L1	L2	L3
1. Loans	**103,678,315**	**3,063,186**	**344,321**	**-**	**-**	**112,608,922**	**102,700,768**	**3,976,216**	**341,499**	**-**	**-**	**113,698,693**
1. Current accounts	8,223,489	240,496	78,652	X	X	X	8,010,707	401,253	126,433	X	X	X
2. Reverse repurchase agreements	3,658,922	-	-	X	X	X	3,482,261	-	-	X	X	X
3. Mortgage loans	77,212,146	1,911,505	162,190	X	X	X	74,009,136	2,219,996	164,059	X	X	X
4. Credit cards, personal loans and salary-backed loans	1,333,945	16,508	97	X	X	X	1,879,093	11,585	59	X	X	X
5. Loans for leases	702,296	516,984	3,450	X	X	X	863,992	622,475	5,110	X	X	X
6. Factoring	78,116	-	-	X	X	X	58,316	56	-	X	X	X
7. Other loans	12,469,401	377,693	99,932	X	X	X	14,397,263	720,851	45,838	X	X	X
2. Debt securities	**20,588,576**	**-**	**-**	**18,430,425**	**205,821**	**2,461,687**	**22,808,626**	**-**	**-**	**21,048,136**	**204,343**	**2,403,132**
1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2. Other debt securities	20,588,576	-	-	18,430,425	205,821	2,461,687	22,808,626	-	-	21,048,136	204,343	2,403,132
Total	**124,266,891**	**3,063,186**	**344,321**	**18,430,425**	**205,821**	**115,070,609**	**125,509,394**	**3,976,216**	**341,499**	**21,048,136**	**204,343**	**116,101,825**

(*) The figures relating to the previous year have been restated to take into account the amendments introduced by the 7th update of Circular no. 262 of the Bank of Italy.
L1 = Level 1
L2 = Level 2
L3 = Level 3

Net loans to customers amounted to 127,674.4 million (129,827.1 million as at 31 December 2020). Excluding debt securities, the analysis of the portfolio by type shows mortgage loans accounting for the largest part, representing 70% of the total (71% in 2020), followed by current accounts totalling 8,542.6 million and accounting for 8%, in line with last year.

Item "1.7. Other loans" mainly includes loans for advances on bills, documents and similar instruments subject to collection, subsidies not settled in the current account and functional receivables associated with the provision of financial services. In particular, functional receivables include 213 million for fees and commissions accruing in 2021, against ordinary contacts with customers, which will be received during 2022 (mainly relative to securities placement for 103.4 million and the distribution of insurance products for third parties for 94.2 million). In 2020 these amounted to 187.6 million, almost fully collected during 2021. 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 3,063.2 million, marking a decrease compared to the previous year (4,292.7 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, A. Credit quality and Section 2 - Risks of prudential consolidation, 1.1 Credit risk, Quantitative information, A. Credit quality.

Item 2. Debt securities, classified under level 3, include securities issued as part of own securitisation transactions for 2,297.6 million (2,316.6 million in 2020) of which:

- 920.2 million (1,078.2 million in 2020) relating to senior securities issued by the SPE Red Sea SPV;
- 938.3 million (1,122.0 million in 2020) relating to senior securities issued by the Leviticus SPV;
- 67.7 million (84.1 million in 2020) relating to senior securities issued by the Tiberina SPV;
- 29.7 million (32.3 million in 2020) relating to senior securities issued by the Titan SPV;
- 341.7 million relating to senior securities issued by the Aurelia SPV;

and third-party securitisations of 99.4 million (6.0 million in 2020).

For more details, please see the content of Part E, Section 1.1 Credit risk, "C. Securitisation transactions" above.

Securities lacking subordination clauses, issued by insurance companies, amounted to a total of 2.5 million.

4.3 Financial assets at amortised cost: breakdown by debtor/issuer of loans to customers

Transaction type/Amounts	Total 31/12/2021			Total 31/12/2020 (*)		
	Stage 1 and Stage 2	Stage 3	Acquired or originated impaired	Stage 1 and Stage 2	Stage 3	Acquired or originated impaired
1. Debt securities	**20,588,576**	**-**	**-**	**22,808,626**	**-**	**-**
a) Public Administrations	17,346,373	-	-	19,701,602	-	-
b) Other financial companies	2,966,254	-	-	2,840,092	-	-
of which: insurance companies	2,486	-	-	27,058	-	-
c) Non-financial companies	275,949	-	-	266,932	-	-
2. Loans to:	**103,678,315**	**3,063,186**	**344,321**	**102,700,768**	**3,976,216**	**341,499**
a) Public Administrations	1,679,631	1,163	17	1,758,680	1,883	-
b) Other financial companies	12,009,437	29,491	788	12,515,904	57,236	4,461
of which: insurance companies	104,645	-	-	105,750	-	-
c) Non-financial companies	56,542,173	2,214,909	302,039	55,539,690	3,090,989	308,375
d) Households	33,447,074	817,623	41,477	32,886,494	826,108	28,663
Total	**124,266,891**	**3,063,186**	**344,321**	**125,509,394**	**3,976,216**	**341,499**

(*) The figures relating to the previous year have been restated to take into account the amendments introduced by the 7th update of Circular no. 262 of the Bank of Italy.

4.4 Financial assets at amortised cost: gross value and total value adjustments

	Gross value					Total value adjustments				Total partial write-offs (*)
	Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Acquired or originated impaired	Stage 1	Stage 2	Stage 3	Acquired or originated impaired	
Debt securities	21,289,070	17,319,355	201,508	-	-	(4,435)	(1,455)	-	-	-
Loans	104,441,334	-	11,558,021	5,928,733	604,373	(123,116)	(320,046)	(2,865,547)	(260,052)	427,545
Total 31/12/2021	**125,730,404**	**17,319,355**	**11,759,529**	**5,928,733**	**604,373**	**(127,551)**	**(321,501)**	**(2,865,547)**	**(260,052)**	**427,545**
Total 31/12/2020 (**)	**130,027,330**	**19,681,761**	**7,374,186**	**7,853,713**	**759,225**	**(158,973)**	**(310,936)**	**(3,877,497)**	**(417,726)**	**551,237**

(*) Value to be shown for disclosure purposes.
(**) The figures relating to the previous year have been restated to take into account the amendments introduced by the 7th update of Circular no. 262 of the Bank of Italy.

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	Acquired or originated impaired	Stage 1	Stage 2	Stage 3	Acquired or originated impaired	
1. Loans subject to forbearance measures compliant with GL	52,480	-	30,623	4,609	360	(115)	(718)	(1,105)	(60)	-
2. Loans subject to current moratorium measures no longer compliant with GL and not assessed as forborne	1,120,906	-	2,205,017	211,949	17,373	(1,985)	(68,412)	(67,607)	(3,310)	-
3. Loans subject to other forbearance measures	-	-	114,298	17,527	-	-	(959)	(5,123)	-	-
4. New loans	15,097,751	-	1,476,534	69,924	30	(5,215)	(5,880)	(17,691)	-	-
Total 31/12/2021	**16,271,137**	**-**	**3,826,472**	**304,009**	**17,763**	**(7,315)**	**(75,969)**	**(91,526)**	**(3,370)**	**-**
Total 31/12/2020 (**)	**20,254,420**	**-**	**2,364,271**	**74,801**	**249**	**(31,955)**	**(100,056)**	**(22,357)**	**(19)**	**-**

(*) Value to be shown for disclosure purposes.
(**) The figures relating to the previous year have been restated to take into account the amendments introduced by the 7th update of Circular no. 262 of the Bank of Italy.

Based on Bank of Italy communication of 21 December 2021, the table sets out several details (gross value by risk stage and related adjustments) relating to the Covid-19 support measures in force at the reporting date, represented by the loans subject to moratoria or other forbearance measures, or which constitute new liquidity granted with the support of government guarantees, which as at 31 December 2021 refer entirely to the Parent Company.

The active moratoria as at 31 December 2021, indicated in sub-items 1 and 2, amounted to a total of 3,643.3 million, with 61% of the same classified as Stage 2; said moratoria had almost all expired as at 1 January 2022. As at 31 December 2020, active moratoria amounted to 12,353.3 million. For an illustration of the content of the above-cited sub-items and for more details on the moratoria granted by the Group, and on the relative credit quality of those still active, please refer to the content of the paragraph entitled "Risks, uncertainties and impacts of the Covid-19 pandemic" contained in "Part A - Accounting policies" of these Notes.

New loans disbursed with government guarantees, outstanding as at 31 December 2021, indicated in sub-item 4, amounted to a total of 16,644.2 million, in gross value, 90.7% of which classified as stage 1 performing exposures. As at 31 December 2020, this type of loan amounted to 10,220.0 million.
Lastly, as at 31 December 2021, the measures granted to customers in difficulty or represented by the restructuring of loans, amounted to 131.8 million (sub-item 3).

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 31/12/2021			NV 31/12/2021	Fair Value 31/12/2020			NV 31/12/2020
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1. Fair value	-	127,076	-	18,224,949	-	74,864	-	13,035,374
2. Cash flows	-	-	-	-	-	-	-	-
3. Foreign investments	-	-	-	-	-	182	-	-
B. Credit derivatives								
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**127,076**	**-**	**18,224,949**	**-**	**75,046**	**-**	**13,035,374**

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	30,527	-	-	-	X	X	X	-	X	X
2. Financial assets at amortised cost	51,356	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	16,888	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	81,883	-	-	-	-	-	16,888	-	-	-
1. Financial liabilities	28,288	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	17	X	-	X
Total liabilities	28,288	-	-	-	-	-	17	-	-	-
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

Section 6 - Fair value change of financial assets in macro fair value hedge portfolios - Item 60

6.1 - Fair value change of hedged assets: breakdown by hedged portfolios

Fair value change of hedged assets/Amounts	Total 31/12/2021	Total 31/12/2020
1. Increase	**34,515**	**52,365**
1.1 of specific portfolios:	34,515	52,365
a) financial assets at amortised cost	34,515	52,365
b) financial assets measured at fair value through other comprehensive income	-	-
1.2 total	-	-
2. Decrease	**(31,640)**	**(77)**
2.1 of specific portfolios:	(31,640)	(77)
a) financial assets at amortised cost	(31,640)	(77)
b) financial assets measured at fair value through other comprehensive income	-	-
2.2 total	-	-
Total	**2,875**	**52,288**

The fair value change of financial assets in macro fair value hedge portfolios refers to fair value changes in certain specific portfolios of assets at amortised cost, due to interest rate fluctuations.

Fair value gains and losses relative to hedging derivatives and the portfolio hedged are indicated in item 90 “Fair value gains/losses on hedging derivatives”.

Section 7 - Interests in associates and joint ventures – Item 70

As at 31 December 2021, the book value of the item “Interests in associates and joint ventures” totalled 1,794.1 million, relative to:

- significant interests of 1,391.6 million (1,248.2 million as at 31 December 2020), as shown in table 7.2 below, by individual investment;
- non-significant interests of 402.5 million (416.6 million as at 31 December 2020), 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. Bipiemme Vita S.p.A. (*) Share capital € 179,125,000.00	Milan	Milan	1	Banco BPM	19.000%	19.000%
6. Bussentina S.c.a.r.l. in liquidation Share capital € 25,500.00	Rome	Rome	1	Bipielle Real Estate	20.000%	20.000%
7. Calliope Finance S.r.l. in liquidation Share capital € 600,000.00	Milan	Milan	1	Banco BPM	50.000%	50.000%
8. Gardant Liberty Servicing S.p.A. Share capital € 150,000.00	Rome	Rome	1	Banco BPM	30.000%	30.000%
9. Etica SGR S.p.A. (*) Share capital € 4,500,000.00	Milan	Milan	1	Banco BPM	19.444%	19.444%
10. Factorit S.p.A. Share capital € 85,000,002.00	Milan	Milan	1	Banco BPM	39.500%	39.500%
11. 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%
12. HI-MTF SIM S.p.A. Share capital € 5,000,000.00	Milan	Milan	1	Banca Akros	20.000%	20.000%
13. SelmaBipiemme Leasing S.p.A. Share capital € 41,305,000.00	Milan	Milan	1	Banco BPM	40.000%	40.000%
14. 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%
15. Vera Assicurazioni S.p.A. Share capital € 63,500,000.00	Verona	Verona	1	Banco BPM	35.000%	35.000%
16. 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.	736,107	-	47,580
	Alba Leasing S.p.A.	161,348	-	-
	Anima Holding S.p.A.	232,463	320,854	15,721
	Vera Vita S.p.A.	261,726	-	-
	Total	**1,391,644**	**320,854**	**63,301**

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 2020, as a result of measuring the investment using the equity method.

7.3 Significant interests in associates and joint ventures: accounting information

The table below provides data obtained from the draft financial statements as at 31 December 2021 approved by the Boards of Directors and provided by associated companies or, when not available, the most recent balance sheets (relative to 100% of the interest and not the percentage held by the Group, as established under IFRS 12). Note that measurement using the equity method was performed on the basis of this data[1].

[1] 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 2021.

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	14,594,510	2,269,424	14,371,617	300,404	1,411,264	X	X	423,827	388,526	-	388,526	(526)	388,000
Alba Leasing S.p.A.	X	5,193,199	154,242	4,781,183	153,897	229,820	X	X	6,943	4,485	-	4,485	(58)	4,427
Anima Holding S.p.A.	X	885,611	1,682,233	946,035	208,626	912,341	X	X	224,614	176,295	_	176,295	882	177,177
Vera Vita S.p.A.	X	8,405,739	199,086	8,077,949	105,367	1,578,904	X	X	36,739	26,300	-	26,300	(14,157)	12,143

Reconciliation of net assets and the book value of the investee in the financial statements

	Net assets (*)	% Investment stake	Net assets held	Adjustments	Book value
A. Companies subject to joint control					
N/A					
B. Companies subject to significant influence					
Agos Ducato S.p.A.	2,191,913	39.000%	854,846	(118,739)	736,107
Alba Leasing S.p.A.	412,361	39.189%	161,600	(252)	161,348
Anima Holding S.p.A.	1,413,183	19.385%	273,946	(41,483)	232,463
Vera Vita S.p.A.	421,509	35.000%	147,528	114,198	261,726

(*) 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	402,472	3,606,288	3,265,109	307,424	23,961	-	23,961	(6,679)	17,283

7.5 Interests in associates and joint ventures: annual changes

		31/12/2021	31/12/2020
A.	**Opening balance**	**1,664,772**	**1,386,079**
B.	**Increases**	**234,414**	**349,766**
	B.1 Acquisitions		68,240
	B.2 Recoveries		
	B.3 Revaluations		
	B.4 Other changes	234,414	281,526
C.	**Decreases**	**(105,070)**	**(71,073)**
	C.1 Sales	(314)	
	C.2 Value adjustments	(18,673)	
	C.3 Write-downs		
	C.4 Other changes	(86,083)	(71,073)
D.	**Closing balance**	**1,794,116**	**1,664,772**
E.	**Total revaluations**	-	-
F.	**Total adjustments**	**(644,594)**	**(625,921)**

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 232.0 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 (2.3 million).

Sales (item C.1) refer to the sale of 5% of the interest in HI-MTF.

Value adjustments (item C.2) amounted to -18.7 million and include the impact resulting from the impairment of the share of the interest held in Factorit.

The other decreases (item C.4) include the effects of the reduction in the equity of Agos Ducato (-47.6 million), of Anima Holding (-15.7 million), of Vera Assicurazioni (-3.9 million), of Bipiemme Vita (-3.0 million), of Gardant Liberty Servicing (-2.1 million) and of Etica SGR (-1.1 million), following distribution of dividends. These also include the effects pertaining to the Group of valuation reserves and other reserves of associates (-12.5 million).

7.6 Valuations and significant assumptions to establish the existence of joint control or significant influence

Significant influence exists when the power to participate in the entity's management and financial decisions is held, based on voting rights held or the in the presence of special contractual agreements, as better described in "Part A - Accounting policies" of these Notes. As at 31 December 2021, 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% interest is held in the company, significant influence exists based on the weight on the decision-making process through representation in the Board of Directors, as well in compliance with the partnership agreements in force between Banco BPM and Anima.

As at 31 December 2021 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 19 July 2021, the merger by incorporation of ProFamily into Banco BPM was finalised.

On 18 December 2020, an Amendment Agreement between the parties was formally signed, with a view to further consolidating the existing partnership related to the consumer finance activities in Italy of Agos-Ducato, through which some changes were made to the agreements signed in 2018. Those amendments, inter alia, extend by an additional 24 months, and therefore, up to 31 July 2023, the term for the exercise of the put option referring to a 10% investment in the capital of Agos Ducato held by Banco BPM, at the previously agreed strike price of 150 million.

Those agreements also provide, in the event that an extraordinary transaction is finalised (understood as: acquisition of control of Banco BPM by a third party operator or several third party operators in concert; merger of Banco BPM with third party operators; acquisition by Banco BPM of another bank or other distribution channels; or acquisition by Banco BPM of a third party operator) the parties shall discuss in good faith, inter alia, depending on the case: i) the possible acquisition by Agos Ducato, at market value, of the entity which, due to the extraordinary transaction, works in the consumer credit segment; ii) the extension of the new Distribution Agreement to the third party operator's distribution network; or iii) the inclusion of the additional distribution channel acquired in the distribution network of Banco BPM Group.

Commitments deriving from bancassurance agreements with Cattolica

On 29 March 2018 - following on from the agreement for the establishment of a strategic partnership in life and non-life bancassurance signed on 9 November 2017 between Banco BPM and Società Cattolica di Assicurazione ("Cattolica") - the purchase of 50% + 1 share of Avipop Assicurazioni (Vera Assicurazioni, at the date of this report) and Popolare Vita (Vera Vita, at the date of this report) was finalised, bringing the interest of Banco BPM Group in the capital of the two insurance companies to 100%. On the same date, the sale to Cattolica of 65% of the total share capital held by the Group in the two insurance companies was finalised.

The Shareholders' Agreement signed on 29 March 2018 by Banco BPM S.p.A. and Cattolica, subsequently amended on 29 October 2018, envisages, among other things, the granting of a put option to Cattolica and a call option to Banco BPM, with regards to the entire interests held by Cattolica in Vera Vita and Vera Assicurazioni.

The triggering events that shall grant Banco BPM the right to exercise the call option include a change of control over Cattolica.
The execution on 23 October 2020 of the corporate and industrial deal between Assicurazioni Generali and Cattolica, announced to the market on 25 June 2020, led, in the opinion of Banco BPM, to a change in control over Cattolica. On the basis of that conviction, on 15 December 2020 the Bank notified Cattolica of the exercise of the call option on the controlling stakes held by Cattolica in the capital of the joint ventures. Cattolica contested the occurrence of a change of control and therefore that the Bank has a right to exercise the call option.

Following discussions between the parties, on 16 April 2021, following up on the agreement reached on 5 March 2021, Banco BPM and Cattolica entered into a new agreement which provides, in exchange for Banco BPM's waiving of the call already exercised, for the recognition to Banco BPM of a right of early exit from the partnership, originally due to end in 2033, which can be exercised in the period between 1 January 2023 and 30 June 2023, and may be extended by the Bank from six-month period to six-month period three times, until 31 December 2024.

In particular, the parties agreed to grant Banco BPM an unconditional purchase option on the 65% stake held by Cattolica in the JV Vera Vita and Vera Assicurazioni. The call option strike price was set at the "own funds" - excluding subordinated liabilities and including any earnings until the transfer date of the interests - to be calculated to the half-year prior to the exercise of the option. The following will be added to this value: (i) a fixed component of 60 million, of which 26 million against the waiver by Cattolica to extend the distribution agreement to the Branches currently served by another insurance partner, and (ii) a possible component of 50 million to be paid on a deferred basis, exclusively if for a period of 4 years there are no events that have an effect on the control of Cattolica by the current first shareholder or other parties also in concert with each other. The agreement provides for protection mechanisms for both parties tied to the exercise price of the call ("caps" and "floors" on the value of own funds as calculated at the reference date) and price adjustments deriving from any retained profits, distributions of reserves/extraordinary dividends or share capital increases or joint venture capital payments.
If Banco BPM decides not to exercise the call option within the above-mentioned term, the Bank will pay to Cattolica the same 26 million against Cattolica's waiver to extend the distribution agreement to the Branches currently served by another insurance partner and the partnership between Banco BPM and Cattolica will continue until 31 December 2030 (without prejudice to subsequent annual renewals), at the expiry of which Banco BPM may again exercise the call option on 65% of the capital of the joint ventures or, if the Bank does not exercise that option, Cattolica may exercise a put option on such shares. In this case, the call and put option strike price will remain linked to own funds (as defined above) as at 31 December 2030 with no additional components and without the application of protection mechanisms.

Commitments deriving from bancassurance agreements with Covéa

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

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

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

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

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

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

Commitments arising from agreements with Anima on Asset Management

It should be noted that during 2017 and subsequent years, in execution of the agreements signed on 9 November 2017 between Banco BPM and Anima Holding, a series of agreements were signed to regulate:

(i) the sale to Anima Holding of Aletti Gestielle SGR;
(ii) the long-term partnership in the asset management sector between Banco BPM Group and Anima Group;
(iii) the sale by Banca Aletti to Anima SGR of the mandates for the exclusive management of certain insurance assets distributed through the Banco BPM network as part of the existing joint ventures between Banco BPM and the Cattolica Group.

These agreements, which have a total duration of 20 years from their origin, include (i) exclusive preferential access by the Anima Group to 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 2021. For the purposes of measuring it using the equity method, the income statement was reconstructed from the second half of the financial year, 1/7/2020 - 30/6/2020, and an income statement approved by the company relative to the half 1/7/2021 - 31/12/2021.

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 3,278.2 million as at 31 December 2021, compared with the amount of 3,552.5 million of the previous year.

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

Asset/Amounts	Total 31/12/2021	Total 31/12/2020
1. Owned assets	**87,001**	**100,866**
a) land	-	-
b) buildings	-	-
c) furniture	16,829	21,728
d) electronic systems	55,522	55,554
e) other	14,650	23,584
2. Rights of use acquired through leases	**708,373**	**793,793**
a) land	-	-
b) buildings	698,160	781,132
c) furniture	9,067	10,605
d) electronic systems	-	-
e) other	1,146	2,056
Total	**795,374**	**894,659**
of which: obtained through the enforcement of guarantees received	-	-

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

As the Group does not hold property, plant and equipment for investment purposes, the relative table is omitted.

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

Asset/Amounts	Total 31/12/2021			Total 31/12/2020		
	L1	L2	L3	L1	L2	L3
1. Owned assets	**-**	**-**	**1,377,092**	**-**	**-**	**1,497,783**
a) land	-	-	1,004,302	-	-	1,101,844
b) buildings	-	-	322,690	-	-	345,839
c) furniture	-	-	-	-	-	-
d) electronic systems	-	-	-	-	-	-
e) other	-	-	50,100	-	-	50,100
2. Rights of use acquired through leases	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
c) furniture	-	-	-	-	-	-
d) electronic systems	-	-	-	-	-	-
e) other	-	-	-	-	-	-
Total	**-**	**-**	**1,377,092**	**-**	**-**	**1,497,783**
of which: obtained through the enforcement of guarantees received	-	-	24,500	-	-	54,741

Revalued owned assets refer to the owned properties used for business operations of the Group companies and valuable works of art.

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

Asset/Amounts	Total 31/12/2021			Total 31/12/2020		
	L1	L2	L3	L1	L2	L3
1. Owned assets	**-**	**-**	**1,105,779**	**-**	**-**	**1,160,040**
a) land	-	-	791,671	-	-	829,624
b) buildings	-	-	314,108	-	-	330,416
2. Rights of use acquired through leases	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
Total	**-**	**-**	**1,105,779**	**-**	**-**	**1,160,040**
of which: obtained through the enforcement of guarantees received	-	-	587,324	-	-	644,449

Owned assets measured at fair value are represented by the owned properties not used for business operations of Banco BPM Group.

In that regard, it is specified that the Group does not hold investment assets represented by the rights of use acquired through leases. Instead, property held for investment purposes granted through operating leases amounted to 671.8 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	**1,101,844**	**1,475,317**	**483,853**	**863,023**	**350,780**	**4,274,817**
A.1 Total net impairment	-	(348,346)	(451,520)	(807,469)	(275,040)	(1,882,375)
A.2 Net opening balance	**1,101,844**	**1,126,971**	**32,333**	**55,554**	**75,740**	**2,392,442**
B. Increases:	**13,241**	**52,852**	**3,844**	**21,057**	**2,279**	**93,273**
B.1 Acquisitions	-	24,919	3,844	20,889	2,270	51,922
B.2 Capitalised expenses for improvements	-	5,020	-	-	2	5,022
B.3 Recoveries	-	1,053	-	-	-	1,053
B.4 Positive changes in fair value recognised to	9,200	15,727	-	-	-	24,927
a) shareholders' equity	8,445	14,045	-	-	-	22,490
b) income statement	755	1,682	-	-	-	2,437
B.5 Exchange gains	-	15	-	-	7	22
B.6 Transfers from property held for investment purposes	3,870	1,849	X	X	X	5,719
B.7 Other changes	171	4,269	-	168	-	4,608
C. Decreases:	**(110,783)**	**(158,973)**	**(10,281)**	**(21,089)**	**(12,123)**	**(313,249)**
C.1 Sales	-	-	-	(19)	(9)	(28)
C.2 Depreciation	-	(122,797)	(10,175)	(21,066)	(11,952)	(165,990)
C.3 Losses on impairment recognised to	-	(891)	-	-	-	(891)
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	(891)	-	-	-	(891)
C.4 Negative changes in fair value recognised to	(23,455)	(8,142)	-	-	-	(31,597)
a) shareholders' equity	(8,326)	(3,183)	-	-	-	(11,509)
b) income statement	(15,129)	(4,959)	-	-	-	(20,088)
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to:	(87,328)	(26,024)	-	-	-	(113,352)
a) property, plant and equipment held for investment purposes	(69,183)	(22,410)	X	X	X	(91,593)
b) non-current assets and disposal groups held for sale	(18,145)	(3,614)	-	-	-	(21,759)
C.7 Other changes	-	(1,119)	(106)	(4)	(162)	(1,391)
D. Net closing balance	**1,004,302**	**1,020,850**	**25,896**	**55,522**	**65,896**	**2,172,466**
D.1 Total net impairment	-	(413,773)	(461,089)	(820,690)	(284,449)	(1,980,001)
D.2 Gross closing balance	**1,004,302**	**1,434,623**	**486,985**	**876,212**	**350,345**	**4,152,467**
E. Measurement at cost	425,793	522,977	-	10,935	-	959,705

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, negative overall for 6.7 million. Said effects are reported in the statement of comprehensive income for 11.0 million and in the income statement item "260. Fair value gains (losses) on property, plant and equipment and intangible assets" for negative 17.7 million;
- sub-items "B.7 – Other changes" and "C.7 – Other changes", for the column "buildings" represent the increases and decreases, respectively, correlated with the rights of use of several properties, resulting from the renegotiations finalised during the year;
- sub-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.

For the details of the movements in the rights of use acquired through leases, refer to Table 9.6 bis below.

Lastly, sub-item "E. Measurement at cost" represents the amount that would result from the measurement at cost of property, plant and equipment (property and works of art) that are measured in the financial statements using the restatement approach, in compliance with the instructions set out in Bank of Italy Circular no. 262.

9.6 bis Property, plant and equipment used in operations - Rights of use acquired through leases: annual changes

The changes during the year in the rights of use acquired through leases, already included in table 9.6 above, are shown below, referring to that previously illustrated for the related dynamics.

	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balance	**-**	**1,036,019**	**13,266**	-	**5,135**	**1,054,420**
A.1 Total net impairment	-	(254,887)	(2,661)	-	(3,079)	(260,627)
A.2 Net opening balance	**-**	**781,132**	**10,605**	-	**2,056**	**793,793**
B. Increases:	-	**25,406**	**1,261**	-	-	**26,667**
B.1 Acquisitions	-	17,023	1,261	-	-	18,284
B.2 Capitalised expenses for improvements	-	3,046	–	-	-	3,046
B.3 Recoveries	-	1,053	-	-	-	1,053
B.4 Positive changes in fair value recognised to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Exchange gains	-	15	-	-	-	15
B.6 Transfers from property held for investment purposes	-	-	X	X	X	-
B.7 Other changes	-	4,269	-	-	-	4,269
C. Decreases:	**-**	**(108,378)**	**(2,799)**	-	**(910)**	**(112,087)**
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	(106,414)	(2,799)	-	(907)	(110,120)
C.3 Losses on impairment recognised to	-	(891)	-	-	-	(891)
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	(891)	-	-	-	(891)
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	-	(1,073)	-	-	(3)	(1,076)
D. Net closing balance	**-**	**698,160**	**9,067**	**-**	**1,146**	**708,373**
D.1 Total net impairment	-	(321,114)	(5,358)	-	(2,693)	(329,165)
D.2 Gross closing balance	**-**	**1,019,274**	**14,425**	**-**	**3,839**	**1,037,538**
E. Measurement at cost	-	-	-	-	-	-

9.7 Property, plant and equipment held for investment purposes: annual changes

	Total	
	Land	Buildings
A. Opening balance	**829,624**	**330,416**
B. Increases	**112,007**	**45,438**
B.1 Acquisitions	27,587	12,814
- of which business combinations	-	-
B.2 Capitalised expenses for improvements	-	1,206
B.3 Positive changes in fair value	14,837	8,463
B.4 Recoveries	-	-
B.5 Exchange gains	-	-
B.6 Transfers from properties used in operations	69,183	22,410
B.7 Other changes	400	545
C. Decreases	**(149,960)**	**(61,746)**
C.1 Sales	(8,039)	(9,655)
- of which business combinations	-	-
C.2 Depreciation	-	-
C.3 Negative changes in fair value	(100,614)	(42,143)
C.4 Losses on impairment	-	-
C.5 Exchange losses	-	-
C.6 Transfers to:	(40,354)	(9,580)
a) properties used in operations	(3,870)	(1,849)
b) non-current assets and disposal groups held for sale	(36,484)	(7,731)
C.7 Other changes	(953)	(368)
D. Closing balance	**791,671**	**314,108**
E. Measurement at fair value through profit and loss	-	-

As at 31 December 2021, assets held for investment purposes, fully represented by owned properties at fair value, amounted to 1,105.8 million (1,160.0 million as at 31 December 2020).

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 119.5 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 31/12/2021		Total 31/12/2020 (*)	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	X	**54,858**	X	**51,100**
A.1.1 attributable to the Group	X	54,858	X	51,100
A.1.2 attributable to non-controlling interests	X	-	X	-
A.2 Other intangible assets	**654,592**	**504,272**	**663,260**	**504,272**
of which: software	352,092	**-**	**326,395**	**-**
A.2.1 Assets at cost:	654,592	504,272	663,260	504,272
a) Internally generated intangible assets	-	-	-	-
b) Other assets	654,592	504,272	663,260	504,272
A.2.2 Assets at fair value:	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
Total	**654,592**	**559,130**	**663,260**	**555,372**

(*) The figures relating to the previous year have been restated to take into account the amendments introduced by the 7th update of Circular no. 262 of the Bank of Italy.

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 302.5 million; the residual assets refer to software for 352.1 million.

Intangible assets with an indefinite life recognised in the financial statements are comprised:
- by goodwill of 51.1 million resulting from the combination of Banca Popolare Italiana (Bancassurance CGU);
- by goodwill of 3.8 million attributed to the "Banca Akros" CGU following the completion of the process of the Purchase Price Allocation (PPA) of the acquisition of control of Oaklins Italy S.r.l. by Banca Akros in 2021, as illustrated in detail in "Part G - Business combinations regarding companies or divisions" in these Notes;
- by business trademarks of 504.3 million recognised following the business combination transactions with the former Banca Popolare Italiana Group (222.2 million) and with the former BPM Group (282.1 million).

Intangible assets with a finite life - Client Relationship

The Client Relationship identifies the activities linked to measuring the relationship with customers that arise on Purchase Price Allocation (PPA) following business combinations recorded pursuant to IFRS 3.
Those assets, which are part of intangible assets with a finite life, represent the ability of the relationships existing at the date of the business combination to generate income flows over the expected residual life of those relationships.
In line with guidelines of IFRS 3, to measure the Client Relationship, only those relationships established prior to the acquisition date are considered. Therefore, the generation capacity of new relationships 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 2021, the residual value of said assets amounted to 121.0 million, following the recognition of the amortisation for the year of 14.0 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 2021 the residual value of said assets amounted to 181.4 million, following the recognition of the amortisation for the year of 19.4 million.

The respective measurement and amortisation criteria for the types of Client Relationships arising following the aforementioned business combinations are illustrated below.

<u>Core Deposits/Core Overdrafts</u>

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.

<u>Asset Management/Assets Under Custody (AuM/AuC)</u>

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.

<u>Amortisation of the Client Relationship</u>

With regard to the situation as at 31 December 2021, the Client Relationship recognised in the financial statements amounts to 302.4 million, of which 80.2 million in core deposits, fully referring to the PPA of Banca Popolare Italiana Group, and 222.2 million in AuM/AuC.
Those assets are recognised in the financial statements of Banco BPM for 264.7 million, of which 117.0 million attributable to the PPA of BPI Group and 147.7 million to the PPA of BPM Group. The remaining assets, amounting to 37.7 million, related to the subsidiary Banca Aletti, following the company reorganisation processes, and in particular refer to 4.0 million for the PPA of BPI Group and 33.7 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 33.4 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 15 years (expiry 2036). Considering the decreasing

trend of the curve of termination of relationships, it must be noted that more than half of the residual value recorded as at 31 December 2021 will be amortised by 2027.
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 20 years (expiry 2041). Considering the decreasing trend of the curve of termination of relationships, it must be noted that more than half of the residual value recorded as at 31 December 2021 will be amortised by 2028.

(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	(254)	(31)	(109)	(98)	(491)
A.2 Net opening balance	**89**	**-**	**46**	**201**	**336**
B. Increases	-	-	-	-	-
C. Decreases	(9)	-	(5)	(19)	(33)
of which: amortisation	(9)	-	(5)	(19)	(33)
D. Net closing balance	**80**	**-**	**41**	**181**	**302**
D.1 Total net adjustments	(263)	(31)	(114)	(117)	(524)
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 goodwill that emerged at the time of the acquisition of Oaklins Italy (of 3.8 million) was recognised definitively as at 31 December 2021; said goodwill did not formally undergo impairment testing, as the transaction took place during the year and, also given the results achieved by the company, no evidence of impairment was found.

The impairment test as at 31 December 2021 took the following into account:
- the provisions of the reference international accounting standard IAS 36;
- the recommendations issued through the joint letter of the Bank of Italy, CONSOB and IVASS of 3 March 2010;
- the suggestions of the Italian Measurement Body (OIV) contained in the document "Goodwill impairment

test under situations of real and financial crises" dated 14 June 2012, as well as the document entitled "Guidelines for impairment testing after the effects of the Covid-19 pandemic" issued by the same OIV on 16 March 2021;
- various statements published by the ESMA on the topic, most recently that published on 29 October 2021 "European common enforcement priorities for 2021 annual financial reports" (ESMA32-63-11);
- the recommendations issued by CONSOB in communication no. 3907 of 19 January 2015, as well as drawing attention to the financial disclosure for Covid-19, most recently the document of 16 February 2021.

Also note that, as requested by the cited Supervisory Authorities, the procedure and parameters for assessing the impairment test for goodwill and other intangible assets with indefinite useful lives were approved by the Board of Directors, independently and in advance with respect to approval of the draft 2021 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 2021, the CGUs identified for which intangible assets, with an indefinite life (trademarks and goodwill as specified below) to be tested for impairment, were allocated are as follows:
- Retail CGU, comprised of private customer segments and retails businesses, based on the revision of customer portfolios consistent with the 2021-24 Business Plan and with 2021 Segment Reporting, to verify the trademarks recognised following the business combination with the former Banca Popolare Italiana Group in 2007 (222.2 million) and with the former Banca Popolare di Milano Group in 2017 (263.5 million);
- Banca Akros CGU, consisting of Banca Akros S.p.A., for testing the corresponding trademark following the business combination with the former Banca Popolare di Milano Group in 2017 (18.6 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 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 13.44%, defined in terms of "CET1 plan target", as it is considered to be the expressive measure of the actual capital used, under ordinary conditions. Goodwill and other intangible assets with an indefinite and finite useful life associated with the CGU are also added to the capital

thus attributed.
For the *Bancassurance Protection* CGU, corresponding to the legal entity 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 entity and the goodwill allocated to the same.

With regard to the "Banca Akros" trademark, in line with the 2020 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	3,037	-	485
Banca Akros (*)	19	-	19
Bancassurance Protection	156	51	-
Total	**3,212**	**51**	**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 Protection CGU, the impairment test was conducted using the Value in Use, obtained through the application of the Dividend Discount Model (DDM).
According to the Dividend Discount Model, the value of a business is based on the dividend flows that it is capable of generating on a forward-looking basis. In the case in question, the method used is the Excess Capital variant of the DDM, which assumes that the economic value of a business is equal to the sum of the present value of future cash flows (Expected Dividends) generated over the selected planning time horizon and distributable to shareholders while maintaining an adequate level of capitalisation to guarantee the expected future development, and the perpetual capitalisation of the normalised dividend of the last year of the forecast, based on a pay-out ratio, depending on fully phased profitability. The application of the DDM entails the use of the following formula:

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

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:

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

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 2022-2024
R = Royalty rate
T = Tax rate
Ke = Discount rate
TV = Terminal Value obtained through capitalisation in perpetuity of the expected royalty flows during the period following the last forecast, considering a long-term growth rate
TAB = Tax Amortisation Benefit

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.

As regards impairment in 2021, the economic and capital forecasts at the base of the estimated cash flows underlying the determination of the Value in Use, are aligned to the figures of the 2021-24 Business Plan of Banco BPM Group, approved on 4 November 2021, and, for the first forecasting year, are in line with the figures of the 2022 budget.

With regard to the Retail CGU, the projections refer to a scope comprised by the Group's activities related to private customers and businesses with turnover of less than 75 million, in line with segment reporting.

In accordance with that suggested by the practice for evaluation exercises to be conducted in contexts characterised by extreme uncertainty, it was considered appropriate to adopt a "multi scenario" approach, in continuity with that used for 2020 impairment testing. The cash flow projections have therefore been prepared using three separate macroeconomic scenarios, which have been attributed with the respective probabilities of occurrence, in line with the other significant company valuation processes, (probability test of DTAs and expected losses on performing loans), with the exception of that illustrated below.

In more detail, the above-cited scenarios were developed on the basis of the macroeconomic forecasts published by Prometeia in March 2021 and used in the assumption of the Business Plan approved in November. Alongside a scenario assumed as more likely (hereinafter also "baseline"), a more favourable scenario was developed (hereinafter also "best") and a worse one (hereinafter also "adverse"), to which the following respective probabilities of occurrence were assigned: 50% baseline scenario, 30% adverse scenario and 20% best scenario.
As specified in "Part A - Accounting policies" in these Notes, to estimate the cash flows assumed for the impairment testing of the intangible assets in question, the updates of the macroeconomic forecasts, which were slightly more favourable, drawn up at the beginning of December 2021 for the estimate of the ECL on credit exposures, were not incorporated, also considering the conservative logic of impairment testing.

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 are consistent with the forecasts developed at consolidated level in the 2021-24 Business Plan approved on 4 November 2021 and consider the development initiatives of the commercial structures and the dynamics of the scenario. The 2021-24 CAGR of net loans in the baseline scenario, of 2.9%, is included between the 1.1% of the adverse scenario and the 3.6% of the best scenario; the 21-24 CAGR of total (direct and indirect) funding is 1.5% in the baseline scenario (1.1% in the adverse scenario and 1.9% in the best scenario), reflecting above all the growth in indirect funding (21-24 CAGR of +5% due to the increase in asset management).
- Net interest income: the spread of lending and funding for the three-year period 2021-24 incorporating the impacts of the rates scenario (Euribor up over the course of the plan between 2021 and 2024 by 38 bps, 37 bps in the adverse scenario and 64 bps in the best scenario) and assuming an increase of the management spread on funding (+29 bps), while that on lending is substantially stable (+2 bps). Overall, the net interest income of the Retail CGU increases over 2021-24 in all three scenarios, with a CAGR of +5% in the baseline scenario, +12.7% in the best scenario and +3.5% in the adverse scenario.
- Operating income: indicate a 21-24 CAGR in the baseline scenario of +4.4%, benefiting both from the increase of net interest income (21-24 CAGR of +5%) and from net fee and commission income (21-24 CAGR of +4.3%) due to the volume trend and to the repricing of assets brokered. In the best scenario, the 21-24 CAGR of operating income is +8.1%, while in the adverse scenario it is +3.1%.
- Operating costs: a slight fall in costs is envisaged with a 21-24 CAGR of -1.1% in the baseline scenario, -1% in the best scenario and -1.4% in the adverse scenario. Banking industry charges consider regulatory provisions consistent with that factored into the Strategic plan.
- Adjustments to loans: the projection includes the recommendations of the Loans Function and the macro-scenario assumptions available at the current date, in line with forecasts of a gradual improvement in risk KPIs due to the end of the Covid-19 pandemic. 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/best/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 (2024), suitably normalised to take account of those components not recurring in perpetuity in each scenario. For the cost of credit, a "normalised" long-term target at consolidated level was assumed (equal to 55 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 2022-2024 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 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.

To check the recoverability of the "Banca Akros" brand, for 2022-24, the same forecasts underlying the 2021-24 Strategic Plan approved by the Board of Directors on 4 November 2021 were used.
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 Protection CGU, the forecasts were estimated starting with the forecast cash flows resolved by the insurance companies in 2022, in relation to the periodic processing of economic and capital plans, also taking account of the levels of business expected by the bank as distributor, on a like-for-like basis for 2024 and 2025. For the purposes of estimating distributable dividends, the maintenance of a target Solvency Capital Ratio (SCR) of 130% was considered as a constraint.

B.2 - Cash flow discount rates

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 Financial Report as at 31 December 2020, by using the 1-year average yield on 10-year Italian government BTPs (0.78% is the value as at 31 December 2021).
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 2021 the coefficient ß was 1.11;
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 2021 the coefficient ß was 1.20;
c) for the Bancassurance Protection CGU, an indicator relating to a comparable sample of companies active in the insurance sector surveyed by Bloomberg. As at 31 December 2021 the coefficient ß was 1.25.

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	6.53%	2.00%
Bancassurance Protection	Value in use – Dividend Discount Model	7.30%	2.00%
Banca Akros	Fair Value – Royalty Rate	7.02%	2.00%

D. Summary of results

Based on the guidelines illustrated, the impairment test as at 31 December 2021 showed no need to recognise any impairment of intangible assets with an indefinite useful life. In this regard, it should be noted that the parameters and assumptions underlying the determination of the value in use are significantly influenced by the macroeconomic framework assumed.
As also specified in the paragraph "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, for the Retail CGU, the table below shows that an increase in the cost of capital at a value of 15.35% combined with a decrease in the growth rate of the terminal value at 1.5% would result in a scenario of impairment.

Retail CGU (scenario probability: baseline (50%), best (20%), adverse (30%) Growth rates of terminal value "g"/Discount rates "ke" (difference between recoverable value and reference value in millions of euro) (percentage impact on value in use)					
			(Ke)		
		6.53%		15.35%	
(g)	1.50%	4,768	61.1%	-26	-0.9%
	2.00%	5,332	63.7%	-	0.0%
	2.50%	6,036	66.5%	28	0.9%

For the Banca Akros CGU, the table below shows that an increase in the cost of capital at a value of 31.8% combined with a decrease in the growth rate of the terminal value at 1.5% would result in a scenario of impairment.

Banca Akros CGU (scenario probability: baseline (50%), best (20%), adverse (30%) Growth rates of terminal value "g"/Discount rates "ke" (difference between recoverable value and reference value in millions of euro) (percentage impact on fair value)					
			(Ke)		
		7.02%		31.8%	
(g)	1.50%	86	82.2%	-0.2	-1.0%
	2.00%	95	83.7%	-	0.0%
	2.50%	107	85.2%	0.2	1.1%

For the Bancassurance Protection CGU, the table below shows that 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)			
		7.30%		7.51%	
(g)	1.50%	-3	-1.9%	-8	-5.4%
	2.00%	6	3.7%	-	0.0%
	2.50%	16	9.6%	10	5.8%

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, for the Retail CGU, the table below shows that in the event of a need to increase the target CET 1 to 41.6% combined with a decrease in the forecast profits by over 5%, this would result in impairment scenarios.

Retail CGU (scenario probability: baseline (50%), best (20%), adverse (30%) % change in net profit/target CET 1 constraint (difference between recoverable value and reference value in millions of euro) (percentage impact on value in use)					
		CET 1			
		8.52%		41.6%	
PROFIT	5.00%	5.754	65.5%	416	6.5%
	0.00%	5,332	63.7%	-	0.0%
	-5.00%	4,909	61.8%	-416	-7.4%

For the Bancassurance Protection CGU, the table below shows that an increase in the target SCR at a value of 150% combined with an increase in the cost of capital at 7.4% 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%		150%	
Ke	7.05%	14	8.0%	8	4.6%
	7.30%	6	3.7%	-	0.0%
	7.40%	3	1.9%	-3	-1.9%

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 2021, Group consolidated shareholders' equity amounted to 12.0 billion (net of equity instruments), against stock capitalisation of 4.0 billion (based on the stock market prices recorded at the end of December 2021). This is by no means a new situation insofar as it also arose in previous years; in fact, stock prices indicate significant discounts for all Italian banks, even with respect to tangible shareholders' equity. The justifications are attributable to the structural misalignment between the valuations of the financial community (which, by their nature, are focused on short term objectives and estimates), as well as the methods usually used to perform impairment tests, which give a significant value to medium/long-term growth potential. In fact, the measurements expressed for the purposes of preparing these financial statements are the result of an extrapolation of the economic value of the CGUs based on their specific profit capacities, using a much longer time horizon than that used by the financial community.

10.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		FIN	INDEF	FIN	INDEF	
A. Opening balance	**4,603,814**	**-**	**-**	**2,686,926**	**504,272**	**7,795,012**
A.1 Total net impairment	(4,552,714)	-	-	(2,023,666)	-	(6,576,380)
A.2 Net opening balance	**51,100**	**-**	**-**	**663,260**	**504,272**	**1,218,632**
B. Increases	**3,758**	**-**	**-**	**106,210**	**-**	**109,968**
B.1 Acquisitions	3,758	-	-	106,204	-	109,962
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	-	-	-	5	-	5
B.6 Other changes	-	-	-	1	-	1
C. Decreases	**-**	**-**	**-**	**(114,878)**	**-**	**(114,878)**
C.1 Sales	-	-	-	-	-	-
C.2 Value adjustments	-	-	-	(114,457)	-	(114,457)
- Amortisation	X	-	-	(112,285)	-	(112,285)
- Write-downs	-	-	-	(2,172)	-	(2,172)
+ shareholders' equity	X	-	-	-	-	-
+ income statement	-	-	-	(2,172)	-	(2,172)
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	-	-	-	(421)	-	(421)
D. Net closing balance	**54,858**	**-**	**-**	**654,592**	**504,272**	**1,213,722**
D.1 Total net adjustments	(4,552,714)	-	-	(2,137,715)	-	(6,690,429)
E. Gross closing balance	**4,607,572**	**-**	**-**	**2,792,307**	**504,272**	**7,904,151**
F. Measurement at cost	-	-	-	-	-	-

FIN: finite life
INDEF: indefinite life

With regard to the main changes recorded during 2021:

- sub-item "B.1 Acquisitions" includes the goodwill resulting from the acquisition of Oaklins by Banca Akros for 3.8 million. Acquisitions of other intangible assets mostly refer to software;
- sub-item "C.2 Value adjustments – Amortisation", which mostly regards the amortisation of software, includes the amortisation charge relating to the Client Relationship acquired through business combinations, for an amount of 33.4 million;

- sub-item "C.2 Value adjustments – Write-downs", equal to 2.2 million, relates to the impairment of software that is no longer used.

10.3 Other information

As at 31 December 2021 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 2021 and the checks performed to support their recoverability.

A.Deferred tax assets – breakdown

As at 31 December 2021, total DTAs amounted to 4,293.6 million (4,467.2 million as at 31 December 2020), of which 4,205.1 million had an impact on the income statement, while 88.5 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 2021, the deferred tax assets that meet the requirements of Italian Law no. 214 of 22 December 2011 ("Law 214/2011") for convertibility into tax credit amounted to 2,472.8 million (2,576.3 million as at 31 December 2020). The provisions under this law and, subsequently, under Italian Law 147/2013 (2014 Stability Law), provide for the conversion of DTAs into tax credits in the case of a "statutory loss", a "tax loss" for IRES purposes and a "net negative value of production" for IRAP purposes. For the purposes of these regulations, write-downs on loans not yet deducted based on temporal limits in effect at the time pursuant to Article 106, paragraph 3 of the Italian Consolidated Tax Law (TUIR) are included, as are negative components relative to goodwill and other intangible assets, not yet deducted according to the temporal limits in effect at the time (known as "qualified DTAs").
Specifically, as at 31 December 2021, the Group's eligible DTAs derive from:

- temporary deductible differences relative to write-downs on loans exceeding immediate deductibility limits envisaged in the tax regulations solely with reference to credit and financial entities for 1,797.8 million (1,895.0 million as at 31 December 2020);
- temporary deductible differences relative to goodwill and other intangible assets recognised in previous years for 675.0 million (681.3 million as at 31 December 2020).

It should be specified that, specifically with reference to these DTAs, their continued convertibility to tax credits is subordinate to the payment of the fee pursuant to Decree Law 59 of 3 May 2016, amended and converted into law with Law no. 119 of 30 June 2016. Italian Law no. 15 of 17 February 2017, converting the "Salva risparmio" Decree Law postponed the period for which the fee is due to 31 December 2030. In order to guarantee the convertibility of DTAs into tax credit and avoid the negative impacts that would otherwise result on Own Funds, Banco BPM Group availed of the option by paying said fee.
The fee relating to FY 2021 amounted to 26.6 million, as illustrated in more detail in "Section 12 - Administrative expenses" contained in Part C of these Notes.

Please also note the recent regulatory updates which provide the option to convert into tax credit the DTAs, even if they are not recorded in the financial statements, referring to tax losses not yet calculated as a decrease in the IRES taxable income, as well as the portion of benefits deriving from the Aid to Economic Growth (ACE) regulations not yet used.
Specifically, the provisions set forth in Art. 44 bis of Decree Law no. 34 of 30 April 2019 as amended most recently by Decree Law no. 73 of 25 May 2021 (the "Sostegni-bis" Decree) subject the conversion of the DTAs in question to the completion of assignments for valuable consideration by 31 December 2021 of financial receivables due from debtors in default.
For the purpose of converting the DTAs, it is possible to use the losses and ACE surplus within the limit of 20% of the nominal value of the loans assigned, with a maximum annual limit of 2 billion in value referring to the total

assignments of all the Group companies connected with each other through control relationships. To avail of the conversion option it is necessary to pay the annual fee set out in Decree Law no. 59 of 2016 to convert eligible DTAs, as illustrated above.
By virtue of the above regulations, considering the operations finalised in 2021, the Group has converted DTAs into tax credits for a total amount of 106.7 million.

As at 31 December 2021, residual deferred tax assets (non-transformable DTAs) amounted to 1,820.8 million (1,890.8 million as at 31 December 2020), of which 904.6 million deriving from IRES tax losses, which can be carried forward (1,042.0 million as at 31 December 2020) and 916.2 million deriving from costs and value adjustments deductible in years subsequent to those of recognition in the financial statements (848.8 million as at 31 December 2020).
Note that not all ineligible DTAs were recognised in the financial statements by Banco BPM and its subsidiaries. The amount of DTAs not posted as at 31 December 2021 came to 56.8 million, of which 16.4 million of IRES DTAs and 40.4 million of IRAP DTAs.

A. 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 2,472.8 million - corresponding to 57.6% of the total DTAs posted in the financial statements as at 31 December 2021 - the tax regulations introduced by Italian Law 214/2011, along with the exercise of the option for the annual fee regime illustrated above make their recoverability certain. This treatment is in line with the indications contained in the Bank of Italy/CONSOB/ISVAP document no. 5 of 15 May 2012 "Accounting treatment of deferred tax assets deriving from Italian Law 214/2011".
The recognition and subsequent maintenance in the financial statements of the remaining tax assets (non-convertible DTAs), totalling 1,820.8 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 Banco BPM Group's or Banco BPM's income flow projections for the period 2021-2024 - resulting from the Group's Business Plan approved on 4 November 2021 - 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 estimate of future taxable income was based on Banco BPM Group's income projections for the years 2021-2024 and are based on those contained in the 2021-2024 Business Plan of the Group approved by the Board of Directors on 4 November 2021.

Given the current context of uncertainty, these projections have been made with reference to three separate macroeconomic scenarios at the date on which the above-mentioned scenarios were developed, to which a different probability of occurrence has been attributed. In detail, alongside a baseline scenario, deemed most probable, an adverse scenario and a favourable scenario were drawn up, to which the following respective probabilities of occurrence were assigned: 50%, 30% and 20%.
As specified in "Part A - Accounting policies" in these Notes, to estimate the taxable flows assumed for the impairment testing of the DTAs in question, the updates of the macroeconomic forecasts, which were slightly more favourable, drawn up at the beginning of December 2021 for the estimate of the ECL on credit exposures, were not incorporated, also considering the conservative logic of impairment testing.

B.2 Adjustment of future taxable income

In order to take into account the uncertainty that characterises the actual realisation of long-term forecasts, a discount factor of 5.75% has been introduced (slightly down on the 6.19% used as reference for the financial statements as at 31 December 2020). This factor has been defined as a function of the risk premium required by the market (MRP - Market Risk Premium), equal to 5.2%, multiplied by the Beta coefficient (ß), equal to 1.11%, i.e. the coefficient that expresses the specific riskiness of the Group's business.
In more detail, the adjustment of taxable income is obtained by discounting each year's forecasts for the discount factor of 5.75%, applied according to the compound capitalisation formula, from 2025 onwards. This formula therefore makes it possible to adjust future forecasts according to an increasing abatement factor depending on the time horizon of the estimated taxable flows.

The growth rate (g), and the parameters to factor in the uncertainty of forecasts (MRP and ß) are consistent with those considered for the impairment test of intangible assets with an indefinite life; related to the Retail CGU, as illustrated in more detail in the previous "Section 10 - Intangible assets - item 100".

B.3 Outcomes of the probability test and sensitivity analysis

Based on the valuation exercise conducted using the model described in points B.1 and B.2 above, the results are illustrated below, distinguishing between the consolidated IRES DTAs at an ordinary tax rate of 24%, IRES DTAs with an additional tax rate of 3.5% at the individual level of Banco BPM and IRAP DTAs at the individual level of Banco BPM, which represent almost all of the DTAs recognised in the consolidated financial statements.
The IRES DTAs recognised based on the ordinary tax rate of 24% as at 31 December 2021, which can be recovered through the income generated by all the companies participating in the tax consolidation, amount to 1,506.0 million. For the above-mentioned DTAs, the full recovery is expected to be achieved by the end of 2033 (12 years), highlighting a reduction with respect to the recovery time horizon, which instead was envisaged in 2020 (2039). It must also be noted that over 89% of the DTAs can be recovered by 2031 (10 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 2031 (10 years).
The IRES DTAs recognised based on the additional tax rate of 3.5% as at 31 December 2021, which can be recovered through the income generated in the separate financial statements of Banco BPM, amount to 229.5 million. The full recovery of the DTAs is expected to be achieved by the end of 2036 (15 years), highlighting a reduction with respect to the recovery time horizon, which instead was envisaged in 2020 (a recovery of over 81.6% was expected by the end of 2040).

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 2033 (12 years).

Lastly, referring to the IRAP DTAs of Banco BPM as at 31 December 2021, which can be recovered through income generated individually by Banco BPM, of 66.5 million, the projections of taxable income show, for each year, full recovery of the DTAs from temporary differences which shall reverse in that year.

Sensitivity analysis of the consolidated IRES DTAs based on the tax rate of 24%

The model used includes assumptions and hypotheses that could significantly affect the assessments of the recoverability of the DTAs, for the IRES DTAs recognised based on the rate of 24% (1,506.0 million, equal to 87% of the total non-convertible IRES DTAs).
To this end, a sensitivity analysis was conducted on the main hypotheses and assumptions relating to the recovery time horizon; in particular, the sensitivity analyses were developed on the basis of the following factors:

- discount rate of forecasts of future taxable income: any 1.5% increase/decrease in the adjusting factor (7.25% and 4.25% respectively) would result respectively in confirmation of the time horizon by 2033 and a reduction of the time horizon by 1 year;
- long-term income growth rate (g): a reduction of 0.5% (from 2% to 1.5%) would not have significant impacts on the time horizon for recovery, which would be confirmed as by the end of 2033;
- a "normalised" taxable income expected from 2025 onwards: a 10% reduction in that income would lengthen the expected return of the DTAs by 1 year.

Furthermore, as previously discussed in the event that the projections of taxable income developed based on income flows not adjusted using the adjusting factor were confirmed by the results that the Group will generate in the future, the full recovery of the DTAs, including those relating to previous years' tax losses, would be quicker, finishing in 2031 (10 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 2021 drawn up on the basis of the assumptions and hypotheses described in points B.1 and B.2 above.

Expected time horizon of return of the IRES DTAs based on the tax rate of 24%	Risk-adjusted profit approach					Income projections (without discount factor)
		Sensitivity				
	Forecasts as at 31/12/2021	Discount factor (+1.5%)	Discount factor (-1.5%)	Growth factor g (-0.5%)	Expected taxable income at the end of the explicit period (-10%)	
31/12/2026 (5 years)	30.9%	30.9%	30.9%	30.9%	30.9%	30.9%
31/12/2031 (10 years)	89.1%	84.9%	93.7%	87.9%	81.2%	100.0%
31/12/2032 (11 years)	99.6%	94.2%	100.0%	98.0%	90.3%	
31/12/2033 (12 years)	100.0%	100.0%		100.0%	99.0%	
31/12/2034 (13 years)					100.0%	

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

Note that as at 31 December 2021, the DTAs deriving from IRES tax losses that can be carried forward amount to 904.6 million, compared to 1,042.0 million as at 31 December 2020.
With specific reference to said DTAs posted in previous years, they were recorded following the exact identification of the causes that generated the tax losses and the assessment that they would not repeat in the future on a recurring basis, in line with the provisions of IAS 12. The origin of the tax losses recorded up until 2019 is specifically attributable to the significant loan losses deemed extraordinary, recognised as part of the process of reducing the amount of non-performing loans and, to a lesser extent, to the other extraordinary charges attributable to the business combination that gave rise to Banco BPM Group (e.g. charges relating to the reduction of redundant personnel, the integration of IT systems, the rationalisation of the territorial network) or deriving from the need to favour the rescue of other banks external to the Group in order to protect the stability of the banking system. Also the loss recognised in 2020, which originated from the circumstances of the Covid-19 pandemic, was deemed to be extraordinary, as also confirmed by the extraordinary measures set in place as a reaction to said circumstance.
Lastly, note that no new DTAs were generated in 2021.

11.1 Deferred tax assets: breakdown

	IRES	IRAP	Other taxes	31/12/2021	31/12/2020
A) As balancing entry in the Income Statement					
A.1) Transformable DTAs pursuant to Italian Law 214/2011	**2,193,196**	**279,624**	**-**	**2,472,820**	**2,576,352**
Write-downs of loans deductible in subsequent years	1,638,408	159,415	-	1,797,823	1,895,009
Costs deductible in subsequent years deriving from the tax relief on goodwill and other intangible assets	554,788	120,209	-	674,997	681,343
A.2) DTAs - Other types	**1,667,438**	**64,880**	**-**	**1,732,318**	**1,870,547**
Tax losses that can be carried forward	904,653	-	-	904,653	1,042,031
ECL adjustments of FTAs pursuant to IFRS 9 on loans to customers deductible in the subsequent years	254,821	49,764	-	304,585	348,098
Provisions and value adjustments deductible in subsequent years	111,273	772	-	112,045	138,403
Personnel expenses and provisions for employee severance pay deductible in subsequent years	150,894	1,210	-	152,104	173,910
Value adjustments to real estate deductible in subsequent years	208,240	8,859	-	217,099	125,166
Book values lower than the recognised tax values resulting from value adjustments to goodwill and other intangible assets	20,653	4,216	-	24,869	26,960
Book values lower than the recognised tax values resulting from fair value measurement of financial assets	1,134	48	-	1,182	1,232
Other cases of misalignment between book and tax values	15,770	11	-	15,781	14,747
Total A	**3,860,634**	**344,504**	**-**	**4,205,138**	**4,446,899**
B) As a balancing entry in Shareholders' Equity					
Book values lower than the recognised tax values deriving from fair value measurement of financial assets measured as a balancing entry in shareholders' equity	19,191	5,612	-	24,803	3,520
Other cases of misalignment between book and tax values	53,850	9,837	-	63,687	16,784
Total B	**73,041**	**15,449**	**-**	**88,490**	**20,304**
Total (A+B)	**3,933,675**	**359,953**	**-**	**4,293,628**	**4,467,203**

11.2 Deferred tax liabilities: breakdown

	IRES	IRAP	Other taxes	31/12/2021	31/12/2020
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	102,780	20,782	-	123,562	126,469
Recoveries in fair value of real estate taxable in coming years	37,335	806	-	38,141	7,681
Book values exceeding the recognised tax values resulting from fair value measurement of financial instruments	9,727	7,734	-	17,461	18,881
Book values exceeding the recognised tax values resulting from fair value measurement of loans to customers	13,914	2,737	-	16,651	16,276
Book values exceeding the recognised tax values following the Purchase Price Allocation at the time of business combinations	-	-	-	-	8,756
Other cases of misalignment between book and tax values	9,313	235	-	9,548	34,275
Total A	**173,069**	**32,294**	**-**	**205,363**	**212,338**
B) As a balancing entry in Shareholders' Equity					
Book values exceeding the recognised tax values resulting from fair value measurement of owned properties and works of art	35,525	7,182	-	42,707	178,920
Book values exceeding the recognised tax values resulting from fair value measurement of financial assets measured as a balancing entry in shareholders' equity	36,141	9,454	-	45,595	67,494
Other cases of misalignment between book and tax values	237	20	-	257	146
Total B	**71,903**	**16,656**	**-**	**88,559**	**246,560**
Total (A+B)	**244,972**	**48,950**	**-**	**293,922**	**458,898**

11.3 Changes in deferred tax assets (balancing entry in the income statement)

	31/12/2021	31/12/2020
1. Opening balance	**4,446,899**	**4,412,373**
2. Increases	**193,108**	**346,148**
2.1 Deferred tax assets recognised during the year	100,200	319,536
a) relative to previous years	11,433	16,676
b) due to changes in accounting criteria	-	-
c) recoveries	-	-
d) other	88,767	302,860
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	92,908	26,612
3. Decreases	**(434,869)**	**(311,622)**
3.1 Deferred tax assets cancelled during the year	(352,948)	(295,243)
a) reclassifications	(345,495)	(187,174)
b) write-downs due to unrecoverability	-	-
c) due to changes in accounting criteria	-	-
d) other	(7,453)	(108,069)
3.2 Decreases in tax rates	(1)	-
3.3 Other decreases:	(81,920)	(16,379)
a) conversion into tax credits pursuant to Law 214/2011	(36,655)	(5,233)
b) other	(45,265)	(11,146)
4. Closing balance	**4,205,138**	**4,446,899**

11.4 Changes in deferred tax assets pursuant to Law 214/2011

	Total 31/12/2021	Total 31/12/2020
1. Opening balance	**2,576,352**	**2,582,568**
2. Increases	**-**	**-**
3. Decreases	**(103,532)**	**(6,216)**
3.1 Reclassifications	(66,878)	(984)
3.2 Conversion into tax credits	(36,654)	(5,232)
a) deriving from losses for the year	(5,863)	(5,232)
b) deriving from tax losses	(30,791)	-
3.3 Other decreases	-	-
4. Closing balance	**2,472,820**	**2,576,352**

11.5 Changes in deferred tax liabilities (balancing entry in the income statement)

	Total 31/12/2021	Total 31/12/2020
1. Opening balance	**212,338**	**390,452**
2. Increases	**127,544**	**15,311**
2.1 Deferred tax liabilities recognised during the year	10,767	3,604
a) relative to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	10,767	3,604
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	116,777	11,707
3. Decreases	**(134,519)**	**(193,425)**
3.1 Deferred tax liabilities cancelled during the year	(134,462)	(191,943)
a) reclassifications	(41,093)	(35,799)
b) due to changes in accounting criteria	-	-
c) other	(93,369)	(156,144)
3.2 Decreases in tax rates	-	-
3.3 Other decreases	(57)	(1,482)
4. Closing balance	**205,363**	**212,338**

11.6 Changes in deferred tax assets (balancing entry in shareholders' equity)

	Total 31/12/2021	Total 31/12/2020
1. Opening balance	**20,304**	**47,419**
2. Increases	**88,451**	**11,930**
2.1 Deferred tax assets recognised during the year	40,259	11,930
a) relative to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	40,259	11,930
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	48,192	-
3. Decreases	**(20,265)**	**(39,045)**
3.1 Deferred tax assets cancelled during the year	(1,536)	(26,542)
a) reclassifications	(1,525)	(20,140)
b) write-downs due to unrecoverability	-	-
c) due to changes in accounting criteria	-	-
d) other	(11)	(6,402)
3.2 Decreases in tax rates	-	-
3.3 Other decreases	(18,729)	(12,503)
4. Closing balance	**88,490**	**20,304**

11.7 Changes in deferred tax liabilities (balancing entry in shareholders' equity)

	Total 31/12/2021	Total 31/12/2020
1. Opening balance	**246,560**	**219,582**
2. Increases	**95,802**	**68,059**
2.1 Deferred tax liabilities recognised during the year	43,811	67,155
a) relative to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	43,811	67,155
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	51,991	904
3. Decreases	**(253,803)**	**(41,081)**
3.1 Deferred tax liabilities derecognised during the year	(164,645)	(37,354)
a) reclassifications	(164,645)	(37,354)
b) due to changes in accounting criteria	-	-
c) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	(89,158)	(3,727)
4. Closing balance	**88,559**	**246,560**

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 2021 (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.

(*) The company was incorporated into Banco BPM in 2021.
(**) These companies were incorporated into Banco BPM in the first few months of 2022.
(***) The Company was removed from the Companies' Register on 16 February 2022.

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 2021 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. Lido dei Coralli S.r.l.
13. Meleti S.r.l. (***)
14. Perca S.r.l. (***)
15. ProFamily S.p.A. (*)
16. Release S.p.A. (**)
17. Sirio Immobiliare S.r.l.
18. Tecmarket Servizi S.p.A.

(*) The company was incorporated into Banco BPM in 2021.
(**) These companies were incorporated into Banco BPM in the first few months of 2022.
(***) The companies were excluded in 2021 due to the termination of the financial restriction.

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 31/12/2021	Total 31/12/2020
A. Assets held for sale		
A.1 Financial assets	123,943	11,374
A.2 Interests in associates and joint ventures	-	-
A.3 Property, plant and equipment	106,028	61,449
of which: obtained through the enforcement of guarantees received	23,868	21,527
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total A	**229,971**	**72,823**
of which at cost	123,943	11,374
of which at fair value level 1	-	-
of which at fair value level 2	-	-
of which at fair value level 3	106,028	61,449
B. Discontinued operations		
B.1 Financial assets at fair value through profit and loss	-	-
- Financial assets held for trading	-	-
- Financial assets designated at fair value	-	-
- Other financial assets mandatorily measured at fair value	-	-
B.2 Financial assets measured at fair value through other comprehensive income	-	-
B.3 Financial assets at amortised cost	-	-
B.4 Interests in associates and joint ventures	-	-
B.5 Property, plant and equipment	-	-
of which: obtained through the enforcement of guarantees received	-	-
B.6 Intangible assets	-	-
B.7 Other assets	-	-
Total B	**-**	**-**
of which at cost	-	-
of which at fair value level 1	-	-
of which at fair value level 2	-	-
of which at fair value level 3	-	-
C. Liabilities associated with assets classified as held for sale		
C.1 Payables	-	-
C.2 Securities	-	-
C.3 Other liabilities	-	-
Total C	**-**	**-**
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	-	-
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 2021, assets held for sale included the following types:
- loans to customers relating to the portfolio of "salary-backed loans" disbursed by the former ProFamily and subject to sale to third parties, resolved by the competent Corporate Bodies, which is expected to be finalised in the first half of 2022 (shown in item A.1 "Financial Assets");
- owned properties for which sales negotiations in progress as at 31 December 2021 render probable the completion of the sales during the next year (indicated under item A.3 "Property, plant and equipment").

As at 31 December 2020, assets held for sale included the following types:
- owned properties for which sales negotiations were in progress as at 31 December 2020 (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

	Total 31/12/2021	Total 31/12/2020
Receivables due from tax authorities (not classifiable among tax assets)	1,919,539	1,149,121
Receivables for sales of goods and provision of services	21,792	20,796
Other income to be received	3,438	4,987
Cash and other values on hand	6,037	6,620
Items being processed	582,231	560,322
Items in transit between branches	9,724	7,926
Illiquid items for portfolio transactions	407	1,326
Securities and coupons to be settled	50,104	58,235
Other transactions to be settled	6,698	10,841
Accrued income and prepayments not included under their own item	33,005	50,137
Other items	56,114	60,301
Total	**2,689,089**	**1,930,612**

The item "Receivables due from tax authorities" mainly includes:
- receivables resulting from claims for the refund of direct taxes totalling 305.0 million concerning:
  - receivables of 206.3 million relating to 2018, the refund of which was requested in 2019;
  - IRPEG/ILOR receivables of 93.4 million relating to 1995 of the former Banca Popolare di Novara, the refund of which was denied by the Tax Authorities - Novara Provincial Office. With regard to the dispute initiated by the former Banco Popolare, both the Provincial Tax Commission and the Regional Tax Commission accepted the appeals presented, ordering the Tax Authority to also pay legal expenses. The Tax Authority's appeal to the Supreme Court is pending;
  - receivables of 3.8 million, for which Bipielle Real Estate has requested a refund, purchased in 2003 by Fondazione Cassa di Risparmio di Pescara e Loreto Aprutino as the part payment of the transfer price of the ownership of several properties. The company has repeatedly solicited the payment by the Tax Authority of the refund of the receivables. Even though the Tax Authority initially stated that it was willing to pay them, it recently changed its position, sustaining that documentation needed to be provided proving fulfilment of the requirements for the tax subsidies reserved to bank foundations set forth in Articles 10 bis of Italian Law no. 1745/1962 and 6 of Decree of the President of the Italian Republic no. 601/1973 identified by the most recent rulings of the Supreme Court. Banco BPM, as the

  incorporating company of Bipielle Real Estate, will file an appeal to the Provincial Tax Commission, also assessing, based on an analysis of the deed of sale by the Foundation, any recourse against the same;
  - IRES and IRAP receivables of 3.4 million attributed following the liquidation of Group companies;
- receivables resulting from claims for the refund of IRES due to the failure to deduct IRAP for tax years 2005 to 2011, totalling 3.5 million. As regards the original receivable of Banco Popolare recognised in 2012 of 68.3 million, it was almost entirely refunded in 2021 in the amount of 67.1 million. An appeal has been filed with the Provincial Tax Commission for the residual amount;
- receivables resulting from claims for the refund of VAT and indirect taxes totalling 194.6 million concerning:
  - 179.9 million relating to tax years 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. With a ruling issued on 17 September 2021, the Commission acknowledged the Bank's appeal with regard to the unlawfulness of the administrative order with which the Authority had suspended the payment of the total of VAT receivables, recognising that it was due a refund of 105.7 million. The unrecognised portion of the receivable, amounting to 1.7 million, represents a part of the VAT receivable of Banca Italease relating to 2000. The Commission deemed that the objection made by the Authority was valid, on the basis of which there was no material proof that the refund of the above amount was due. The Commission also scaled down the suspension of the refunds opposed by the Authority based on the presence of pending criminal proceedings, ruling it to be justified to the extent of only 1.5 million, which incidentally has already been fully settled. With regard to the interest accrued on the VAT receivable for 1999 of the former Banca Italease, the Commission overturned its previous decision made on the basis of the reasons overruled by the Supreme Court, retaining that only the amount of 4.3 million was due. The reason for the refusal to refund the difference of 7.7 million was based on the moratorium nature of the interest, which makes them due only if the default is justified and if the delay is attributable to the Authority. In the case in question, according to the Commission, the Authority cannot be considered in default for the period between its request to the counterparty for additional documentation (relating to pending criminal proceedings) and the date on which the documentation requested was provided, if the same was made available by the company beyond the 15-day term. The Bank's defence had been based on the irrelevance of this documentation for the purpose of proving the existence of the VAT receivable, but it was not accepted. Given that there are reasons to submit a further appeal to the Supreme Court, it will proceed in this way. Notification of the ruling was sent to the competent Authority which, pursuant to paragraph 4 of the afore-mentioned legislative provision, will be bound to make the relative payment of the receivables acknowledged and not suspended, plus the interest accrued and accruing, within 90 days of receipt of the same;
  - 4.4 million relating to a VAT receivable for the second quarter of 2007 of the former Mercantile Leasing S.p.A. requested as a refund in its tax declaration;
  - 6.8 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;
  - 2.6 million refers to the compliance proceedings against the Municipality of Rome regarding the challenge to a payment injunction for INVIM (tax on increases in value of real estate) purposes relating to a real estate purchase made in 1976; awaiting refund;
  - 0.9 million relating to the higher registration tax paid by Banca Aletti on the disposal of the business division relating to the private banking business;
- 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;
- receivables deriving from excess advance stamp duty payments, substitute taxes applied to customers during the year and which will be recovered through offsetting during 2022 totalling 272.7 million;
- various receivables due from the Tax Authorities of 67.7 million mainly relating to the payment of the advance of substitute tax on capital gains;

- tax receivables connected with the interest accrued on loans disbursed to customers resident in areas hit by earthquakes for 53.5 million;
- tax receivables connected with the payment of Group VAT for 5.2 million;
- Ecobonus receivables of 817.4 million; for the accounting treatment relating to this case, refer to that illustrated in the paragraph "Other significant aspects relating to Group accounting policies" contained in Part A of the Notes;
- municipal tax (IMU) credits of 0.3 million;
- other receivables for withholdings incurred in a higher amount than that established by the Conventions on the avoidance of double taxation on share dividends, for which refunds are expected from foreign governments for 0.9 million;
- tax receivables due from Foreign tax authorities on dividends paid of 1.6 million;
- other receivables of 1.0 million.

Lastly, note that, following recent developments in case law and on the basis of the assessments made, the gross value of the above-detailed tax receivables (of 1,933.6 million) was written down by 14.1 million. Therefore, as indicated above, the net value of receivables due from the Tax Authority recognised in the financial statements is 1,919.5 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 31/12/2021				Total 31/12/2020			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**39,041,403**	X	X	X	**27,820,559**	X	X	X
2. Due to banks	**6,650,175**	X	X	X	**6,124,039**	X	X	X
2.1 Current accounts and demand deposits	421,964	X	X	X	521,475	X	X	X
2.2 Fixed-term deposits	398,035	X	X	X	152,328	X	X	X
2.3 Loans	5,428,926	X	X	X	5,215,642	X	X	X
2.3.1 Repurchase agreements	5,062,398	X	X	X	4,619,012	X	X	X
2.3.2 Other	366,528	X	X	X	596,630	X	X	X
2.4 Payables for commitment to repurchase own capital instruments	-	X	X	X	-	X	X	X
2.5 Lease payables	6,546	X	X	X	7,075	X	X	X
2.6 Other payables	394,704	X	X	X	227,519	X	X	X
Total	**45,691,578**	**-**	**-**	**45,691,578**	**33,944,598**	**-**	**-**	**33,944,596**

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

"Due to central banks" includes refinancing operations with the European Central Bank. As at 31 December 2021, there are TLTRO III long-term refinancing operations for a nominal value of 39.2 billion (27.5 billion in the financial statements as at 31 December 2020).

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 31/12/2021				Total 31/12/2020			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	104,038,158	X	X	X	98,490,060	X	X	X
2. Fixed-term deposits	990,688	X	X	X	1,474,004	X	X	X
3. Loans	1,216,023	X	X	X	1,169,988	X	X	X
3.1 Repurchase agreements	627,845	X	X	X	495,505	X	X	X
3.2 Other	588,178	X	X	X	674,483	X	X	X
4. Payables for commitment to repurchase own capital instruments	-	X	X	X	-	X	X	X
5. Lease payables	667,326	X	X	X	753,205	X	X	X
6. Other payables	876,024	X	X	X	1,028,409	X	X	X
Total	**107,788,219**	**-**	**-**	**107,788,219**	**102,915,666**	**-**	**-**	**102,915,666**

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 309.1 million (last year, they amounted to 390.8 million).

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

Security type/Amounts	Total 31/12/2021				Total 31/12/2020			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. Bonds	13,060,538	12,153,100	1,175,513	-	14,491,141	13,059,867	1,871,203	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	13,060,538	12,153,100	1,175,513	-	14,491,141	13,059,867	1,871,203	-
2. Other securities	20,811	-	-	20,810	69,489	-	-	69,489
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	20,811	-	-	20,810	69,489	-	-	69,489
Total	**13,081,349**	**12,153,100**	**1,175,513**	**20,810**	**14,560,630**	**13,059,867**	**1,871,203**	**69,489**

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

Debt securities in issue include the covered bonds issued by Banco BPM Group with a book value totalling 6,066.8 million (compared to 6,546.1 million as at 31 December 2020).

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 7 issues of securities for a book value of 2,632.4 million (in the previous year, 8 issues occurred, for a book value of 3,129.3 million), of which one issue was represented by preference shares for an amount of 104.9 million (unchanged from 31 December 2020). The Parent Company advised the market of its intention to exercise the option for the early repayment of said instrument, insofar as, by virtue of so-called "grandfathering", it can no longer be calculated in own funds from 1 January 2022. Pursuant to the rules of said instrument, the first possible date for the exercise of the early repayment option is 21 March 2022.

In March and May 2021, two subordinated securities were redeemed at maturity, both with a ten-year duration and lump-sum redemption: the first for a nominal value of 448 million (calculable as at 31 December 2020 for 15 million) and the second for a nominal value of 318 million (calculable as at 31 December 2020 for 26 million).
In June 2021 a new, 10-year subordinated security was issued for a nominal value of 300 million, with a redemption option after five years, which is eligible for calculation in Tier 2 capital.

In addition to the above financial liabilities at amortised cost, the financial statement item "140. Equity instruments" includes three issues of instruments that can be calculated in additional Tier 1 capital for a total of 1,092.8 million (in the previous year, two issues were made for a total of 695.4 million).

The amount of additional regulatory capital was increased through a new issue of 397.4 million (eligible for calculation) placed in January 2021, with perpetual duration and a five-year redemption option subject to authorisation by the competent authorities.

During the year, no liability management operations were carried out referring to securities that can be calculated in regulatory capital.

Trading of own subordinated instruments was eliminated, as a consequence of the rules introduced under Delegated Regulation 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 2021, 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	31/12/2021		31/12/2020	
	Due to banks	Due to customers	Due to banks	Due to customers
Up to 3 months	401	41,981	262	34,632
From 3 months to 1 year	1,004	104,501	789	101,815
From 1 year to 5 years	2,059	214,824	3,698	384,698
Over 5 years	3,738	357,636	2,812	284,205
Total	**7,202**	**718,942**	**7,561**	**805,350**
Time effect	**(656)**	**(40,681)**	**(486)**	**(52,145)**
Present value of lease payables	**6,546**	**678,261**	**7,075**	**753,205**

Section 2 - Financial liabilities held for trading – Item 20

2.1 Financial liabilities held for trading: breakdown by product

Transaction type/Amounts	Total 31/12/2021					Total 31/12/2020				
	NV	Fair Value			Fair Value *	NV	Fair Value			Fair Value *
		L1	L2	L3			L1	L2	L3	
A. On-balance sheet liabilities										
1. Due to banks	2,724,699	250,042	2,583,165	-	2,833,207	1,693	2,715	-	-	2,715
2. Due to customers	6,791,146	21,085	7,131,741	-	7,152,826	6,275,407	1,937,630	4,809,615	-	6,747,245
3. Debt securities	2,168,171	-	2,188,458	-	2,156,082	2,968,222	-	2,957,698	-	2,908,690
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	2,168,171	-	2,188,458	-	2,156,082	2,968,222	-	2,957,698	-	2,908,690
3.2.1 Structured	2,168,171	-	2,188,458	-	X	2,968,222	-	2,957,698	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**11,684,016**	**271,127**	**11,903,364**	**-**	**12,142,115**	**9,245,322**	**1,940,345**	**7,767,313**	**-**	**9,658,650**
B. Derivative instruments										
1. Financial derivatives	-	114,755	1,841,534	-	-	-	112,343	2,865,897	541	-
1.1 Held for trading	X	114,755	1,782,756	-	X	X	112,343	2,836,179	541	X
1.2 Connected with the fair value option	X	-	58,709	-	X	X	-	29,478	-	X
1.3 Other	X	-	69	-	X	X	-	240	-	X
2. Credit derivatives	-	-	2,151	-	-	-	-	1,105	-	-
2.1 Held for trading	X	-	2,151	-	X	X	-	1,105	-	X
2.2 Connected with the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**114,755**	**1,843,685**	**-**	**X**	**X**	**112,343**	**2,867,002**	**541**	**X**
Total (A+B)	**X**	**385,882**	**13,747,049**	**-**	**X**	**X**	**2,052,688**	**10,634,315**	**541**	**X**

NV = nominal or notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3
*Fair value * = Fair value calculated excluding changes in value due to changes in the issuer's credit risk with respect to the issue date*

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 2021 totalled 2,188.5 million, is represented by certificates issued by Banca Akros, which include protection for the premium paid by the customer or a portion of the same, unconditional with respect to the trend in the financial parameters to which they are indexed. As at 31 December 2020, the balance of these issues was 2,957.7 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 32.4 million (corresponding to the difference between the fair value in the financial statements and that on the date indicated in the column "Fair value*"). As at 31 December 2020, the recognition of cumulative capital losses came to 49.0 million.
In addition, for certificates classified under financial derivatives (168.3 million as at 31 December 2021), the cumulative effect of the change in the Group's credit risk was also negative for 0.1 million (3.3 million as at 31 December 2020). 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 2021, technical overdrafts on securities included subordinated securities for 742 thousand euro.

2.3 Breakdown of "Financial liabilities held for trading": structured debt

As at 31 December 2021, 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 31/12/2021					Total 31/12/2020				
	NV	Fair value			Fair value *	NV	Fair value			Fair value *
		L1	L2	L3			L1	L2	L3	
1. Due to banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	-	-	-	-	X	-	-	-	-	X
of which:										
- commitments to disburse funds	-	X	X	X	X	X	X	X	X	X
- financial guarantees given	-	X	X	X	X	X	X	X	X	X
2. Due to customers	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Structured	-	-	-	-	X	-	-	-	-	X
2.2 Other	-	-	-	-	X	-	-	-	-	X
of which:										
- commitments to disburse funds	-	X	X	X	X	X	X	X	X	X
- financial guarantees given	-	X	X	X	X	X	X	X	X	X
3. Debt securities	**1,419,293**	**-**	**1,405,190**	**-**	**1,397,901**	**949,433**	**-**	**955,781**	**-**	**943,781**
3.1 Structured	1,409,293	-	1,394,416	-	X	739,433	-	742,203	-	X
3.2 Other	10,000	-	10,774	-	X	210,000	-	213,578	-	X
Total	**1,419,293**	**-**	**1,405,190**	**-**	**1,397,901**	**949,433**	**-**	**955,781**	**-**	**943,781**

FV = Fair Value
FV = FV calculated excluding changes in value due to changes in the issuer's credit risk with respect to the issue date*
NV = nominal value
L1 = Level 1
L2 = Level 2
L3 = Level 3

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 7.3 million (equal to the difference between the fair value in the financial statements and the figure indicated in the column “Fair value*”), mainly referring to certificates. Cumulative capital losses as at 31 December 2020 were equal to 12 million.

3.2 Breakdown of item 30 “Financial liabilities designated at fair value”: subordinated liabilities

As at 31 December 2021, 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 31/12/2021			NV 31/12/2021	Fair value 31/12/2020			NV 31/12/2020
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives	**-**	**227,972**	**-**	**13,234,612**	**-**	**585,680**	**-**	**20,287,784**
1) Fair value	-	167,825	-	13,030,953	-	527,000	-	20,012,784
2) Cash flows	-	59,016	-	175,000	-	58,680	-	275,000
3) Foreign investments	-	1,131	-	28,659	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**227,972**	**-**	**13,234,612**	**-**	**585,680**	**-**	**20,287,784**

NV = notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

4.2 Hedging derivatives: breakdown by portfolio hedged and type of hedge

Operations/Hedge type	Fair Value							Cash flows		Foreign investments
	Micro hedging									
	Debt securities and interest rates	Equity instruments and share indices	Currencies and gold	Credit	Commodities	Other	Macro Hedging	Micro hedging	Macro Hedging	
1. Financial assets measured at fair value through other comprehensive income	103	-	-	-	X	X	X	-	X	X
2. Financial assets at amortised cost	80,328	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	59,015	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**80,431**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**59,015**	**-**
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	88,526	X	-	X
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**88,526**	**-**	**-**	**-**
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	31/12/2021	31/12/2020
1. Positive fair value change of financial liabilities	34,996	130,944
2. Negative fair value change of financial liabilities	(82,808)	(32)
Total	**(47,812)**	**130,912**

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

	31/12/2021	31/12/2020
Due to tax authorities (not classifiable under tax liabilities)	133,573	126,042
Due to personnel	4,247	3,688
Due to social security institutions	56,977	59,882
Due to suppliers	233,916	246,953
Items in transit between branches not attributable to specific accounts	90,679	37,915
Sums on hand to be paid to third parties	320,187	300,003
Bank transfers for clearance	618,554	545,078
Items related to securities transactions	56,298	371,414
Other items being processed	769,264	959,981
Adjustments for illiquid items in portfolio	1,042,158	877,670
Accrued expenses and deferred income not included under their own item	42,420	40,833
Other items	245,695	227,768
Total	**3,613,968**	**3,797,227**

"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

	31/12/2021	31/12/2020
A. Opening balance	**369,498**	**384,886**
B. Increases	**7,415**	**7,658**
B.1 Allocation for the year	2,141	2,431
B.2 Other changes	5,274	5,227
C. Decreases	**(56,610)**	**(23,046)**
C.1 Settlements	(54,154)	(12,361)
C.2 Other changes	(2,456)	(10,685)
D. Closing balance	**320,303**	**369,498**

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 actuarial measurement is included in sub-item B.2 "Other changes", with 4.5 million of actuarial losses (4.8 million of actuarial losses and 9.4 million of actuarial gains as at 31 December 2020). 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 2021, compared to that as at 31 December 2020.

Main actuarial assumptions for measuring provisions for employee severance pay	
Demographic assumptions (2021-2020):	
Employee mortality rate	IPS55 with Age-Shifting demographic basis for annuity insurance
Frequency and amount of advances on employee severance pay	0.50%
Frequency of turnover	1.50%
Probability of retirement	According to the latest legislative provisions, upon reaching the first pension qualifying condition, based on the provisions of Compulsory General Insurance
Financial assumptions (2021-2020):	
Yearly discount rate	weighted average of the rates in the Eur Composite AA curve (*) 31.12.2021: from 0.43% to 1.27% 31.12.2020: from -0.04% to 0.21%
Yearly inflation rate	weighted average of the rates in the European Zero-Coupon Inflation-Indexed Swap curve (**) 31.12.2021: 2.20% 31.12.2020: 1.10%

(*) weighted average of the rates of the Eur Composite AA curve on the reporting date, using as weights the ratios of the amount paid and advanced for each maturity to the total amount to be paid and advanced up to the discharge of the population considered;
(**) weighted average rate taken as the weighted average of the rates of the European Zero-Coupon-Inflation-Indexed Swap curve on the reporting date, using as weights the ratios of the amount paid and advanced for each maturity to the total amount to be paid and advanced up to the discharge of the population considered (with reference to all the Companies in Banco BPM Group)

Actuarial gains/losses recognised in the statement of comprehensive income

As illustrated in paragraph 9.1 above, the changes to certain actuarial assumptions for the valuation of employee severance pay as at 31 December 2021, with respect to the previous year, led to an overall increase in the provisions of 4.5 million, due to actuarial losses, attributable to:

- changes in financial assumptions of 3.2 million. In detail, these entail losses relating to the change in the inflation rate for 20.0 million and gains relating to the change in the discount rate for 16.7 million;
- other actuarial assumptions of 1.3 million. In detail, actuarial losses of 1.0 million attributable to the differences between the previous demographic actuarial assumptions used and what actually occurred, and losses relating to a change in the demographic assumptions of 0.3 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 ratios of the amount paid and advanced for each maturity to the total amount to be paid and advanced up to the discharge of the population considered. In detail, only securities issued by corporate issuers included in the "AA" rating class, issued by companies in various sectors, including Utilities, Telephony, Financial, Banking and Industrial companies, were considered. As regards geographical area, reference was made to the Eurozone. The curve was taken from the information provider Bloomberg.
The increase of the discount rates is therefore attributable solely to changes in the market, since the reference parameter as at 31 December 2021, for equal plans, was the same as that seen the previous year.

Sensitivity Analysis

As required under IAS 19, a sensitivity analysis was performed for the obligation relative to provisions for employee severance pay, with the hypothesis of a 50 basis point increase or decrease in the discount rate and the inflation rate. The purpose of the analysis is to identify how much the liability would vary in relation to reasonably possible fluctuations in this actuarial assumption.

	Change in employee severance pay in absolute terms (*)	Change in employee severance pay in percentage terms
Change in actuarial assumption:		
- Discount rate:		
+0.5%	(12,861)	(4.02%)
-0.5%	13,668	4.27%
- Inflation rate:		
+0.5%	8,197	2.56%
-0.5%	(7,947)	(2.48%)

(*) 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 31/12/2021	Total 31/12/2020
1. Provisions for credit risk relating to commitments and financial guarantees given	42,361	56,024
2. Provisions for other commitments and guarantees given	88,747	71,418
3. Company pension funds	124,879	133,654
4. Other provisions	620,656	784,879
4.1 legal and tax disputes	99,404	109,493
4.2 personnel expenses	382,622	450,722
4.3 other	138,630	224,664
Total	**876,643**	**1,045,975**

10.2 Provisions for risks and charges: annual changes

	Provisions for other commitments and guarantees given	Pension funds	Other provisions	Total
A. Opening balance	**71,418**	**133,654**	**784,879**	**989,951**
B. Increases	**22,654**	**9,043**	**136,938**	**168,635**
B.1 Allocation for the year	22,654	371	134,760	157,785
B.2 Changes due to the passage of time	-	(36)	2	(34)
B.3 Changes due to discount rate variations	-	-	-	-
B.4 Other changes	-	8,708	2,176	10,884
C. Decreases	**(5,325)**	**(17,818)**	**(301,161)**	**(324,304)**
C.1 Use during the year	-	(12,156)	(240,662)	(252,818)
C.2 Changes due to discount rate variations	-	(4,389)	-	(4,389)
C.3 Other changes	(5,325)	(1,273)	(60,499)	(67,097)
D. Closing balance	**88,747**	**124,879**	**620,656**	**834,282**

Item C.1 "Use during the year" includes uses executed as a balancing entry to payments for personnel expenses and amounts deriving from the settlement of clawbacks and other disputes for which specific provisions were allocated.
Item C.3 "Other changes" in other provisions is mainly attributable to recoveries relating to personnel expenses (recognised in item 190 a) "personnel expenses") and other provisions (included in item 200 b) "Net provisions for risks and charges – other net provisions").

10.3 Provisions for credit risk relating to commitments and financial guarantees given

	Provisions for credit risk relating to commitments and financial guarantees given				
	Stage 1	Stage 2	Stage 3	Acquired or originated impaired	Total
Commitments to disburse funds	11,218	6,092	15,188	314	32,812
Financial guarantees given	2,334	1,432	5,783	-	9,549
Total	**13,552**	**7,524**	**20,971**	**314**	**42,361**

10.4 Provisions for other commitments and guarantees given

Provisions for other commitments and guarantees given amounted to 88.7 million (71.4 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 124.9 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 124.9 million (133.7 million as at 31 December 2020). Charges for the year were allocated for 0.4 million to item 160 a) - "Personnel expenses" in the income statement and for 3.0 million as a reduction of the shareholders' equity valuation reserve "Actuarial gains (losses) on defined benefit plans".

Below are pension funds, identifying those of the former Banco Popolare Group and former Banca Popolare di Milano Group.

Internal funds refer to:

a) Funds included under "Banco Popolare Group defined benefit pension fund", which as of 1 April 2017 was identified as the "container" of the defined benefit pension funds relative to the former Banco Popolare Group, with guarantees from the Bank. The rules governing the amounts transferred are, nonetheless, specific details of each form:
   - commitments pursuant to the former Banca Popolare Italiana (BPI) Fund, now the Banco Popolare Group's defined benefit pension fund: this represents the value of commitments relative to 102 beneficiaries of the former Banca Popolare di Lodi, consisting of pension payments in addition to those required by law for their personnel. This fund is governed by the Regulation of 17 June 1992. As a result of the provisions of Italian Legislative Decree 124/1993, the Bank transformed the Fund with an agreement on 6 October 2000, in order to allow adhesion by personnel hired after 27 April 1993, and from 1 April 2017 the Fund was identified as the "container" for the defined benefit pension funds relative to the former Banco Popolare Group with guarantees from the Bank;
   - commitments pursuant to the former Chiavari Fund: the fund was established through an agreement with the trade union on 11 December 1986, and ensures its participants and their heirs a payment in addition to pensions provided by INPS. As at the reporting date this fund had 2 beneficiaries;
   - commitments pursuant to the former Banca Industriale Gallaratese (BIG) Fund: this represents commitments to the personnel of the former Banca Industriale Gallaratese. It was established on 25 February 1986 and guarantees additional payments with respect to those required under the law in favour of those who were working for the former B.I.G. as of the stated date and is governed by the Regulations issued at the time the fund was established. On 21 August 1992, the former B.I.G. was merged by incorporation with Banca Popolare di Lodi and subsequently, those registered with the fund were given the option to transfer their position to the Banca Lodi pension fund or keep it with the original fund. As at the reporting date, there

were 53 beneficiaries of the treatment;
- commitments pursuant to the former Bipielle Adriatico Fund: this is a fund integrating INPS payments for obligatory payments for invalidity, old age and heirs relative to employees of Bipielle Adriatico (former Cassa di Risparmio di Imola), established with Regulation of 29 December 1954, later amended on 29 July 1997. As at the reporting date, there were 4 beneficiaries of the treatment;
- commitments pursuant to the former BPL Fund Regulation 1961 and 1973: this represents the additional social security payment for personnel of the former Banca Popolare di Lodi, as established under the regulations of 18 April 1961 and 12 December 1973. As at the reporting date, the beneficiaries respectively totalled 5 and 11;
- commitments pursuant to the former Banca Popolare Cremona pension fund: this represents social security payments in addition to those required under the law for employees of the former Banca Popolare di Cremona, as established under the regulations of 17 June 1972. As at the reporting date, there were 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 20 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 56 beneficiaries;
- commitments relative to 34 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 14 former employees relative to the defined benefit fund for retired personnel of the former Banca Popolare di Verona – Banco S. Geminiano e S. Prospero, governed by the Articles of Association - Regulation pursuant to the collective understandings in effect from 1 January 1999, with the aim of providing an additional pension over that of the general obligatory insurance for Bank personnel;
- commitments to 108 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 191 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 86 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 2 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 4,964 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 213 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

	31/12/2021
A. Opening balance	**133,654**
B. Increases	**9,043**
B.1 Social security costs relative to past work provided (CSC)	371
B.2 Financial charges due to the passage of time	(36)
B.3 Other actuarial losses	8,695
B.4 Losses due to discount rate variations	-
B.5 Other increases	13
C. Decreases	**(17,818)**
C.1 Use during the year	(12,156)
C.2 Gains due to discount rate variations	(4,389)
C.3 Other actuarial gains	(1,271)
C.4 Other decreases	(2)
D. Closing balance	**124,879**

Net actuarial losses totalled 3.0 million and were attributable to the following:
- the change in the inflation rate, which led to an actuarial loss of 7.0 million, included under item B.3 "Other actuarial losses";
- the change in the discount rate, as illustrated in Section 9 "Provisions for employee severance pay", above, which led to an actuarial gain of 4.4 million, corresponding to sub-item "C.2 Gains due to discount rate variations";
- other actuarial assumptions that led to a net loss of 0.4 million recognised for 1.7 million under sub-item B.3 "Other actuarial losses", and for 1.3 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 2021, as well as at 31 December 2020, 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 2021 totalled 0.2 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 (2021-2020):	
Probability of death of retired or active employees	IPS55 with Age-Shifting demographic basis for annuity insurance
Financial assumptions (2021-2020):	
Yearly discount rate	weighted average of the rates in the Eur Composite AA curve (*): 2021: from 0.14% to 0.535 depending on the plan 2020: from -0.17% to 0.05 depending on the plan
Yearly inflation rate	weighted average of the rates in the European Zero-Coupon Inflation-Indexed Swap curve (**): **2021**: 2.30% **2020**: 1.10%

(*) Weighted average of the rates of the Eur Composite AA curve on the reporting date, using as weights the ratios of the amount paid and advanced for each maturity to the total amount to be paid and advanced up to the discharge of the population considered;
(**) Weighted average rate taken as the weighted average of the rates of the European Zero-Coupon-Inflation-Indexed Swap curve on the reporting date, using as weights the ratios of the amount paid and advanced for each maturity to the total amount to be paid and advanced up to the discharge of the population considered (with reference to all the Companies in Banco BPM Group).

5. Information on amounts, timing and uncertainties of cash flows

As required under IAS 19, a sensitivity analysis was performed for the obligation relative to provisions for employee severance pay, with the hypothesis of a 50 basis point increase or decrease in the discount rate and the inflation rate. The purpose of the analysis is to identify how much the liability would vary in relation to reasonably possible fluctuations in this actuarial assumption.

	Changes in defined benefit funds in absolute terms (*)	**Changes in defined benefit funds in percentage terms**
discount rate +0.5%	(4,668)	(3.74%)
discount rate -0.5%	5,033	4.03%
inflation rate +0.50%	3,034	2.43%
inflation rate -0.50%	(2,887)	(2.31%)

(*) 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 also underwent various audits by the Tax Authorities. Those activities regarded the determination of the taxable income reported for the purposes of income taxes, VAT, registration tax and, more generally, the methods of applying tax regulations in force at the specific time. As a result of those audits, Banco BPM Group is involved in several disputes.

Legal and tax disputes are specifically analysed by the Group, in order to distinguish those whose settlement is expected to require the use of resources embodying economic benefits and, as a result, will require the recognition of provisions, from the rest of the "contingent liabilities". "Contingent liabilities" are those disputes which correspond to the following, for which no provisions are recognised:

i) possible obligations, meaning that it has not been confirmed whether the entity has a current obligation that may result in the use of resources embodying economic benefits;
ii) actual obligations which, however, do not meet all the conditions for recognition set out in IAS 37 (because it is not likely that resources embodying economic benefits will be required to settle the obligation, or because no sufficiently reliable estimate may be made of the amount of the obligation).

It is noted that the information provided below regarding the claims connected with the main disputes represent the maximum risk exposure, irrespective of the opinion expressed by the Group regarding the relative degree of adverse outcome. For several of these disputes, the Group deems that there are limited risk profiles and, thus, as these are contingent liabilities, it has not allocated any provisions.

For disputes for which the entity is retained to have a current obligation that may lead to the use of resources embodying economic benefits, the disclosure on the amount of the allocation to provisions for risks and charges is not provided for single dispute in order not to cause harm to the Group in the evolution of the dispute with the counterparty, either in court or by way of settlement. In any event, the total amount of the allocations broken down by type of dispute is provided where the disputes can be grouped into categories of similar nature. As indicated in the paragraph "Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated financial statements", to which reference is made, the complexity of the situations and corporate transactions that form the basis of the disputes entail significant elements of judgement which may involve the existence and the amount, and the related timing for the liabilities to arise. In that regard, to the extent that the estimates made by the Group are deemed reliable and compliant with the reference accounting standards, it cannot be ruled out that the charges which may arise from the settlement of disputes may differ, also by significant amounts, from the amount of the provisions allocated.

The provisions allocated against all existing legal and tax disputes, including cases associated with clawback actions, total 99.4 million.

<u>Legal disputes with customers</u>

The high number of disputes prevents us from providing a detailed list, while their diverse nature makes it extremely difficult, if not impossible, to group them into categories of similar nature.
Note that the BM 124 S.r.l. dispute, illustrated in last year's Annual financial report, is no longer disclosed in this Report as the risk has been classified as remote.
Said dispute was initiated on 15 December 2020 by BM 124 S.r.l., which had summoned Banco BPM before the court, along with a further 18 parties (including seven banks), for the purpose of ordering the joint payment of 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.
Below, a brief description is provided of the main legal disputes pending as at 31 December 2021, whose settlement is deemed could entail a probably or possible use of financial resources.

- On 10 July 2019 a customer, along with several of his family members, summoned Banco BPM before the court to obtain total compensation for damages of around 21 million for having allowed a proxy/delegate of the customer to carry out a series of unauthorised transactions on various current accounts and securities portfolios. With judgement of 31 December 2020 the Court of Milan rejected all of the opponents' claims. The sentence was appealed by the counterparties who at the same time reduced the claims to approximately 11.8 million.
- On 18 July 2019, the heirs of a customer summoned Banco BPM before the court to request the cancellation of several transactions, mainly financial in nature, which were allegedly carried out on accounts held by the customer without authorisation and in violation of the MiFID regulations. The counterparties requested that the Bank be ordered to return a total amount of around 37 million. The lawsuit is pending before the Court of Milan.
- On 28 October 2019 Società Cooperativa Agricola Centro Lazio summoned Banco BPM before the court to verify the liability of the Bank which, based on the reconstruction by the adversary, allegedly demanded excess guarantees in providing several agricultural loans, initiated repayment of one of the loans granted in advance and forced the company to cease operating its own plant. The counterparty also submitted claims for damages for 40 million relating to the alleged damages incurred due to the claimed negligent business conduct carried out and requested that the loan contracts and related mortgages be declared null and void. The lawsuit is pending 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 20 December 2019 Banco BPM was summoned, along with a pool of banks, by the receivership of Privilege Yard for the alleged unlawful granting of credit which, according to the counterparty, was granted based on a business plan defined as unlikely, due to the clear inability to repay the loan, and the lack of suitable guarantees. The receivership requested that the liability of the banks be verified for collusion in the mala gestio (poor management) by the directors of Privilege Yard, ordering them to jointly pay compensation for the damages of around 97 million (Banco BPM share 27 million). The lawsuit is pending in the initial stage before the Court of Rome. At the hearing on 19 April 2021, the Judge scheduled the hearing for closing arguments for 10 May 2022.
- The subsidiary Partecipazioni Italiane in liquidation, as the former owner of land located in Pavia that was the industrial site of the former Necchi S.p.A., (which ceased business operations many years ago), was the subject of an order of the Province of Pavia which requested that the subsidiary, as the party "historically" responsible, along with another party, carry out the reclamation and containment of that area, which for many years now has been owned by third parties outside Banco BPM Group.
  The Lombardy Regional Administrative Court rejected the appeal of the subsidiary against the order of the Province; the ruling on the appeal before the Council of State is pending, for which the public hearing on the merits has not yet been scheduled.
  Within the parallel environmental proceedings, both some of the current owners of the various portions of the former Necchi site and Partecipazioni Italiane submitted autonomous area characterisation plans. Considering the various positions of the parties, new administrative proceedings arose which are currently pending before the Lombardy Regional Administrative Court, with the involvement of the Municipality of Pavia, the Province of Pavia and the Lombardy Regional Environmental Protection Agency as well, and for which the public hearing on the merits has not yet been scheduled. As at 31 December 2021, with regard to one of the portions of the site, the subsidiary made an allocation to provisions for risks and charges of 1.7 million, based on a reasonable estimate of the charges it will have to pay; for the other three zones the site is divided into, given the continuing difficulty of determining the interventions to be made, any charges to be borne by the investee company cannot be reliably estimated, even within a certain range.

In light of the successful outcomes in the courts of first instance and/or the existence of valid grounds on which to challenge the claims made by the claimants with regard to proceedings under way, the claims classified as possible but unlikely amount to a total of 396.3 million.
Claims classified as probable amount to a total of 244.3 million, against which 60.2 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 Technogas S.p.A., requesting that the Bank return amounts totalling 11.2 million, was settled with a favourable ruling of the Bank and the full rejection of the challenges of the counterparty. The ruling was not appealed and became definitive on 16 July 2021.
Below, a brief description is provided of the main legal disputes pending as at 31 December 2021, whose settlement is deemed could entail a probably or possible use of financial resources.

- CE.DI.SISA Centro Nord S.p.A. (in liquidation) – On 5 August 2020 the Bank was summoned for a liability action against Directors, Statutory Auditors, the Independent Auditors and consultants of the bankrupt company and the banks that colluded with the management body in aggravating liabilities. The Bank, which never granted loans but operated through advances on invoices, lodged a preliminary objection to the statute of limitations of the claim formulated. The total remedy sought against all the banks is 120 million. The hearing for the discussion of the case is set as 16 March 2022.
- Presidency of the Council of Ministers/Left-wing Democrats: following the appeal by means of an injunction requested against Left-wing Democrats (bad loans) and the Presidency of the Council of Ministers (guarantors of the Left-wing Democrats by virtue of sureties) for 3 pooled loans (of which one leading bank Efibanca and a further two investees) for a total of 26.5 million, opposition to the injunction was submitted in 2015; the courts of the first and second instance rules in favour of the Banks, at the same time rejecting the challenges of the injunction. The ruling of the appeal was not challenged in the Supreme Court by the parties, but for the Barletta section of the Left-wing Democrats, the decision is still pending, with the next hearing set for 6 March 2023.
- La Redenta Società Cooperativa Agricola - The Bank received a summons for 4 September 2018 for a liability action, together with the Directors, Statutory Auditors and another 6 banks, who were alleged to have acted in complicity to increase liabilities. The total remedy sought against all the banks is 20 million. The court of the first instance ruled in the Bank's favour, and rejected the claims of the plaintiff. The counterparty appealed against the ruling.
- Ecorecuperi S.r.l. in liquidation - In August 2014, the Bank received a summons, together with another 4 banks and the Directors for contractual liability and compensation of damages in favour of the Receivership for 17.8 million (equal to total bankruptcy liabilities) due to loans granted. The courts of the first and second instance ruled in favour of the Banks, and rejected the claims of the plaintiff; the ruling on appeal was challenged with an Appeal in the Supreme Court.
- Compagnia Finanza e Servizi (Co.fi.se.) S.r.l., Tabellini Paolo - On 8 November 2016, the Banks received a summons, together with Alba Leasing, for contractual liability, causation and increasing the damages suffered by the company for a total of 15 million. The court of the first instance ruled in the Bank's favour, and rejected the claims of the plaintiff. The counterparty appealed against the ruling.

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 28.8 million.
Claims classified as probable amount to a total of 25.7 million, against which 6.6 million has been allocated under the item Provisions for risks and charges.

Tax disputes

The total claims made by the Tax Authorities as part of the tax disputes initiated involving Banco BPM and its subsidiaries amounted to 225.0 million as at 31 December 2021[1] (as at 31 December 2020, claims totalled 222.7 million).

[1] Note that said amount does not include the disputes with an immaterial unit amount, mainly comprised of local taxes. It is also noted that, with the exception of the assessments relating to 2005 of the former Banca Popolare Italiana and the liabilities classified as probable, the estimate of contingent liabilities relating to the notices of assessment does not include any interest to be paid in the event of losing the lawsuit. The estimate of contingent liabilities relating to formal reports on findings served or being served other than those classified as probable does not include interest or fines.

Details of pending disputes as at 31 December 2021

The main tax disputes pending as at 31 December 2021 (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 judgement, 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. Said amount was covered by a specific provision, while the difference is classified as a potential liability in relation to which no provisions have been recognised in the financial statements.
- Banca Akros - formal notification received in December 2021 relating to the alleged infringement of the transmission obligations to the Tax Authority envisaged by Article 1, of Italian Decree Law 167 of 1990 with the application of the minimum sanction envisaged by Art. 5, paragraph 1, for the amount of 2.3 million. Defence briefs were submitted.
- Banco BPM (former Banca Popolare Italiana Soc. Coop.) - notices of assessment relating to tax year 2005 regarding the claimed non-deductibility for IRES and IRAP purposes of costs and value adjustments to receivables relating to facts or actions classified as offences (regarding offences of false corporate reporting, obstacles to supervision and market turbulence alleged to have been committed by Banca Popolare Italiana with relation to the attempted takeover of Banca Antonveneta). The claims amount to 199.8 million (including interest and tax collection fees). With separate judgements filed on 15 October 2014, no. 8,562 (IRES) and no. 8561 (IRAP), the Section 22 of the Provincial Tax Commission of Milan fully rejected the appeals submitted by the Bank, though not justifying in any way the rationale underlying the confirmation of the tax demand. Said judgement was appealed against before the Lombardy Regional Tax Commission. The discussion of the appeals filed on 3 February 2015 was held before Section 2 of the Milan Regional Tax Commission on 6 May 2015. With judgement no. 670 filed on 19 May 2015, also lacking adequate justification, the Commission rejected the joint appeals submitted and confirmed the challenged judgements. An appeal was submitted to the Supreme Court, which is still pending.

  The notices illustrated were followed by additional notices of assessment served on 22 December 2014 relating to the formal report on findings dated 30 June 2011 for tax years 2006-2009. The claims contained in these notices also regard the claimed non-deductibility for IRES and IRAP purposes of the costs deemed attributable to facts or actions classified as offences. More specifically, they regard value adjustments on loans already disputed with reference to tax year 2005. Said value adjustments, although recognised by Banca Popolare Italiana in its financial statements for 2005, were deductible on a straight-line basis over the following 18 financial years pursuant to the version in effect at the time of Art. 106, paragraph 3 of Italian Presidential Decree no. 917 of 22 December 1986. The notices of assessment served therefore charge the claimed non-deductibility of the portions of those adjustments to loans deducted in 2006, 2007, 2008 and 2009. Total claims amount to 15.8 million. An appeal has been presented to the Provincial Tax Commission. The Commission suspended the proceedings until the final judgement of the Supreme Court is passed on the notices of assessment relating to 2005, pursuant to the previous point. The claims illustrated, which amount to a total of 215.6 million, were carefully assessed by the Bank in light of the negative rulings made in the courts of the first two instances. In that regard, it must firstly be noted that, in the parallel criminal proceedings initiated against the parties that signed the tax returns for the offence of inaccurate tax return (offense founded on the same charges contained in the notices of assessment in question), the judge issued a judgement of acquittal of the defendants "because there is no case to answer". Even though the criminal proceedings are independent from the administrative disputes, which, thus, may conclude with a different result, it is noted that, in the operative part of the ruling, the criminal judge justified his decision using the arguments analogous to those formulated by the Bank in its defence in the appeals submitted in the administrative proceedings illustrated. Furthermore, an analysis of the order and the content of the ruling of the Regional Tax Commission shows that the Commission's decision on the merits of the case contains no specific justification and is based on a mere reference to the Authority's claims, with no express indication of the reasons for its decision not to accept the precise arguments laid out by Banco Popolare in support of its appeal.

In the light of these analyses and considerations, it being believed that there are grounds to challenge the ruling as, in fact, all the defensive arguments regarding aspects of legitimacy not considered by the judges in the first and second instances can be submitted again to the court, on 18 December 2015, the aforementioned appeal was lodged with the Supreme Court.
The in-depth analyses of the situation conducted with the support of the advisors assigned to draw up the appeal, as well as the additional opinions requested from other authoritative experts on the matter confirmed the belief that the claim of the Tax Authority is illegitimate and the possibility to finally see the defensive arguments considered and agreed with in the proceedings before the Supreme Court is unchanged. The same analyses were conducted by the Board of Directors to confirm the classification of the claim as a potential liability, as the risk of losing the lawsuit is possible but not probable. In light of the evaluations carried out, no provision has been recognised for the above contingent liabilities in the financial statements as at 31 December 2021.

Audits under way as at 31 December 2021

On 5 December 2019, as part of a wider tax audit of a company external to Banco BPM Group, the Italian Tax Police launched an audit for the purposes of direct taxes and VAT of Banco BPM for the tax year 2017. The audit was suspended due to the emergency situation relating to the Coronavirus.

On 2 March 2020, the Italian Tax Authority - Regional Department of Lombardy had informed, in compliance with the principles set forth in the taxpayers' statute, that it intends to initiate a tax audit for the purposes of IRES, IRAP, VAT and withholding tax obligations for the year 2016 of the subsidiary Banca Aletti. By subsequent communication of 6 March, the Authority decided to postpone the opening of the verification until a date to be defined in relation to the emergency situation related to the Coronavirus.

10.6.2 Other provisions - personnel expenses

These amounted to 382.6 million as at 31 December 2021 and include the amount of 228.7 million (originally 257.0 million) allocated for the charges expected for the use of the extraordinary benefits of the Solidarity Fund and for early retirement incentives following the agreements reached with the trade unions announced to the market on 30 December 2020, which envisage the early retirement on a voluntary basis of 1,600 resources, of which around 1,300 had already left on the date of 31 December 2021.
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 138.6 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 (67.9 million);
b) estimate of probable reimbursements of fees consequent to the possible early termination of insurance policies by customers (20.6 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 (12.5 million);
d) risks associated with guarantees given for sales of non-performing loans already finalised as at 31 December 2021 (17.1 million).

Category a) refers to 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. Said operations are also the focus of criminal proceedings before the Public Prosecutor's Office of Milan. As part of these, on 19 February 2019 the Public Prosecutor's Office of Milan served to the Bank (i) a pre-judgement attachment order for a total of 84.6 million and (ii) a notice of investigation to Banco BPM and Banca Aletti under

the terms of Italian Legislative Decree 231/2001 for an administrative offence for the predicate crimes of self-laundering and to Banco BPM for the allegation of obstructing the performance of the functions of the public supervisory authorities. In the notice of closing of the preliminary investigations, the Public Prosecutor's Office also charged several former managers and employees of the Group with the crimes of aggravated fraud, self-laundering, obstructing the performance of the functions of the public supervisory authorities and corruption between private parties. In February 2021, a request was filed for the committal for trial of the defendants for the various offences charged, including the administrative offences pursuant to Italian Legislative Decree 231/2001 with respect to Banco BPM and Banca Aletti. Following the preliminary hearing of 21 January 2022, the Judge established that the Verona Public Prosecutor's Office had territorial jurisdiction for the current proceedings that involve the former managers and employees of the Group with relation to the crimes of aggravated fraud, self-laundering, obstructing the performance of the functions of the public supervisory authorities. The Court of Milan only has jurisdiction for the crime of corruption between private parties charged to a former manager of the bank and for the positions of Banco BPM and Banca Aletti as defendant entities pursuant to Italian Legislative Decree 231/2001.
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 December 2021, over 24,000 claims had been received, and over 1,100 disputes initiated (partly preceded by a claim) for a total relief sought of around 716 million.
At the same date, due to the previously illustrated management and customer care activities, claims and disputes were resolved, through a settlement or the issue of a final ruling, for a total remedy sought exceeding 593 million.
Against the claims and disputes, both those not yet defined and therefore still pending and those potentially estimated, the sub-item in question includes the specific provision recognised against the above disputes with customers amounting to 67.9 million.
The total provision made over the years, from 2017, was 385.6 million, against which drawdowns for refunds to customers of 317.7 million were made.
As at 31 December 2020, the provision amounted to 126.7 million; during 2021, drawdowns for refunds of 61.0 million were made, and a further provision of 2.2 million was added, to take into account the updated estimates relating to the total expected remedy and the percentages of compensation.

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 b) represents the provision allocated in application of that established under accounting standard IFRS 15 against the risk of having to return a portion of commissions received for the placement of insurance policies with customers, in the case that these customers decide to close the insurance coverage in advance.

Item d) represents the provision allocated against risks associated with certain guarantees granted to the buyer at the time of disposals of interests, assets and groups of assets which have already been completed and as part of partnership agreements signed, as better specified below.

To this end, we can note that, in the context of the contracts signed at the time of the disposal of interests or business segments finalised in previous years, as well as any correlated partnership agreements, there are investment protection and guarantee mechanisms for the buyer. In detail, those mechanisms provide for the possible payment of indemnities to the buyer/partner in the event that specific business targets are not reached, setting out limits, deductibles, grace periods and exceptions in favour of Banco BPM Group. Certain protection and guarantee mechanisms shall remain in force until the end of the partnership.
A list is provided below of the main operations finalised for which the sale agreements and/or related partnership agreements envisage obligations for Banco BPM Group to pay potential indemnities:

- sale finalised in 2017 of the controlling interest in Aletti Gestielle SGR to Anima Holding;

- the sale finalised in 2018 of the contracts relating to delegated insurance asset management mandates placed through Banco BPM Group network to Anima SGR;
- sale finalised in 2018 of a share of 65% of the equity interests held in the insurance companies Popolare Vita and Avipop Assicurazioni (now named Vera Vita and Vera Assicurazioni, respectively) to Società Cattolica Assicurazioni;
- the sale of a business unit relative to custodian bank business segment to BNP Paribas Securities Services in 2018 and the consequent revision of the obligations established at the time of the sale of the custodian bank business segment of the former Banca Popolare di Milano to the same buyer in 2010;
- the sale finalised in 2015 of the subsidiary B.P. Luxembourg S.A. to Banque Havilland;
- the sale finalised in 2011 of a share of 81% of the interest held in Bipiemme Vita to Covéa. In this regard, please recall that during the year, the Parent Company redefined its partnership agreements with Covéa; please refer to section 7 - Interests in associates and joint ventures of these Notes for the relative disclosure.

Where, based on the objectives reached and reported and the future projections of their evolution, it is deemed probable that indemnity will be paid to the buyer counterparty. The amount of the estimated liability has been allocated to the provisions for risks and charges in question.

With reference to the agreements with Cattolica Assicurazioni, during the year an important agreement was entered into which revised the terms and methods of continuation of the partnership. Please refer to section 7 - Interests in associates and joint ventures of these Notes for a more complete disclosure concerning the put and call option agreements relating to the transfer of interests. As regards business targets, the new agreement establishes the waiver of all claims concerning the period 2018-2020 and introduces a new system of penalties and additional commissions for the period between 1 January 2021 and the quarter prior to the transfer of the interests.
As the exercise prices of the options (illustrated in section 7 - Interests in associates and joint ventures) were calculated taking into account the amounts that - as at date of signature of the new agreements (March 2021) - would have been due to Cattolica, it was decided that the provision of 38.5 million recognised in the 2020 financial statements should continue to be maintained in the balance sheet as at 31 December 2021.
Moreover, taking into account the fact that the sum of 26 million linked to the failure to transfer 65% of the share capital of BPM Vita to Cattolica constitutes a certain liability, when preparing the financial statements as at 31 December 2021, a "payable" to Cattolica was recognised, reclassifying the amount of the expected expense already recognised in the 2020 financial statements to provisions for risks and charges; the amount of 12.5 million representing the estimated penalty due for failure to achieve the distribution targets set forth in the previous agreements was maintained as implicitly included in the exercise price of the new options.

As regards the commitments relating to the new commercial targets envisaged by the new agreements, as at 31 December 2021, the targets were deemed achievable and consequently the use of financial resources for the payment of penalties/indemnities cannot be predicted.

Item d) refers to the amount allocated to cover probable future financial disbursements for guarantees granted as part of assignments of non-performing loans finalised in 2021 and previous years.

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 2020.

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 2021 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 3,569,511 shares of the Parent Company, fully held by the same, for a book value of 8.2 million.

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

	Ordinary	Other
A. Outstanding shares at the beginning of the year	**1,515,182,126**	**-**
- fully paid-up	1,515,182,126	-
- not fully paid-up	-	-
A.1 Own shares (-)	(6,125,659)	-
A.2 Shares in issue: opening balances	**1,509,056,467**	**-**
B. Increases	**2,556,148**	**-**
B.1 New issues	-	-
against payment:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
free of charge:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sale of own shares	2,556,148	-
B.3 Other changes	-	-
C. Decreases	**-**	**-**
C.1 Cancellation	-	-
C.2 Purchase of own shares	-	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares in issue: closing balances	**1,511,612,615**	**-**
D.1 Own shares (+)	3,569,511	-
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.

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 3,999.8 million, classified as follows:

- Profit reserves of 3,670.2 million;
- Other reserves of 329.6 million.

Please see the "Statement of changes in consolidated shareholders' equity" for evidence of changes in the reserves during 2021, as well as the schedule included in the Notes to Banco BPM separate financial statements for the information required under Art. 2427 of the Italian Civil Code.
Lastly, note that the Parent Company has a "Legal Reserve" within its own capital reserves, established in accordance with the provisions of Art. 2430 of the Italian Civil Code, that corresponds to one fifth of share capital, and amounts to 1,420.0 million.

13.5 Equity instruments: breakdown and annual changes

Equity instruments outstanding as at 31 December 2021 amounted to 1,092.8 million (695.4 million at the end of the previous year) and were represented by three issues of Additional Tier 1 securities: the first in 2019 for a nominal amount of 300 million, the second, completed in January 2020, for a nominal amount of 400 million and the last, in January 2021, for a nominal amount of 400 million.
These were, in particular, subordinated instruments classified in Additional Tier 1 capital, under the terms of Regulation no. 575 of 2013 (CRR).
Such issues are classifiable as equity instruments under the terms of the accounting standard IAS 32. The price received from the issue, after deducting the directly-attributable transaction costs net of the tax effect was recognised in the item "140. Equity instruments".
In line with the nature of the instrument, the coupons are recognised as a decrease of shareholders' equity (item "150. Reserves"). As at 31 December 2021 the shareholders' equity decreased by 46.2 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 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	31/12/2021	31/12/2020
Interests in consolidated companies with significant non-controlling interests	-	-
Other interests	1,108	1,894
Total	**1,108**	**1,894**

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 31/12/2021	Total 31/12/2020
	Stage 1	Stage 2	Stage 3	Acquired or originated impaired		
1. Commitments to disburse funds	**41,416,299**	**2,843,781**	**520,397**	**9,676**	**44,790,153**	**45,149,940**
a) Central Banks	-	-	-	-	-	-
b) Public Administrations	1,026,735	199,742	13,580	-	1,240,057	1,354,479
c) Banks	1,851,496	20,750	-	-	1,872,246	1,852,289
d) Other financial companies	2,817,820	65,384	115	1	2,883,320	2,763,978
e) Non-financial companies	33,252,562	2,434,408	501,435	9,552	36,197,957	36,607,477
f) Households	2,467,686	123,497	5,267	123	2,596,573	2,571,717
2. Financial guarantees given	**413,908**	**29,056**	**20,134**	**-**	**463,098**	**504,714**
a) Central Banks	-	-	-	-	-	-
b) Public Administrations	13,477	-	-	-	13,477	20,405
c) Banks	34,050	-	-	-	34,050	34,361
d) Other financial companies	45,074	87	16	-	45,177	52,956
e) Non-financial companies	280,368	21,235	17,943	-	319,546	355,052
f) Households	40,939	7,734	2,175	-	50,848	41,940

2. Other commitments and guarantees given

	Nominal value	
	Total 31/12/2021	Total 31/12/2020
1. Other guarantees given	**7,316,990**	**6,769,898**
of which: non-performing credit exposures	261,622	367,872
a) Central Banks	-	-
b) Public Administrations	15,627	18,410
c) Banks	463,523	446,291
d) Other financial companies	195,012	152,319
e) Non-financial companies	6,508,535	6,016,780
f) Households	134,293	136,098
2. Other commitments	**3,028,549**	**5,287,756**
of which: non-performing credit exposures	3,941	4,486
a) Central Banks	-	-
b) Public Administrations	7,082	4,532
c) Banks	70,757	44
d) Other financial companies	636,465	2,858,226
e) Non-financial companies	573,658	530,165
f) Households	1,740,587	1,894,789

3. Assets pledged to secure own liabilities and commitments

Portfolios	Amount 31/12/2021	Amount 31/12/2020
1. Financial assets at fair value through profit and loss	1,079,749	631,715
2. Financial assets measured at fair value through other comprehensive income	8,142,284	4,532,735
3. Financial assets at amortised cost	55,652,324	46,303,101
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 65,034.7 million, mostly attributable to the Parent Company. These refer to:

- 15,864.9 million in financial assets (15,167.6 million in 2020) relative to mortgage loans transferred by the Parent Company to the SPE BP Covered Bond, to guarantee the holders of covered bonds issued as described in detail in the section D.4 Prudential consolidation - Covered bond transactions, contained in Part E - Section 1.1 of these Notes;
- 23,119.6 million (17,536.2 million in 2020) in loans serving to guarantee financing operations with central banks (Abaco);
- 11,804.0 million (8,900.3 million in 2020) in securities underlying repurchase agreements and securities lending;
- 13,305.0 million (8,213.7 million in 2020) in securities serving as deposits/guarantees for other operations, mainly associated with refinancing operations with central banks (pooling);
- 209.0 million (314.9 million in 2020) in assets serving to guarantee financing operations received from Cassa Depositi e Prestiti;
- 732.2 million (1,334.9 million in 2020) in guarantee deposits for the securitisation of Master Agreements signed by Group companies and to the deposits for variation margins with central counterparties relating to transactions in OTC derivatives. Said deposits were recognised in the financial statements under item 40. “Financial assets at amortised cost”.

In addition, attention is drawn to the following assets, which are not represented from an accounting perspective in balance sheet assets, used as part of the collateral for the loans received from the ECB, which, as at 31 December 2021 amounted to a nominal value of 39.2 billion (nominal value of 27.5 billion in 2020):

- securities deriving from own asset securitisation transactions for 2,495.0 million (2,919.3 million in 2020);
- covered bond issues repurchased for a nominal value of 5,744.5 million (5,283.7 million in 2020);
- securities deriving from repurchase agreements with securities use and/or lending delivery versus delivery for a residual nominal value of 860.0 million (265.0 million in 2020).

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 2,764.7 million (1,771.6 million in 2020), with nominal value of 2,465.4 million (1,582.3 million in 2020).

4. Breakdown of investments against unit-linked and index-linked policies

As at 31 December 2021 the Group had no investments against unit-linked or index-linked policies.

5. Management and brokering for third parties

Type of services	Amount 31/12/2021
1. Execution of customer orders	
a) purchases	65,281,522
1. settled	65,103,671
2. not settled	177,851
b) sales	34,300,158
1. settled	34,120,486
2. not settled	179,672
2. Portfolio management	
a) individual	3,068,392
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	54,394,989
1. securities issued by companies included in the scope of consolidation	4,731,785
2. other securities	49,663,204
c) third party securities under custody with third parties	51,667,585
d) own securities under custody with third parties	34,711,830
4. Other transactions	48,106

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 and some over-the-counter (OTC) financial derivatives entered into by individual Group companies with the counterparty London Clearing House (LCH).

In particular, the amounts offset shown in tables 6 and 7 below, corresponding to the columns "Amount of financial liabilities offset in the financial statements (b)" and "Amount of financial assets offset in the financial statements (b)", amounted to 1,263.5 million, of which 829.4 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 829.4 million;
- 10. Financial liabilities at amortised cost
  a) due to banks - offset for 459.0 million;
  b) debt securities in issue - offset for 370.4 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 434.1 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 342.5 million;
- 50. Hedging derivatives – offset for 91.6 million.
- 20. Financial liabilities held for trading – offset for 342.5 million;
- 40. Hedging derivatives – offset for 91.6 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 2,122.5 million (recognised under items 20 and 50 of the balance sheet assets) of which, net of offsetting, 1,935.6 million (2,369.7 million gross) is supported by netting agreements (91.2% in percentage terms), as indicated in table 6 (columns c) and a));
- those with a negative fair value amount to 2,186.4 million (recognised under items 20 and 40 of the balance sheet liabilities) of which, net of offsetting, 1,976.8 million (2,410.9 million gross) is supported by netting agreements (90.4% 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 2021 had a fair value of 168.3 million.

With reference to securities lending transactions, it should be noted that tables 6 and 7 below include operations which involve the payment of cash guarantees which are fully available to the lender, as these are single operations recognised in the balance sheet. For the purposes of reconciliation with the balance sheet figures for securities lending transactions and repurchase agreements falling under netting or similar arrangements, note that these operations are represented under the items "Reverse repurchase agreements/repurchase agreements" indicated in the tables showing the breakdown of loans to/due to banks and customers and financial assets and liabilities held for trading, based on the type of counterparty and the purpose of the transactions, found in Part B - Information on the consolidated balance sheet. Note that table 7 shows 500 million in funding repurchase agreements with the use of its own issues repurchased, recognised in the financial statements and in the relative tables of Part B. "Item 10. Financial liabilities at amortised cost – c) Debt securities in issue", while some securities lending transactions to customers guaranteed in cash without netting arrangements are not reported for 1.0 million, which represent the differences with respect to that shown in the tables in Part B.

For the purposes of creating tables 6 and 7 below, in line with standard IFRS 7 and the instructions contained in Circular 262, note that:

- the effects of potential offsetting of financial statement values for financial assets and liabilities are indicated in column (d) "Financial instruments", together with the fair value of the real financial guarantees represented by securities;
- the effects of potential offsetting for the exposure with the relative cash guarantees are shown under column (e) "Cash deposits received/given as guarantee".

These effects are calculated for each individual counterparty supported by a master netting arrangement within the limits of the net exposure indicated under column (c).

Based on the methods identified above, netting arrangements between financial instruments and the relative financial guarantees make it possible to significantly decrease the creditor/debtor exposure relative to the counterparty, as indicated in column (f) "Net amount" in tables 6 and 7 below.

6. Financial assets subject to offsetting in financial statements, or subject to master netting arrangements or similar arrangements

Technical forms	Gross amount of financial assets (a)	Amount of financial liabilities offset in the financial statements (b)	Net amount of financial assets presented in the financial statements (c=a-b)	Related amounts not subject to offsetting in the financial statements		Net amount (f=c-d-e) 31/12/2021	Net amount (f=c-d-e) 31/12/2020
				Financial instruments (d)	Cash deposits received as guarantee (e)		
1. Derivatives	2,369,686	434,098	1,935,588	1,451,450	369,840	114,298	71,433
2. Repurchase agreements	3,600,940	829,367	2,771,573	2,769,804	611	1,158	7
3. Securities lending	1,374,962	-	1,374,962	1,210,209	-	164,753	2,411
4. Other	-	-	-	-	-	-	-
Total 31/12/2021	**7,345,588**	**1,263,465**	**6,082,123**	**5,431,463**	**370,451**	**280,209**	**X**
Total 31/12/2020	**10,802,804**	**2,248,927**	**8,553,877**	**8,228,352**	**251,674**	**X**	**73,851**

7. Financial liabilities subject to offsetting in the financial statements, or subject to master netting arrangements or similar arrangements

Technical forms	Gross amount of financial liabilities (a)	Amount of financial assets offset in the financial statements (b)	Net amount of financial liabilities presented in the financial statements (c=a-b)	Related amounts not subject to offsetting in the financial statements		Net amount (f=c-d-e) 31/12/2021	Net amount (f=c-d-e) 31/12/2020
				Financial instruments (d)	Cash deposits pledged as collateral (e)		
1. Derivatives	2,410,880	434,098	1,976,782	1,451,449	505,685	19,648	65,321
2. Repurchase agreements	14,825,005	829,367	13,995,638	13,962,047	31,749	1,842	273
3. Securities lending	1,908,513	-	1,908,513	1,901,890	-	6,623	40,639
4. Other transactions	-	-	-	-	-	-	-
Total 31/12/2021	**19,144,398**	**1,263,465**	**17,880,933**	**17,315,386**	**537,434**	**28,113**	**X**
Total 31/12/2020	**16,276,211**	**2,248,927**	**14,027,284**	**12,801,115**	**1,119,936**	**X**	**106,233**

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 2021 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	-	2,227	36,614
b) Financial intermediaries	-	116,048	1,220,074
c) Customers	-	-	-
Total receivables for securities lending	**-**	**118,275**	**1,256,688**
Security or cash-backed loaned securities received not available to the lender from:			
b) Financial intermediaries	-	-	-
c) Customers	1,499	364,545	40,764
Total (fair value)	**1,499**	**364,545**	**40,764**
Cash-backed loaned securities given - Due to:			
a) Banks	-	125,019	1,723,686
b) Financial intermediaries	-	3,829	55,980
c) Customers	-	362	647
Total payables for securities lending	**-**	**129,210**	**1,780,313**
Security-backed or non-guaranteed loaned securities given:			
a) Banks	2,056,553	368,034	4,431
b) Financial intermediaries	-	-	-
c) Customers	-	138	6,283
Total (fair value)	**2,056,553**	**368,172**	**10,714**

The 2,056.6 million under "Security-backed or non-guaranteed loaned securities given" (1,912.9 million in 2020), 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 2021	Total 2020
1. Financial assets at fair value through profit and loss:	23,641	3,442	3,224	30,307	41,419
1.1 Financial assets held for trading	19,482	-	3,224	22,706	26,811
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	4,159	3,442	-	7,601	14,608
2. Financial assets measured at fair value through other comprehensive income	145,395	-	X	145,395	148,875
3. Financial assets at amortised cost:	244,676	1,740,427	X	1,985,103	2,123,031
3.1 Loans to banks	10,744	28,179	X	38,923	44,372
3.2 Loans to customers	233,932	1,712,248	X	1,946,180	2,078,659
4. Hedging derivatives	X	X	(141,861)	(141,861)	(116,454)
5. Other assets	X	X	11,963	11,963	6,961
6. Financial liabilities	X	X	X	394,281	212,773
Total	**413,712**	**1,743,869**	**(126,674)**	**2,425,188**	**2,416,605**
of which: interest income on impaired financial assets	362	91,511	-	91,873	119,769
of which: interest income on finance leases	X	18,285	X	18,285	22,938

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” includes 5.3 million in interest income on tax credits.

Item 6 “Financial liabilities” refers to interest income accruing on ECB funding operations for 352.2 million, represented by TLTRO III loans payable. In 2020, it amounted to 169.2 million, of which 25.2 million relating to ECB funding operations represented by TLTRO II loans payable, fully repaid, and 144.0 million by TLTRO III loans.

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	2021	2020
Interest income on financial assets in foreign currency	58,097	73,502

1.3 Interest and similar expense: breakdown

Items/Technical forms	Payables	Securities	Other transactions	Total 2021	Total 2020
1. Financial liabilities at amortised cost	(83,745)	(248,740)	X	(332,485)	(445,151)
1.1 Due to central banks	-	X	X	-	-
1.2 Due to banks	(32,914)	X	X	(32,914)	(65,846)
1.3 Due to customers	(50,831)	X	X	(50,831)	(64,974)
1.4 Debt securities in issue	X	(248,740)	X	(248,740)	(314,331)
2. Financial liabilities held for trading	(11,405)	-	-	(11,405)	(13,109)
3. Financial liabilities designated at fair value	-	(2,922)	-	(2,922)	(3,832)
4. Other liabilities and provisions	X	X	(52)	(52)	(449)
5. Hedging derivatives	X	X	44,784	44,784	43,071
6. Financial assets	X	X	X	(106,968)	(40,535)
Total	**(95,150)**	**(251,662)**	**44,732**	**(409,048)**	**(460,005)**
of which: interest expense relating to lease payables	(7,473)	X	X	(7,473)	(9,402)

Item 5 “Hedging derivatives - Other transactions” include the spreads accrued of the financial hedging derivative contracts for transactions on balance sheet liabilities.

Item 6 “Financial assets - Other transactions” contains the negative interest income relating to repurchase agreements with commitment, securities lending, loans, current accounts and deposits with customers and banks.

1.4 Interest and similar expense: other information

1.4.1 Interest expense on financial liabilities in foreign currency

Items	2021	2020
Interest expense on financial liabilities in foreign currency	(10,994)	(6,543)

1.5 Hedging spreads

Items	2021	2020
A. Positive hedging spreads:	157,108	290,289
B. Negative hedging spreads:	(254,185)	(363,672)
C. Balance (A-B)	**(97,077)**	**(73,383)**

Section 2 - Fees and commissions – Items 40 and 50

2.1 Fee and commission income: breakdown

Service type/Amounts	Total 2021	Total 2020 (*)
a) Financial instruments	119,268	143,724
1. Placement of securities	16,252	47,631
1.1 With underwriting commitments and/or on the basis of an irrevocable commitment	11	19,513
1.2 Without irrevocable commitment	16,241	28,118
2. Receipt and transmission of orders and execution of orders for customers	66,063	64,806
2.1 Receipt and transmission of orders for one or more financial instruments	45,305	43,503
2.2 Execution of orders for customers	20,758	21,303
3. Other fees and commissions relating to activities associated with financial instruments	36,953	31,287
of which: own account trading	-	-
of which: individual portfolio management	30,915	25,588
b) Corporate Finance	9,469	3,732
1. Merger and acquisition advisory services	7,353	2,899
2. Treasury services	2,116	833
3. Other fees and commissions with corporate finance services	-	-
c) Investment advisory activities	855	880
d) Offsetting and settlement	-	-
e) Collective portfolio management	-	-
f) Custody and administration	13,793	11,182
1. Custodian bank	-	-
2. Other fees and commissions related to custody and administration activities	13,793	11,182
g) Central administrative services for collective portfolio management	-	-
h) Trust activities	2,053	1,926
i) Payment services	541,313	456,857
1. Current accounts	257,858	201,135
2. Credit cards	24,320	25,832
3. Debit cards and other payment cards	72,278	62,994
4. Bank transfers and other payment orders	177,815	157,309
5. Other fees and commissions relating to payment services	9,042	9,587
j) Distribution of third party services	815,604	645,073
1. Collective portfolio management	592,224	462,717
2. Insurance products	137,196	114,389
3. Other products	86,184	67,967
of which: individual portfolio management	1,727	2,041
k) Structured finance	894	1,288
l) Servicing for securitisation transactions	-	176
m) Commitments to disburse funds	-	-
n) Financial guarantees given	81,081	73,769
of which: credit derivatives	-	-
o) Financing operations	138,157	108,124
of which: for factoring transactions	-	-
p) Foreign currency trading	3,796	3,517
q) Commodities	-	-
r) Other fee and commission income	292,318	315,621
of which: for management of multilateral trading facilities	-	-
of which: for management of organised trading facilities	-	-
Total	**2,018,601**	**1,765,869**

(*) The figures relating to the previous year have been restated to take into account the amendments introduced by the 7th update of Circular no. 262 of the Bank of Italy.

Sub-item j) “other services” includes fees for making funds available (Credit Availability Fee) of 248.4 million (264.9 million the previous year) and fee and commission income from securities lending of 9.6 million.

It should be specified that, in relation to Group operations, cash flows associated with fees recognised in the income statement for 2021 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 2021, against services rendered in previous years amounted to a negative 6.7 million, equal to the difference between the verification of greater revenues totalling 7.7 million (of which 3 million relating to the distribution of insurance products and 1.8 million to the distribution of third-party lending products) and lower revenues for 14.4 million (mainly relating to 5.9 million for the distribution of insurance products and 5.7 million for the distribution of third party lending products).

2.2 Fee and commission expense: breakdown

Services/Amounts	**Total 2021**	**Total 2020 (*)**
a) Financial instruments	(16,980)	(24,975)
of which: financial instrument trading	(10,069)	(10,248)
of which: placement of financial instruments	(6,911)	(14,727)
of which: individual portfolio management	-	-
- Own	-	-
- Delegated to third parties	-	-
d) Offsetting and settlement	-	-
c) Collective portfolio management	-	-
1. Own	-	-
2. Delegated to third parties	-	-
d) Custody and administration	(11,475)	(9,415)
e) Collection and payment services	(56,898)	(53,692)
of which: credit cards, debit cards and other payment cards	(48,288)	(44,293)
f) Servicing for securitisation transactions	-	-
g) Commitments to receive funds	-	-
h) Financial guarantees received	(11,655)	(8,693)
of which: credit derivatives	-	-
i) Off-site offer of financial instruments, products and services	(6,688)	(9,034)
l) Foreign currency trading	(7)	(8)
m) Other fee and commission expense	(14,203)	(18,179)
Total	**(117,906)**	**(123,996)**

(*) The figures relating to the previous year have been restated to take into account the amendments introduced by the 7th update of Circular no. 262 of the Bank of Italy.

Section 3 - Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

Items/Income	Total 2021		Total 2020	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	41,052	-	17,654	-
B. Other financial assets mandatorily measured at fair value	1,525	4,221	1,046	6,162
C. Financial assets measured at fair value through other comprehensive income	6,920	-	17,153	-
D. Interests in associates and joint ventures	-	-	-	-
Total	**49,497**	**4,221**	**35,853**	**6,162**

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	**107,811**	**170,969**	**(42,550)**	**(96,880)**	**139,350**
1.1 Debt securities	1,121	69,678	(9,185)	(32,516)	29,098
1.2 Equity instruments	106,149	99,351	(32,639)	(64,285)	108,576
1.3 UCIT units	535	561	(15)	(3)	1,078
1.4 Loans	6	-	(711)	-	(705)
1.5 Other	-	1,379	-	(76)	1,303
2. Financial liabilities held for trading	**5,858**	**25,786**	**(44,803)**	**(53,532)**	**(66,691)**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	1,344	23,711	(597)	(6,098)	18,360
2.3 Other	4,514	2,075	(44,206)	(47,434)	(85,051)
Financial assets and liabilities: exchange rate differences	**X**	**X**	**X**	**X**	**38,539**
3. Derivative instruments	**1,561,990**	**2,424,999**	**(1,535,229)**	**(2,497,634)**	**(31,675)**
3.1 Financial derivatives:	1,560,856	2,420,283	(1,532,877)	(2,492,723)	(30,262)
- On debt securities and interest rates	1,008,425	1,516,704	(1,066,852)	(1,602,311)	(144,034)
- On equity instruments and share indices	500,860	688,902	(414,175)	(676,160)	99,427
- On currencies and gold	X	X	X	X	14,199
- Other	51,571	214,677	(51,850)	(214,252)	146
3.2 Credit derivatives	1,134	4,716	(2,352)	(4,911)	(1,413)
of which: natural hedges connected with the fair value option	X	X	X	X	-
Total	**1,675,659**	**2,621,754**	**(1,622,582)**	**(2,648,046)**	**79,523**

It must be specified that, based on the provisions set out in the Bank of Italy Circular no. 262, the specification regarding "of which: natural hedges associated with the fair value option" refers to a specific type of hedge set out in IFRS 9. In that regard it is noted that there are no amounts to be reported, as Banco BPM Group opted to continue using the hedge accounting regime set out in IAS 39.

Section 5 - Fair value gains/losses on hedging derivatives - Item 90

5.1 Fair value gains/losses on hedging derivatives: breakdown

Income components/Amounts	Total 2021	Total 2020
A. Income relating to:		
A.1 Fair value hedging derivatives	498,034	174,278
A.2 Hedged financial assets (fair value)	385,890	453,842
A.3 Hedged financial liabilities (fair value)	213,797	497,978
A.4 Cash flow hedging derivatives	191	8
A.5 Assets and liabilities in foreign currency	1,861	605
Total gains on hedging derivatives (A)	**1,099,773**	**1,126,711**
B. Charges relating to:		
B.1 Fair value hedging derivatives	(216,431)	(217,017)
B.2 Hedged financial assets (fair value)	(860,865)	(342,330)
B.3 Hedged financial liabilities (fair value)	(22,661)	(574,428)
B.4 Cash flow hedging derivatives	-	-
B.5 Assets and liabilities in foreign currency	(664)	(593)
Total losses on hedging derivatives (B)	**(1,100,621)**	**(1,134,368)**
C. Fair value gains/losses on hedging derivatives (A - B)	**(848)**	**(7,657)**
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 2021			Total 2020		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets						
1. Financial assets at amortised cost	301,281	(446,543)	(145,262)	105,973	(377,507)	(271,534)
1.1 Loans to banks	-	-	-	-	-	-
1.2 Loans to customers	301,281	(446,543)	(145,262)	105,973	(377,507)	(271,534)
2. Financial assets measured at fair value through other comprehensive income	40,063	(23,807)	16,256	124,715	(404)	124,311
2.1 Debt securities	40,063	(23,807)	16,256	124,715	(404)	124,311
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**341,344**	**(470,350)**	**(129,006)**	**230,688**	**(377,911)**	**(147,223)**
Financial liabilities at amortised cost	-	-	-	-	-	-
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities in issue	17,724	(17,798)	(74)	2,158	(4,061)	(1,903)
Total liabilities (B)	**17,724**	**(17,798)**	**(74)**	**2,158**	**(4,061)**	**(1,903)**

The result shown under item "1.2. Loans to customers" includes profits of 101.9 million deriving from the sale of securities classified in the portfolio of loans to customers, mainly represented by both Italian and foreign government securities, as well as the effect of early redemptions of HTC securities.
Excluding this component, the net loss of that item is 247.2 million, attributable for 214.4 million to the disposal of the "Rockets" portfolio of non-performing loans.
For more details of the above 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.

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	**18,041**	**3,216**	**(4,131)**	**(9,232)**	**7,894**
2.1 Debt securities in issue	18,041	3,216	(4,131)	(9,232)	7,894
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	**18,041**	**3,216**	**(4,131)**	**(9,232)**	**7,894**

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	**85,043**	**5,179**	**(41,374)**	**(50,570)**	**(1,722)**
1.1 Debt securities	2,125	2,688	(2,541)	(5)	2,267
1.2 Equity instruments	5,499	527	(10,175)	(37,462)	(41,611)
1.3 UCIT units	47,361	1,959	(15,762)	(384)	33,174
1.4 Loans	30,058	5	(12,896)	(12,719)	4,448
2. Financial assets in foreign currency: exchange rate differences	**X**	**X**	**X**	**X**	**10,170**
Total	**85,043**	**5,179**	**(41,374)**	**(50,570)**	**8,448**

Section 8 - Net credit impairment losses/recoveries – Item 130

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

Transactions/Income components	Impairment losses (1)						Recoveries (2)				Total 2021	Total 2020
	Stage 1	Stage 2	Stage 3		Acquired or originated impaired		Stage 1	Stage 2	Stage 3	Acquired or originated impaired		
			Write-offs	Other	Write-offs	Other						
A. Loans to banks	**(346)**	**-**	**-**	**-**	**-**	**-**	**561**	**-**	**93**	**-**	**308**	**364**
- Loans	-	-	-	-	-	-	489	-	93	-	582	210
- Debt securities	(346)	-	-	-	-	-	72	-	-	-	(274)	154
B. Loans to customers	**(5,049)**	**(48,968)**	**(65,974)**	**(983,476)**	**(1,091)**	**(91,273)**	**37,715**	**20,074**	**464,467**	**43,270**	**(630,305)**	**(1,049,575)**
- Loans	(4,094)	(48,923)	(65,974)	(983,476)	(1,091)	(91,273)	37,158	19,310	464,467	43,270	(630,626)	(1,048,400)
- Debt securities	(955)	(45)	-	-	-	-	557	764	-	-	321	(1,175)
Total	**(5,395)**	**(48,968)**	**(65,974)**	**(983,476)**	**(1,091)**	**(91,273)**	**38,276**	**20,074**	**464,560**	**43,270**	**(629,997)**	**(1,049,211)**

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

Transactions/Income components	Net impairment losses						Total 2021	Total 2020
	Stage 1	Stage 2	Stage 3		Acquired or originated impaired			
			Write-offs	Other	Write-offs	Other		
1. Loans subject to forbearance measures compliant with GL	97	(160)	-	(1,086)	-	6	**(1,143)**	**(56,946)**
2. Loans subject to current moratorium measures no longer compliant with GL and not assessed as forborne	2,482	(20,622)	-	(58,953)	-	(2,897)	**(79,990)**	**-**
3. Loans subject to other forbearance measures	-	207	-	(2,836)	-	-	**(2,629)**	**(4,499)**
4. New loans	1,518	(145)	-	(15,487)	-	-	**(14,114)**	**(10,625)**
Total	**4,097**	**(20,720)**	**-**	**(78,362)**	**-**	**(2,891)**	**(97,876)**	**(72,070)**

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

Transactions/Income components	Impairment losses (1)						Recoveries (2)				Total 2021	Total 2020
	Stage 1	Stage 2	Stage 3		Acquired or originated impaired		Stage 1	Stage 2	Stage 3	Acquired or originated impaired		
			Write-offs	Other	Write-offs	Other						
A. Debt securities	(1,490)	-	-	-	-	-	516	17	-	-	(957)	(219)
B. Loans	-	-	-	-	-	-	-	-	-	-	-	-
- To customers	-	-	-	-	-	-	-	-	-	-	-	-
- To banks	-	-	-	-	-	-	-	-	-	-	-	-
Total	**(1,490)**	**-**	**-**	**-**	**-**	**-**	**516**	**17**	**-**	**-**	**(957)**	**(219)**

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 2021			Total 2020		
	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	2,507	(11,028)	(8,521)	-	(1,256)	(1,256)
Total	**2,507**	**(11,028)**	**(8,521)**	**-**	**(1,256)**	**(1,256)**

The item, negative by 8.5 million, represents the net impact deriving from contractual modification during the year in relation to types of loans that did not entail total or partial derecognition of the previous credit exposure from the financial statements.

Section 10 - Net premiums - Item 160

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 2021	Total 2020
1) Employees	**(1,663,228)**	**(1,829,467)**
a) wages and salaries	(1,164,009)	(1,099,055)
b) social security contributions	(307,291)	(287,732)
c) severance indemnities	(66,017)	(65,926)
d) pension expenses	(289)	(295)
e) provisions for employee severance pay	(2,141)	(2,431)
f) provisions for post-employment benefits and similar obligations:	(333)	(1,015)
- defined contribution	-	-
- defined benefit	(333)	(1,015)
g) payments to external supplementary pension funds:	(41,937)	(42,817)
- defined contribution	(41,937)	(42,817)
- defined benefit	-	-
h) costs deriving from share-based payment agreements	(7,782)	(3,286)
i) other employee benefits	(73,429)	(326,910)
2) Other personnel in service	**(740)**	**(432)**
3) Directors and statutory auditors	**(6,754)**	**(6,302)**
4) Retired personnel	**(17)**	**(15)**
Total	**(1,670,739)**	**(1,836,216)**

12.2 Average number of employees per category

	2021	2020
1) Employees	**19,928**	**20,761**
a) executives	312	323
b) total middle managers	7,954	8,299
of which: 3rd and 4th level	4,146	4,361
c) remaining employees	11,662	12,139
2) Other personnel	**21**	**15**
Average number of personnel	**19,949**	**20,776**

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 2021	Total 2020
- Social security costs relative to current work provided	(371)	(490)
- Financial expense	36	(533)
- Expected return on plan assets	-	-
- Actuarial gains and losses	-	-
- Social security costs relative to past work provided	-	-
- Gains and losses from reductions or extinctions	2	8
Total	**(333)**	**(1,015)**

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 73.4 million (326.9 million in 2020).
This item mainly includes costs relating to the Group's welfare system, such as - for example - the so-called "welfare" company bonus, luncheon vouchers and costs of managing company canteens, health and injury policies for the benefit of employees, study grants, contributions to corporate social clubs, loyalty bonuses, costs relating to professional training and refresher courses.

The figure for the previous year included charges for early retirement incentives, also through the voluntary use of the extraordinary benefits of the Solidarity Fund for the sector, for 257.0 million.

12.5 Other administrative expenses: breakdown

Type of expense/Sector	Total 2021	Total 2020 (*)
a) Expenses relating to real estate	(66,155)	(60,796)
- rents	(6,930)	(7,046)
- maintenance of premises	(13,852)	(14,980)
- cleaning expenses	(12,930)	(13,326)
- electricity, water and heating	(32,443)	(25,444)
b) Indirect taxes and duties	(320,133)	(312,976)
c) Postal charges, telephone charges, printed materials and other office expenses	(22,773)	(26,095)
d) Maintenance and fees for furniture, machines and systems	(86,709)	(81,292)
- fees	(20,689)	(22,549)
- maintenance	(66,020)	(58,743)
e) Professional and advisory services	(67,478)	(59,599)
f) Fees for surveys and information	(8,651)	(13,376)
g) Security and armoured cars	(16,850)	(18,488)
h) Services from third parties	(221,588)	(209,149)
i) Advertising, entertainment and gratuities	(9,501)	(10,740)
l) Insurance premiums	(10,472)	(9,287)
m) Transport, hiring and travel	(6,210)	(8,053)
- hiring	(777)	(2,274)
- other expenses	(5,433)	(5,779)
n) Banking industry charges	(214,821)	(192,044)
- ordinary contribution to Resolution Funds	(87,787)	(85,215)
- additional contributions to Resolution Funds	(28,595)	(26,919)
- ordinary contribution to the Interbank Deposit Guarantee Fund	(98,439)	(79,910)
o) Other costs and sundry expenses	(49,493)	(59,067)
Total	**(1,100,834)**	**(1,060,962)**

(*) The figures relating to the previous year have been restated to take into account the amendments introduced by the 7th update of Circular no. 262 of the Bank of Italy.

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.

Contributions to guarantee deposit systems and resolution mechanisms

Following transposition into the national legislation of Directives 2014/49/EU (Deposit Guarantee Schemes Directive –"DGSD") of 16 April 2014 and 2014/59/EU (Bank Recovery and Resolution Directive – "BRRD") of 15 May 2014, starting from financial year 2015, credit institutions are obliged to provide the financial resources necessary for the financing of the Interbank Deposit Guarantee Fund and the National Resolution Fund (merged into the Single Resolution Fund starting from 2016), through payment of ex ante ordinary contributions to be paid

annually, until a certain target level is reached. Where the available financial resources of the IDGF and/or the SRF are insufficient to guarantee the protected reimbursement of depositors or to fund the resolution, respectively, it is set out that banks shall provide such funds via the payment of extraordinary contributions.
The contributions are recognised in the income statement item "190. b) Other administrative expenses" in application of IFRIC 21 interpretation "Levies", on the basis of which the liability relating to the payment of a levy arises at the time the "obligating event" occurs, namely at the time of the obligation to pay the annual fee. In the case in question, in accounting terms, the contributions are considered equivalent to a levy, and the time the "obligating event" occurs was identified in the first quarter for the SRF and in the third quarter for the IDGF.
The ordinary contribution to the Single Resolution Fund for 2021 amounted to 87.8 million (the contribution was 85.2 million in 2020). In that regard, it is noted that for 2021, as for the previous year, the Group did not avail of the option to fulfil the request by taking on an irrevocable payment commitment ("IPC - Irrevocable Payment Commitments").
The ordinary contribution to the Interbank Deposit Guarantee Fund, indicated in the income statement for 2021, amounted to 98.4 million (the contribution requested for 2020 was 79.9 million).
Lastly, we can note that in June 2021, the Bank of Italy called in additional contributions to the National Resolution Fund for 28.6 million, in relation to the financial requirements connected with the resolution measures carried out prior to the launch of the 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 2020 additional contributions of 26.9 million were requested).
The above-indicated amounts are shown in the table above under sub-item "n) Banking industry charges".

Fee to guarantee the convertibility of DTAs - legislative changes to Decree Law no. 59/2016

Please note that Art. 11 of Italian Decree Law no. 59 of 3 May 2016, converted with amendments into Italian Law no. 119 of 30 June 2016, introduced an optional regime by virtue of which the guarantee on the convertibility into tax credits of deferred tax assets (DTAs) which meet the requirements laid out in Law no. 214 of 22 December 2011 is subject to the payment of a fee, due for the years starting from 31 December 2015 until 31 December 2029, to be determined on an annual basis.
On 21 February 2017, the law (Law no. 15 of 17 February 2017) converting the "Salva Risparmio" Decree Law was published in the Official Gazette. In detail, Art. 26-bis, paragraph 4 amended Art. 11 of Decree Law 59/2016, postponing the period for which the annual fee is due, which is now from 31 December 2016 until 31 December 2030.
Pursuant to these regulatory references, the exercise of this option, which was carried out in 2016 by both groups involved in the merger, is considered irrevocable.
In more detail, the annual fee to be paid to ensure the convertibility of the above-mentioned deferred tax assets into tax credits must be determined on an annual basis by applying the rate of 1.5% to a base obtained by adding the difference between the convertible deferred tax assets recognised in the financial statements for the previous year and the corresponding deferred tax assets recognised in the 2007 financial statements, to the amount of conversions of the same deferred tax assets carried out from 2008 until the previous year, and subtracting the taxes set forth in the Decree and paid with reference to the above-mentioned tax periods (base also referred to as "type 2 DTAs").
The fees are deductible for both IRES and IRAP purposes in the year in which they are paid.
In virtue of the cited regulatory provisions, in the income statement item in question ("190. b) Other administrative expenses"), the charges accruing during 2021 were added, which came to 26.6 million (25.4 million was indicated in the income statement in 2020).

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 2021	Total 2020
Commitments to disburse funds and financial guarantees given	(4,319)	16,393	12,074	(15,657)

13.2 Net provisions for other commitments and guarantees given: breakdown

	Allocations	Reallocations	Total 2021	Total 2020
Other commitments and guarantees given	(22,654)	5,326	(17,328)	4,193

13.3 Net provisions for other risks and charges: breakdown

	Allocations	Reallocations of surpluses	Total 2021	Total 2020
Risks and charges for legal disputes	**(22,160)**	**15,141**	**(7,019)**	**(4,502)**
Other risks and charges	(23,048)	9,282	(13,766)	(41,659)
Total	**(45,208)**	**24,423**	**(20,785)**	**(46,161)**

Net provisions for other risks and charges amounted to 20.8 million and included, inter alia, the allocations made against the contractual commitments envisaged for sales of loans finalised in the current year and in previous years.

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	(165,990)	(891)	1,053	(165,828)
- Owned	(55,888)	-	-	(55,888)
- Rights of use acquired through leases	(110,102)	(891)	1,053	(109,940)
2 Held for investment purposes	-	-	-	-
- Owned	-	-	-	-
- Rights of use acquired through leases	-	-	-	-
3 Inventories	X	-	-	-
Total	**(165,990)**	**(891)**	**1,053**	**(165,828)**

Section 15 - Amortisation and impairment losses on intangible assets - Item 220

15.1 Amortisation and impairment losses on intangible assets: breakdown

Asset/Income components	Amortisation (a)	Impairment losses (b)	Recoveries (c)	Net result (a + b - c)
A. Intangible assets				
of which: software	(3,115)	-	-	(3,115)
A.1 Owned	(112,285)	(2,172)	-	(114,457)
- Internally generated	-	-	-	-
- Other	(112,285)	(2,172)	-	(114,457)
A.2 Rights of use acquired through leases	-	-	-	-
B. Assets held for sale	X	-	-	-
Total	**(112,285)**	**(2,172)**	**-**	**(114,457)**

Section 16 - Other operating expenses/income - Item 230

16.1 Other operating expenses: breakdown

	Total 2021	Total 2020
Expenses on leased assets	(26,173)	(14,775)
Other	(47,192)	(57,075)
Total	**(73,365)**	**(71,850)**

"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 18.1 million (31.9 million in the previous year), operating losses relative to branch management (robbery, fraud, theft and other damages) for 7.2 million (7.1 million in 2020), as well as contingent liabilities and other contingencies.

16.2 Other operating income: breakdown

	Total 2021	Total 2020
Income on current accounts and loans	5,309	9,898
Tax recoveries	271,108	261,192
Expense recoveries	16,694	11,991
Rental income on real estate	33,885	39,508
Other	109,451	78,449
Total	**436,447**	**401,038**

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 2021	Total 2020
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	**232,068**	**130,975**
1. Revaluations	232,021	130,975
2. Gains on disposal	47	-
3. Recoveries	-	-
4. Other income	-	-
B. Charges	**(18,754)**	**(176)**
1. Write-downs	(81)	(176)
2. Losses on impairment	(18,673)	-
3. Losses on disposal	-	-
4. Other charges	-	-
Net result	**213,314**	**130,799**
Total	**213,314**	**130,799**

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: 156.0 million referring to Agos Ducato, 43.2 million referring to Anima Holding, 9.2 million referring to Vera Vita, 2.7 million referring to Vera Assicurazioni, 7.4 million to Bipiemme Vita, 6.4 million referring to Factorit, 2.1 million referring to Alba Leasing, 2.0 million referring to Gardant Liberty, 1.9 million referring to Etica SGR, 0.5 million referring to SelmaBipiemme; the losses are represented by HI-MTF.
The gains from sales refer to the economic effect of the sale of the 5% interest in HI-MTF.
Losses on impairment amounted to -18.7 million and include the amount resulting from the impairment made against the share of the investment held in Factorit.

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	**25,788**	**(167,421)**	**-**	**-**	**(141,633)**
A.1 Used in operations:	2,437	(20,086)	-	-	(17,649)
- Owned	2,437	(20,086)	-	-	(17,649)
- Rights of use acquired through leases	-	-	-	-	-
A.2 Held for investment purposes:	23,351	(147,335)	-	-	(123,984)
- Owned	23,351	(147,335)	-	-	(123,984)
- 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	**25,788**	**(167,421)**	**-**	**-**	**(141,633)**

This item, totalling a negative 141.6 million (the balance in the previous year was a negative 36.7 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 did not lead to adjustments during the year.

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.

Section 20 - Gains (losses) on disposal of investments - Item 280

20.1 Gains (losses) on disposal of investments: breakdown

Income components/Sectors	Total 2021	Total 2020
A. Real estate	**(723)**	**1,452**
- Gains on disposal	585	3,045
- Losses on disposal	(1,308)	(1,593)
B. Other assets	**581**	**(262)**
- Gains on disposal	596	20
- Losses on disposal	(15)	(282)
Net result	**(142)**	**1,190**

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 2021	Total 2020
1. Current taxes (-)	(56,468)	(49,537)
2. Changes in current taxes for previous years (+/-)	(7,260)	(3,421)
3. Decreases in current taxes for the year (+)	108,218	106,286
3.bis Decreases in current taxes for the year due to tax credits pursuant to Italian Law no. 214/2011 (+)	36,654	5,233
4. Change in deferred tax assets (+/-)	(289,404)	19,060
5. Change in deferred tax liabilities (+/-)	123,305	188,339
6. Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)	**(84,955)**	**265,960**

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 owned properties. The exercise of this option resulted in i) the immediate recognition of substitute tax of 16.4 million charged to the income statement; ii) the derecognition of net deferred tax liabilities (DTL) for 98.1 million, with a positive impact on the income statement of 81.7 million.

21.2 Reconciliation between theoretical tax charge and actual tax charge

IRES	2021		2020	
Profit (loss) before tax from continuing operations		**653,739**		**(249,328)**
Negative components of gross profit (loss) not definitively significant (+)		**187,960**		**140,995**
Non-deductible interest expense	391		1,593	
Capital losses from disposal/valuation of interests in associates and joint ventures/OCI	69,598		21,065	
Non-deductible taxes other than income taxes	15,438		16,261	
Non-deductible loan losses	4,791		428	
Administrative expenses with limited deductibility	4,184		4,646	
Other non-deductible expenses	40,528		37,862	
Goodwill impairment			25,100	
Losses of foreign companies	1,353		1,610	
Consolidation effects of intragroup equity interests			22,309	
Allocations	21,877		5,997	
Other	29,800		4,124	
Positive components of gross profit (loss) not definitively significant (-)		**(246,014)**		**(320,553)**
Insignificant portion of capital gains from disposal/valuation of interests in associates and joint ventures/OCI	(6,570)		(174,272)	
Insignificant portion of dividends before consolidation entries	(72,883)		(79,690)	
Cancellation of intragroup dividends	73,435		70,847	
Consolidation effects of intragroup equity interests	(235,715)		(130,799)	
Other	(4,281)		(6,639)	
Definitive increases not associated with gross profit (loss) elements (+)		**-**		**3,845**
Other	-		3,845	
Definitive decreases not associated with gross profit (loss) elements (-)		**(95,644)**		**(97,898)**
Lump sum 10% IRAP deduction and cost of labour for employees IRAP deduction	(283)		(294)	
Portion of ACE subsidisable income	(75,058)		(75,891)	
Other	(20,303)		(21,713)	
IRES calculation base, income statement		**500,041**		**(522,939)**
IRES nominal rate	24%		24%	
Actual IRES		**(120,010)**		**125,505**
IRES tax rate		**(18.36%)**		**50.34%**

IRAP	2021		2020	
Profit (loss) before tax from continuing operations		**653,739**		**(249,328)**
Negative components of gross profit (loss) not definitively significant (+)		**393,762**		**459,972**
Non-deductible interest expense	606		2,413	
Non-deductible portion of amortisation/depreciation of assets used in operations	30,854		30,744	
Other non-deductible administrative expenses	162,308		163,081	
Personnel expenses net of deductions allowed (tax wedge reduction, disabled, etc.)	2,769		68,621	
Other value adjustments pursuant to item 130 of the income statement	9,077		76	
Net provisions for risks and charges	24,988		94,525	
Other operating expenses	31,817		24,686	
Losses on interests in associates and joint ventures	23,359		2,108	
Goodwill impairment	-		25,100	
Consolidation effects of intragroup equity interests	-		22,309	
Other	107,984		26,309	
Positive components of gross profit (loss) not definitively significant (-)		**(261,862)**		**(193,831)**
Gains on interests in associates and joint ventures	-		(24,434)	
Insignificant portion of dividends before consolidation entries	(61,466)		(53,349)	
Cancellation of intragroup dividends	73,435		70,847	
Other operating income	(32,366)		(26,887)	
Profits on disposal of insignificant investments	(960)		-	
Consolidation effects of intragroup equity interests	(235,715)		(130,799)	
Other	(4,790)		(29,209)	
Definitive increases not associated with gross profit (loss) elements (+)		**-**		**412,566**
Adjustments to neutralise negative value of production	-		406,286	
Other	-		6,280	
Definitive decreases not associated with gross profit (loss) elements (-)		**(24,243)**		**(241,170)**
Other	(24,243)		(241,170)	
IRAP calculation base, income statement		**761,396**		**188,209**
Nominal average weighted IRAP rate	5.46%		4.91%	
Actual IRAP		**(41,567)**		**(9,242)**
IRAP tax rate		**(6.36%)**		**(3.71%)**

IRES and IRAP not accruing during the year and other taxes	2021		2020	
Total impact		**76,622**		**149,697**
IRES - Current taxes and deferred tax assets and liabilities from previous years	12,175		1,845	
IRES - Additional 3.5% rate	(19,483)		17,409	
IRAP - Current taxes and deferred tax assets and liabilities from previous years	2,374		2,275	
Realignment	81,709		128,323	
Foreign taxes - other	(153)		(155)	
IRES and IRAP tax rate not accruing during the year and other taxes		**11.72%**		**60.04%**

Total taxes on gross profit (loss)	2021	2020
Total IRES + IRAP + Other taxes	**(84,955)**	**265,960**
Total tax rate	**(13%)**	**106.67%**

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	2021	2020
Interests in consolidated companies with significant non-controlling interests	-	-
Other interests	284	(4,248)
Total	**284**	**(4,248)**

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

	31/12/2021		31/12/2020	
	Basic EPS	Diluted EPS	Basic EPS	Diluted EPS
Weighted average of ordinary shares (number)	1,510,823,282	1,510,823,282	1,509,504,749	1,509,504,749
Attributable profit (loss) (thousands of euro)	567,068	567,068	20,880	20,880
EPS (euro)	**0.375**	**0.375**	**0.014**	**0.014**

25.1 Average number of ordinary shares with diluted capital

Note that as at 31 December 2021 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	31/12/2021	31/12/2020
10. Profit (loss) for the year	**568,784**	**16,632**
Other comprehensive income without reclassification to the income statement	**139,815**	**(133,680)**
20. Equity instruments designated at fair value through other comprehensive income:	15,826	(125,809)
a) fair value change	15,304	(16,571)
b) transfers to other shareholders' equity components	522	(109,238)
30. Financial liabilities designated at fair value through profit and loss (changes to its own credit risk):	3,828	(16,413)
a) fair value change	4,027	(16,413)
b) transfers to other shareholders' equity components	(199)	-
40. Hedges of equity instruments designated at fair value through other comprehensive income:	-	-
a) fair value change (hedged instrument)	-	-
b) fair value change (hedging instrument)	-	-
50. Property, plant and equipment	10,983	(3,911)
60. Intangible assets	-	-
70. Defined benefit plans	(7,615)	9,899
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	(239)	(128)
100. Income taxes relative to other comprehensive income without reclassification to the income statement	117,032	2,682
Other comprehensive income with reclassification to the income statement	**(108,790)**	**96,116**
110. Foreign investment hedges:	(1,067)	(10)
a) fair value changes	(1,067)	(10)
b) reclassification to income statement	-	-
c) other changes	-	-
120. Exchange rate differences:	2,138	256
a) changes in value	-	-
b) reclassification to income statement	-	-
c) other changes	2,138	256
130. Cash flow hedges:	(18,119)	3,911
a) fair value changes	(18,119)	3,911
b) reclassification to income statement	-	-
c) other changes	-	-
of which: result of net positions	-	-
140. Hedging instruments (non-designated items):	-	-
a) changes in value	-	-
b) reclassification to income statement	-	-
c) other changes	-	-
150. Financial assets (other than equity instruments) measured at fair value through other comprehensive income:	(129,584)	126,913
a) fair value changes	(68,783)	145,935
b) reclassification to income statement	(60,801)	(19,022)
- losses on credit risk	385	(763)
- profit/loss from disposal	(61,186)	(18,259)
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:	(16,319)	11,988
a) fair value changes	(16,319)	11,988
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	54,161	(46,942)
190. Total other comprehensive income	**31,025**	**(37,564)**
200. Comprehensive income (Item 10+190)	**599,809**	**(20,932)**
210. Consolidated comprehensive income attributable to non-controlling interests	(284)	(4,242)
220. Consolidated comprehensive income attributable to the Parent Company	**600,093**	**(16,690)**

The change in the valuation reserve relating to property, plant and equipment which had an impact on comprehensive income was 128.8 million and is represented by the fair value change of properties used in operations for a positive 11.0 million indicated in sub-item "50. Property, plant and equipment" and a positive 117.8 million indicated in sub-item "110. Income taxes relative to other comprehensive income without reclassification to the income statement" which include the tax impact on fair value changes of 3.4 million and 121.2 million relating to the effect of the tax realignment of property used in operations, as illustrated in the "Other significant aspects relating to Group accounting policies" section in "Part A.1 - Accounting policies" in these Notes.

PART E – INFORMATION ON RISKS AND RELATED HEDGING POLICIES

This Part E provides information on the Group's risk profiles, relating to the management and hedging policies for risk (credit, market, liquidity and operational) implemented by the Group, and operations in derivative financial instruments.
For more information on the monitoring and management of risk of Banco BPM Group (capital adequacy, exposure to risk and the general characteristics of the systems set in place to manage and control them) refer to the document "Disclosure to the Public by Entities - Pillar III", drawn up in accordance with the provisions of the Bank of Italy Circular no. 285 of 17 December 2013, which transposed the provisions contained in Regulation EU no. 575/2013 (CRR), as amended by Regulation EU no. 876/2019 (CRR II), as well as in accordance with other applicable external directives, and made available, within the terms provided by the regulations, in the *Investor Relations* section of the website www.gruppo.bancobpm.it.

Section 1 - Risks of the consolidated book

QUANTITATIVE INFORMATION

A. Credit quality

New Definition of Default ("DoD")

For the purposes of the subsequent disclosure on credit quality, note that from 1 January 2021, for regulatory purposes, the application of the New Definition of Default ("DoD") was made compulsory, deriving from the implementation of the "RTS on the materiality threshold for credit obligations past due under Article 178 of the CRR (EU Delegated Regulation 2018/171)" and the correlated EBA guidelines "EBA Guidelines on the application of the definition of default under Article 178 of the CRR".
The above-mentioned regulation, while confirming the bases of default in payment delays and in the unlikely to pay status of the borrower, introduces several stricter criteria to identify non-performing positions and their subsequent return to performing. In particular, the New Definition of Default establishes the criteria to identify past due receivables, the method for the management of indicators to be considered to identify likely default, the specific aspects of retail exposures and the criteria for the return of a position to performing status.
More specifically, the main changes introduced with respect to legislation previously in force regard the following areas:

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

The criteria introduced by supervisory regulations had an impact on the accounting classification of non-performing credit exposures (Stage 3), as supervisory regulations are deemed consistent with the accounting regulations set forth in IFRS 9, in terms of objective evidence of impairment.
As at 1 January 2021, the initial application of the criteria set forth in the New Definition of Default entailed the classification under past-due positions of a gross amount of 113.4 million, previously classified as performing exposures. The relative value adjustments, which amounted to a total of 16.2 million, did not have any impact on the income statement for 2021, as the valuation effects ensuing from the initial application of the new regulations had already been incorporated in the financial statements as at 31 December 2020.
As illustrated in paragraph "2.2 Management, measurement and control systems" below, the monitoring activities undertaken by the Group, as well as the extraordinary support measures granted to customers relating to Covid-19, primarily moratoria, have enabled the increase of gross non-performing past-due exposures recorded in 2021 to be reduced to only 3.6 million.
As indicated in table "A.1.7 Prudential consolidation - On-balance sheet credit exposures to customers: changes in gross non-performing exposures" below, non-performing past-due exposures as at 31 December 2021 amounted, effectively, to 65.9 million, against 62.3 million at the beginning of the year.

The following tables provide quantitative information about the credit quality of the Group's total "credit exposures"; in this regard, note that the above-mentioned exposures do not include equity instruments and 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	906,482	2,309,438	44,610	571,520	136,616,338	140,448,388
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	10,335,722	10,335,722
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	109	104,471	60	3,099	300,408	408,147
5. Financial assets held for sale	83	861	5,551	2,653	114,795	123,943
Total 31/12/2021	**906,674**	**2,414,770**	**50,221**	**577,272**	**147,367,263**	**151,316,200**
Total 31/12/2020 (*)	**1,470,618**	**2,900,336**	**45,892**	**1,782,957**	**145,864,480**	**152,064,283**

(*) The figures relating to the previous year have been restated to take into account the amendments introduced by the 7th update of Circular no. 262 of the Bank of Italy.

Information on the portfolio to which forborne credit exposures belong

As at 31 December 2021, net forborne exposures amounted to 6,694.7 million (of which 3,449.5 million non-performing and 3,245.2 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	6,376,177	(3,115,647)	3,260,530	427,545	137,646,869	(459,011)	137,187,858	140,448,388
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	10,338,849	(3,127)	10,335,722	10,335,722
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value	196,540	(91,900)	104,640	-	X	X	303,507	408,147
5. Financial assets held for sale	8,313	(1,818)	6,495	-	118,344	(896)	117,448	123,943
Total 31/12/2021	**6,581,030**	**(3,209,365)**	**3,371,665**	**427,545**	**148,104,062**	**(463,034)**	**147,944,535**	**151,316,200**
Total 31/12/2020 (**)	**8,847,620**	**(4,430,774)**	**4,416,846**	**551,237**	**147,816,277**	**(474,450)**	**147,647,437**	**152,064,283**

(*) Value to be shown for disclosure purposes
(**) The figures relating to the previous year have been restated to take into account the amendments introduced by the 7th update of Circular no. 262 of the Bank of Italy.

Portfolio held for trading and derivatives

The following table shows the credit quality of credit exposures classified as financial assets held for trading (securities and derivatives) and hedging derivatives (not shown in the table above):

Portfolio/quality	Assets of evident poor credit quality		Other assets
	Cumulative capital losses	Net exposure	Net exposure
1. Financial assets held for trading	(1,725)	1,439	3,247,901
2. Hedging derivatives	-	-	127,076
Total 31/12/2021	**1,725**	**1,439**	**3,374,977**
Total 31/12/2020	**19,660**	**7,045**	**6,616,316**

Poor credit quality exposures, with a book value of 1.4 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 2021, 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 2021, 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 1,091.6 million (1,015.3 million as at 31 December 2020).
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 2021 amounted to 592.2 million (462.7 million in 2020).

Section 2 - Risks of prudential consolidation

Group Risk Appetite Framework (RAF)

During the first quarter of 2021, the Board of Directors of the Parent Company Banco BPM approved the new Risk Appetite Framework (hereinafter, also "RAF"), both at consolidated level and at the level of the most important individual Legal Entity, through which the Body with strategic supervision functions approves the level of risk that the Group is willing to accept in pursuing its strategic objectives.
The new framework comprises the following basic elements:

1. Governance, which defines the roles and responsibilities of the parties involved and the information flows between them;
2. the system of metrics, which summarises risk exposure;
3. the system of thresholds, which defines the risk appetite;
4. the escalation process, activated with different levels of intensity and parties involved when the various thresholds defined are exceeded;
5. the Risk Appetite Statement (RAS), in which the metrics and methods for calculating the thresholds are analysed;
6. the instruments and procedures, which support the representation and operational management of the RAF, including "Most Significant Transactions (MST)".

The RAF is the tool that makes it possible to establish, formalise, communicate, approve and monitor the risk objectives that the Group and the individual relevant Legal Entities intend to assume. To this end, it is divided into thresholds and risk areas that make it possible to identify in advance the levels and types of risk that the Group intends to assume, stating the roles and responsibilities of the corporate bodies and functions involved in the process of managing these risks. More specifically, the Risk Function has strengthened the overall structure of the Framework, by envisaging, for certain indicators:

- the breakdown by hierarchical levels and risk area (cascading down);
- horizontal cascading at Legal Entity and business line/portfolio level.

The Group must ensure that the RAF, in its operational version, is used and internalised and constitutes an element of guidance for the preparation of processes such as, for example, the Strategic Plan and the Budget, as well as the internal processes of self-assessment of capital adequacy (ICAAP) and liquidity adequacy (ILAAP). The framework is also used as an operational tool within the Recovery Plan and when defining Remuneration Policies.
The general principles that guide the Group's risk assumption process can be summarised as follows:

- the activities carried out take into account the risks assumed and the measures set in place to mitigate them over the short and medium-long term;
- particular attention is paid to capital and liquidity adequacy and to the credit quality of the portfolio, also in the light of the introduction of new legislation and regulatory restrictions imposed by the Supervisory Authority.

In 2021, the first RAF indicators relating to the ESG (Environmental, Social and Governance) dimension were included, a sphere that will be further boosted in the coming years, consistent with the ESG project defined by the Group; in addition, we will seek to achieve the full alignment of the Risk Appetite Framework indicators with the corresponding set of the Recovery Plan.
The RAF's set of indicators leverages the Risk Identification process and takes into account recent legislative provisions relating to Risk Governance. All significant risks identified at the end of this process are considered when the Risk Appetite Framework is drawn up and specific indicators to monitor them are identified. In particular, the Group's RAF has identified a set of indicators for the main risk areas: Pillar I and Pillar II Capital Adequacy, Adequacy of Liquidity/Funding & IRRBB, Credit Quality, Profitability, Operational/Conduct 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 enabling the dynamics of the indicators belonging to the Strategic and Operational RAF to be anticipated. Specifically:

- the Strategic RAF is a set of metrics and thresholds that enable the Group's risk strategy to be defined and monitored. It includes a limited and exhaustive number of indicators, which express the risk appetite approved by the Board of Directors and represent the summary performance of the overall risk profile;
- the Operational RAF is a set of metrics that enables the strategic indicators to be integrated and broken down and the evolution of the risk profile to be anticipated. These metrics enable specific aspects of the main business processes to be encompassed and are usually monitored with greater frequency in line with their task of anticipating critical situations;
- the Early Warning Indicators are a set of metrics useful for predicting signs of deterioration of the indicators included in the Strategic and Operational RAF. These metrics enable specific aspects of the main business processes to be encompassed and are usually monitored with greater frequency in line with their task of anticipating critical situations.

The system of thresholds for the Strategic indicators envisages the definition of the following limits:

- Risk Target (Medium to Long Term Objective): normally the risk objective defined in the Industrial Plan at Group level. It indicates the level of risk (overall and by type) to which the Group is willing to be exposed to pursue its strategic objectives;
- Risk Trigger: this is the threshold, differentiated by indicator, the exceeding of which activates the various escalation processes envisaged by the Framework. The Risk Trigger is also determined with stress tests. The system of limits used for operational purposes (Risk Limits) is defined in accordance with the Trigger values;
- Risk Alert: this is the threshold for Early Warning Indicators, the exceeding of which does not activate the various escalation processes envisaged by the Framework, but an information flow to the Committees and Corporate Bodies. The Risk Alert is also determined by the use of stress tests, and in line with the Trigger values of the Operational or Strategic Indicators, which anticipate their trends;
- Risk Tolerance: this is the maximum permitted deviation from the Risk Appetite; the tolerance threshold is set in such a way so as to ensure that the Group has sufficient margins to operate, even in conditions of stress, within the maximum risk that may be assumed;
- Risk Capacity: this is the maximum level of risk that the Group is able to assume without infringing regulatory requirements or other restrictions imposed by the shareholders or by the Supervisory Authority.

As regards the operational indicators, only the Risk Trigger is established: exceeding the risk limits triggers the prompt activation of specific escalation processes.

On the other hand, as regards the Early Warning indicators, only the Alert threshold is established, and exceeding the risk limits does not trigger the activation of specific escalation processes, but a prompt information flow is prepared for the Committees and Corporate Bodies.

The Risk Function, in collaboration with the Planning and Control Function and the other relevant Functions, develops the RAF, providing support to the Management Body (MB), from a legislative and operating perspective, consistent with strategy, business plans and capital allocation in ordinary conditions and in stressed situations. The RAF is updated at least once a year, also in the event of changes in the internal and external conditions in which the Group operates.

From an operating perspective, ex ante risk management activities are also found in the process to manage the Most Significant Transactions (relating to credit, finance, disposal of loans, etc.), which primarily involve the Risk Function, which must express a prior and non-binding opinion on all transactions categorised as such based on criteria established and regulated internally. The scope of application of the ex-ante opinions of the Risk Function has been extended to also include transactions defined as Significant. The latter regard the credit area and enable a considerably greater number of credit transactions to be assessed in advance, both at the time of disbursement - with specific reference to the SME portfolio - and when classified from greater to lesser risk and vice versa.

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. In 2020, Banco BPM launched a specific training plan for the entire staff of the Risk Function, focusing on:

- market scenario and Covid-19;
- changes in the legislative framework and its impact on the measurement of Credit, Liquidity and Market Interest Rate risks and Operational Risk, and illustration of Banco BPM's choices of method.

The plan continued in 2021, with training courses focusing on:

- integrated understanding of Risks and of Banco BPM's positioning;
- introduction to emerging risks: Cyber Risk, Climate Change & ESG, Model Risk;
- a deeper understanding of Market Risk with reference to the FRTB (Fundamental Review of Trading Book) and Quantitative Finance courses.

As part of the "Advanced Analytics" project, Banco BPM organised "Common Understanding" training sessions and a course to develop Data Science skills, which involved several Managers and colleagues of the Risk Function.

During the first half of 2021, the Group was involved in the 2021 EU-wide Stress Test exercise, conducted by the European Banking Authority (EBA), in collaboration with the European Central Bank (ECB), the European Systemic Risk Board (ESRB) and the European Commission, with a view to testing the business model and the resilience of banks on the basis of 2 scenarios, baseline and adverse, developed by the Regulator. The results of the banks that participated in the exercise under the guidance of the EBA were published by the EBA on 30 July 2021.
Furthermore, in the second half of the year, preparatory work started for the 2022 Climate Risk Stress Test exercise, which will be conducted by the ECB on the whole European banking sector between February and July 2022.

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 Entity level, the Risk Function analyses the main risks to which the Group and the individual Legal Entities are exposed, and conducts a periodic assessment of the risk profile of the RAF indicators by comparing it with the thresholds defined in the framework, providing historic and detailed analyses that explain the trends, the areas that need attention and the areas for improvement. Furthermore, on a quarterly basis, the integrated reports include an update on the performance of the Recovery Plan indicators, which in 2021 were all included in the RAF Framework; said analysis is prepared by the "Recovery and Resolution Plans" Function, with the assistance of the Risk Function.

Positioning analyses (benchmarks) 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 banking 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 (Pillar 3) documents, therefore enabling any opportunities for improving risk management to be identified.
A verification of current and forward-looking capital adequacy, both from a Pillar I (regulatory) perspective and from a Pillar II (economic) perspective, in accordance with the provisions of the ECB ICAAP Guidelines, is also reported periodically to the Committees and Corporate Bodies.

Pillar I and Pillar II capital adequacy

To provide its management team and the Supervisory Authority with a complete and informed disclosure, which confirms the adequacy of its own funds, the first defence against the risks assumed, Banco BPM Group assesses its capital situation from a current and forward-looking perspective, both as regards Pillar I and Pillar II, based on Basel III rules (which are applied through CRR/CRD IV) and the specific guidelines that the banks receive from the Supervisory Authority.

As regards Pillar I, the Group's capital adequacy entails continuously monitoring and managing the capital ratios, calculated on the basis of the information provided by the Administration and Budget Function through the application of the rules established by Supervisory Regulations, in order to verify compliance with regulatory limits and to ensure that the minimum capitalisation levels required are maintained. These ratios are also estimated during the Budget or Strategic Plan preparation process, and their consistency with the thresholds established in the Risk Appetite Framework (RAF) and the estimates made in the Capital Plan is verified.

As regards Pillar II, the Risk Function is tasked with coordinating the internal process to determine the Group's capital adequacy, in accordance with regulatory provisions, and with making the current and forward-looking estimates, in both a baseline and stressed scenario, reported to the Corporate Bodies and included annually in the ICAAP (Internal Capital Adequacy Assessment Process) package submitted to the Supervisory Authorities.

Within ICAAP, capital adequacy is assessed by verifying compliance with both Pillar I and Pillar II capital constraints (capital reserve calculated as the ratio between Available Financial Resources – AFR and capital requirements – ECAP, calculated using advanced methods developed internally and validated by the competent corporate function), using the Risk Appetite Framework, as well as qualitative elements.
The outcome of the 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 six-monthly basis, Banco BPM Group also updates analyses to verify its regulatory and economic capital adequacy.
The above guarantees that the self-assessment required by the Supervisory Authority is performed on a continuous basis. The main results emerging from this specific monitoring exercise are reported to the Bank's Corporate Bodies.
The updating of capital adequacy analyses also enables changes in the external macroeconomic scenario to be taken into account, and any vulnerable areas and/or elements relating to the Group to be identified, at the same time defining the potential actions deemed most appropriate, with a view to maintaining adequate capital buffers, to guarantee that the medium/long term company strategies and objectives can be pursued.

Outcomes of internal validation activities

The Internal Validation Function conducts qualitative and quantitative analyses to assess the soundness and accuracy of Pillar I and Pillar II risk estimates.
Furthermore, as regards ICAAP, the Function expresses an opinion on the regular functioning, on the predictive capacity, on the performance and on the prudence of the internal risk measurement methods.

Pillar I and Pillar II liquidity adequacy

Banco BPM Group manages the adequacy of the liquidity profile both from a current and forward-looking perspective, with regard to Pillar I and Pillar II, on the basis of the regulatory framework of Basel 3 and the guidelines of the Supervisory Authority.

As regards Pillar I, the Group's liquidity adequacy is continuously monitored by two indicators: (i) the Liquidity Coverage Ratio (LCR), which seeks to enhance the short-term resilience of the Bank's liquidity risk profile by ensuring that it has sufficient high quality liquid resources to overcome an acute situation of stress that lasts for one month; (ii) the Net Stable Funding Ratio (NSFR), which seeks to improve longer term resilience by providing the Bank with greater incentives to fund its own activities by drawing from more stable sources of funding on a structural basis. This structural indicator has a timeline of one year and has been drawn up to guarantee that assets and liabilities have a sustainable structure by maturity. As part of Pillar II, these indicators are supplemented by metrics developed internally, complementary to the regulatory liquidity indicators, and by stress tests.
The Group has also set in place an Internal Liquidity Adequacy Assessment Process (ILAAP) and strategy. In fact, the ILAAP is the internal process through which Banco BPM Group manages and monitors liquidity risk at Group level and assesses liquidity adequacy in both the short and medium-long term. The ILAAP also 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, including those against which an economic

capital has been calculated, for which suitable organisational controls are defined for their prevention and mitigation, and a Risk Map, which comprises a list of risks only considered significant for Banco BPM Group quantified using internal models. The latter represents the basis for defining the RAF indicators and the risks contained in it must be considered in the ICAAP.
The Parent Company, Banco BPM, guarantees the measurement, monitoring and management of the capital requirements for each type of significant risk and guarantees the supervision and quantification of the capital resources available to the Group to cover risk exposure, in order to fulfil the regulatory obligations of the First and Second Pillar. More specifically, the centralised management of Group capital adequacy, which entails a comparison between the amount of available capital resources and the capital requirements resulting from the risks to which the Group is exposed, from a current and forward-looking perspective, in normal and stressed conditions, is performed by implementing the internal capital adequacy assessment process (ICAAP).
In addition to Pillar I risks (credit risk, counterparty risk, market risk, operational risk) the risks identified by Banco BPM Group following implementation of the Risk Identification process (Risk Inventory) are listed below:

SECURITISATION	This is the risk that the economic substance of a securitisation transaction performed by a Group company is not fully reflected in risk assessment and management decisions.
COMMERCIAL	This is the current and future risk associated with a potential decline of net interest income with respect to the objectives established due to low customer satisfaction with the products and services offered by the Group due to adverse market conditions.
CONCENTRATION OF RISKS	This represents the risk that the exposure towards a single counterparty may lead to different types of risk at the same time.
CONDUCT	This risk is included in operational risk. This is defined as the current and future risk of losses caused by the inadequacy of the financial services provided, including the risk of misconduct and incorrect treatment of customers.
OUTSOURCING	This is the risk that derives from outsourcing/service contracts with partners outside the Group.
EXECUTION	Losses due to shortcomings in the settlement of transactions or in process management, as well as losses due to relations with commercial counterparties, sales agents and suppliers.
ICT	This is the risk of financial, reputational and market share losses due to the use of information and communication technology (ICT).
PROPERTY	Current and future risk resulting from changes in the value of the property held by the Group caused by fluctuations in the Italian property market.
EXCESSIVE FINANCIAL LEVERAGE	This is the risk that a particularly high level of debt with respect to own funds could make the Bank vulnerable, requiring it to take corrective measures in its business plan, including selling assets at a loss, which could require recognising value adjustments on other assets as well.
MARKET RISK IN THE BANKING BOOK	This is the risk of loss due to transactions on the market of financial assets classified in the banking book.
MODEL	This is the risk that the model used in a measurement process or which strategic decisions are based on gives an erroneous output due to an erroneous specification, flawed processing or the improper use of the model.
COMPLIANCE	The risk of incurring legal or administrative sanctions, significant financial losses or reputational damage as a result of the violation of binding rules (laws, regulations) or self-regulatory systems (e.g., Articles of Association, codes of conduct, corporate governance codes). This includes the risk of money laundering and financing terrorism.
COUNTRY	This is the risk of losses caused by events taking place outside Italy. The concept of country risk is wider than that of sovereign risk as it refers to all exposures regardless of the nature of the counterparties, which may be natural persons, enterprises, banks or the public administration.
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 disbursement of fixed-rate commercial credit lines and loans, and collection via current accounts presents a source of interest rate risk. Cash flows from assets and liabilities subject to floating rates also represent a source of interest rate risk. Said risk includes the Basic risk component.
TRANSFER	This is the risk that a Bank exposed to a party that obtains funding in a currency other than the currency of its main revenue sources may incur losses due to the debtor's difficulty in converting its currency into the currency in which the exposure is denominated.
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.
CLIMATE RISK	Direct and indirect risks related to climate change issues

As part of the Risk Identification process carried out in 2021, the Group identified the Climate Risk related to environmental issues concerning "Climate change & ESG" as a specific additional risk factor.
With regard to this area, the Group has embarked on an ambitious path to integrate Sustainability into the Bank's corporate and business activities. To this end, it has established a specific ESG project, creating seven working groups. Within its structure, the Risk Function has launched a specific assessment to evaluate compliance with the regulatory requirements envisaged by the "Guidelines on climate-related and environmental risks" published by the ECB in November 2020.

Environmental risks

Introduction

Risk management is one of the fundamental components of Banco BPM Group's operating activities. The approach to risk management has evolved considerably in recent years, when the risk related to the effects of climate change was fully integrated as a driver for the development of medium/long term business strategy, obliging the various interested parties, including Banco BPM, to consequently take action to meet the growing interest of investors and stakeholders. This need emerged in particular following the international commitment stated with the 2015 Paris Climate Agreement and with the European Climate Law (EEC/EU Regulation no. 1119 of 30 June 2021), which sets out a binding objective of climate neutrality in the European Union by 2050 and an intermediate target for reduction of greenhouse gas emissions by at least 55% by 2030 with respect to the levels recorded in 1990.
In addition to all of the other projects undertaken as regards the analysis, management and mitigation of the risks relating to climate change, Banco BPM's decision to join the Task Force on Climate-Related Financial Disclosures (TCFD) further confirms the Group's awareness of playing a prominent role in action taken against climate change. For further details on the management and mitigation of climate and environmental risks, please refer to the 2021 Non-Financial Statement.

Recent development concerning the ECB

The European Central Bank (ECB) has a prominent role in guiding the players in the banking and credit sector towards the disclosure of risks related to climate change. In November 2020, the ECB published the final version of the "Guide on climate-related and environmental risks" for banks, which contains the Regulator's expectations as regards the management of these risks, followed by the communication of the Chair of the ECB Supervisory Board in January 2021, concerning "Supervisory Expectations on climate-related and environmental risk: request for self-assessment and implementation plans", through which Banks were asked to conduct a self-assessment of the variances found with respect to the expectations contained in the ECB Guide (Questionnaire A) and to provide action plans with a view to monitoring the impact of climate and environmental changes (Questionnaire B).
Banco BPM therefore sent "Questionnaire A" to the ECB within the envisaged deadline of 28 February 2021, in which a self-assessment of its internal processes had been conducted, with a view to assessing and adequately managing environmental and climate-related risks. Subsequently, it sent "Questionnaire B", containing the action plans to achieve the full alignment of the Group to the expectations of the ECB in this regard, based on the results that emerged during the self-assessment phase. The main actions envisaged were divided into the following macro-areas, the main elements of which are summarised below:

1. Business Model and Strategy: to take strategic decisions that are consistent with and respect the context in which it operates, Banco BPM needs to understand the impact of climate-related and environmental risks.

To this end, in the Strategic Plan presented in November 2021, the main strategic objectives as regards the management of climate-related and environmental risks were indicated, as well as the ways they can be integrated into the business and operations, also through Banco BPM's ESG Programme, which involves the company at all levels. Increasing sustainability skills in the departments involved for various reasons in these issues, particularly as regards the Risks and Credit areas;

2. Governance and Risk Appetite: when drawing up business strategy and when establishing business objectives, Banco BPM intends to consider the impact of climate-related and environmental risks, by including specific indicators that summarise the exposure to the risk in these areas in its Risk Appetite Framework (RAF), to allow the Board of Directors and the company functions involved to take decisions relating to the management of these risks. Furthermore, gathering all of the data, through external providers and specific internal initiatives (e.g. through questionnaires to customers), needed to define and develop adequate internal methods that enable these components to also be included in the current estimation models adopted by the Bank is of primary importance;
3. Risk Management: to be able to consider climate-related and environmental risks as key drivers for the other categories of risk included in the risk management framework, the physical and transition risks that the credit portfolio of Banco BPM Group is exposed to have to be identified, assessing them with relation to specific scenarios that the Bank could be exposed to. This can be implemented by defining KRIs (Key Risk Indicators)/KPIs (Key Performance Indicators) that expressly include climate-related and environmental risks in the RAF, promoting the development of a methodological framework able, inter alia, to integrate these factors into the definition and assessment of the customer's credit risk, and into loan origination, monitoring and pricing processes. In addition, the definition of Banco BPM's lending policies will envisage an analysis of the sectors most exposed to climate-related and environmental risks (so-called "controversial sectors") and these risks must be also assessed when drawing up business continuity plans and when implementing the frameworks for the management of operational, reputational, market and liquidity risks;
4. Disclosure: Banco BPM is required to publish information and results relating to climate-related and environmental risks retained significant, by developing reports in compliance with the expectations stated in the Non-Financial Reporting Directive (NFRD) and, progressively, to align with the recommendations of the Task Force on climate-related Disclosures.

Lastly, one of the other areas of focus and development within the ambit of the ECB's activities, are the fundamentally important stress tests on the risks originating from climate change, which will be conducted between January and July 2022 and which will involve Banco BPM in the preparation of bottom-up forecasts.

The main initiatives implemented in 2021

During 2021, Banco BPM defined and implemented numerous initiatives relating to analysing and managing climate-related and environmental risks, both as part of its own ESG Programme, and in response to the expectations of the ECB Guide on the subject, by preparing and submitting to the Tax Authority the detailed action plan (Questionnaire B), illustrated above.
More specifically, the activities that have been launched and completed, or are still in progress and under development in 2022, as well as in the following years, mainly regard two Workstreams of the ESG Programme:

- Governance: with a view to strengthening the organisational model that encompasses the various ESG dimensions, by better specifying appropriate roles and responsibilities, as well as reinforcing the reporting flows towards Corporate Bodies and updating/extending ESG KPIs to remuneration policies for top/middle management;
- Risk & Credit: with the aim, inter alia, of incorporating ESG factors and the associated risks in the Risk Appetite Framework, as well as in Lending policies, adopting an approach to optimise the risk-return ratio, which also takes the potential impact of environmental and climate change factors into account.

A summary of several of the main activities carried out in 2021, with particular focus on the Risk & Credit Area, are summarised below. For further details, please refer to the content of the Non-Financial Statement.
As part of the specific "Climate Transparency" initiative, Banco BPM has examined the potential physical and transition risks of the Group's credit portfolio, by mapping all of its exposures, with a view to assessing said risk factors (exposure to controversial sectors, transitional sectors etc.), identifying the most appropriate benchmark climate scenarios and defining the various methodological frameworks that must be implemented over time, in order to fully integrate climate-related risk into the Bank's decision-making processes.

As regards the Climate Scenario Analysis & Stress Test initiatives, instead, the inventories of the climate scenarios available were defined, while with regard to the RAF, ESG risks were identified and included in the Group's Risk Inventory, focusing specifically on defining adequate KPIs, to be used for the future quantification ad proactive management of climate-related risks. With regard to the area of Market & Liquidity risk, an initial materiality analysis was conducted on the climate-related risks of these portfolios, with a view to integrating them, at a later stage, into the existing framework and in monitoring and reporting processes.
Furthermore, the processes to identify climate-related and environmental factors in operational, reputational and business continuity risks, were reviewed. With regard, instead, to the Group's lending policies, a preliminary analysis was conducted to quantify environmental risk, defining the reference policies for the controversial sectors (Credit Strategies "lending policies" initiative).
To meet the new disclosure requirements resulting from the implementation of the EU Taxonomy, the definition of the data needed to measure eligibility at counterparty level was launched.
Lastly, specific questionnaires were prepared to send to customers, with a view to starting to collect data and information on climate impacts.
In parallel to the above-cited project streams, specific training activities were implemented in 2021, and a specific working group was established to look across the board at the IT aspects required to govern and manage the various projects.
Those presented represent just a part of the series of initiatives and projects that Banco BPM has been, is and will be committed to as regards climate change and to ESG in general.

Lease risk

With regard to the risks associated with finance lease transactions, save for that more generally referred to on the management of credit risk by the Group, it is important to note that, considering the run-off situation of the lease segment, the risks associated with the underlying assets are moderately significant and gradually decreasing.
As regards credit risk management and hedging/provisioning policies, it should be noted that the assessment of expected losses is conducted on the basis of the classification status and of the total exposure vis-à-vis the customer.
Among other aspects, as numerous years have now passed since the last contracts were entered into, the portfolio is almost exclusively comprised of "finished property" lease transactions, which typically have longer terms, but which are nearing their terms.

In relation to the mitigation of risks attributable to the assets, and specifically properties, the Group pays specific attention to verifying appropriate insurance coverage of the properties, in relation to both amortising contracts, providing for secondary cover that protects the Bank also in the event that the tenant has not contracted his/her own cover, and in relation to contracts terminated due to breach, also where the Bank has repossessed the property.

Regardless of the ordinary protections provided by contract, which assign liability regarding the compliance with and safety of the leased assets to the tenants, the Group significantly focuses on issues regarding the safety of properties, especially those that it once again takes possession of, with the resulting greater direct liability.
In particular, specific works are carried out on properties in order to minimise the risks and damages deriving from external factors, such as pollution, natural events or acts of vandalism, and internal factors, such as precarious stability, lack of security systems or the presence of parts made of asbestos.

Based on the organisational model adopted by the Group, the specialised oversight of those issues is guaranteed by the Leases 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 rates

In the light of the changes in legislation, the Group analysed the risks related to the reform of benchmark rates, with particular regard to the risk related to the cessation of the Euribor rate, which represents the main benchmark rate used by the Group to index loan contracts and for the assets underlying interest rate derivative contracts.

For further details, please refer to the content of Part A "Accounting policies" - Section 5 "Other Aspects", which, inter alia, illustrates the legislative development of the Interest rate benchmark reform (so-called IBOR, Banco BPM's projects as regards the "IBOR transition" and the qualitative and quantitative disclosure of the so-called Phase 2.

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 loss-limiting strategies to be implementing when these scenarios occur.
The Scenario Council, set up in 2019, is tasked with confirming or proposing a review of the scenarios used in Group processes, in light of external events or the Bank's specific vulnerabilities, also taking account of any considerations from top management deriving, for example, from substantial changes in the risk and profitability estimates, changes in the market or reference context, the introduction of new regulatory standards or specific indications of the Supervisory Authority, also identifying the related processes impacted and assessing their potential update. The updates of macroeconomic scenarios made by different external providers are examined continuously, assessing on each occasion whether to transpose them into the related strategic processes.
To better enhance and structure the activity performed by the Scenario Council, in 2021, the Bank defined a framework to update the macroeconomic scenarios, also supported by the definition of a method to identify materiality triggers for scenario changes, which if surpassed require the Scenario Council to be convened for an in-depth analysis of the scenarios that originated said overruns and a technical assessment of their adoption in the Bank's strategic processes.
In 2021, the Scenario Council met 7 times to continuously assess the changes in the external macroeconomic scenario and the impacts on the Bank's strategic and management processes.

Consistent with the aims of analysis and the principle of proportionality, the Group periodically performs stress tests with specific objectives associated with the main company processes, specifically:

- Risk Identification, as regards defining the materiality of risks, which is verified under ordinary and stressed conditions;
- Drafting the Risk Appetite Framework (RAF);
- Strategic and operational planning;
- Quantifying operational limits in stress scenarios (where envisaged);
- Calculation of IFRS 9 ECL;
- Internal Capital Adequacy Assessment Process (ICAAP);
- Internal Liquidity Adequacy Assessment Process (ILAAP);
- Liquidity Contingency Plan;
- Recovery Plan.

Vertical stress tests are also included in these tests and conducted at the portfolio and individual risk level, based on sensitivity or scenario analyses, also aimed at identifying potential concentrations of risks.

Specific stress tests are also conducted for management and regulatory purposes. Known as Supervisory Stress Tests, they are conducted in accordance with the timescales dictated regularly by the Supervisory Authority.

The Group uses these tools to support other risk management and measurement techniques, with a view to:

- providing a forward-looking vision of risk, of the relative economic and financial impacts, evaluating the overall solidity of the Bank in the event that adverse scenarios or alternative ones with respect to those of reference occur, therefore providing support to the preparation of the budget and of the business plan;
- contributing to the most important planning and risk management processes, as regards setting RAF thresholds and establishing the Group's risk/return objectives;

- assessing the development of risk mitigation and recovery plans in certain stressed situations. In fact, the stress tests are used to establish specific internal trigger thresholds, which once reached trigger the resolution plans as envisaged by the BRRD (Bank Recovery and Resolution Directive) regarding the prevention and management of banking and investment company crises.

During the first half of the year, the Group participated in the EU-wide Stress Test 2021 exercise led by EBA/ECB aimed at testing the business model and the resilience of banks on the basis of 2 scenarios, baseline and adverse, developed by the Regulator. The exercise, launched in January 2021, was concluded on 30 July 2021 with the publication of the results by the EBA.

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 - on site and remotely - at the Group Banks and Product Companies, under a specific outsourcing agreement, namely as Parent Company. The head of the Audit Function has direct access to the Body in charge of the control function and enjoys unrestricted communication with the same, without the need for mediation.
On the one hand, the Audit Function of the Parent Company is responsible for monitoring the regular performance of operations and the evolution of risks, with a view to third-level controls, including on-site and remote 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; furthermore, for the only foreign entity belonging to the Group (Banca Aletti Suisse), it conducts its own audits in addition to those conducted by the local structure assigned audit activities and coordinates with the same where necessary.
When performing its duties, the Audit Function takes the provisions of the widely accepted professional standards into account.
In addition to the usual internal audit activity, the Audit Function also provided advisory services, offering its experience mostly by participating in projects and working groups.

The Risk Function reports directly to the Chief Executive Officer of Banco BPM S.p.A.; the head of the function has direct access to the Body with strategic supervision functions and the Body in charge of the control function and communicates with them without restrictions or intermediaries.
The Parent Company's Risk Function is assigned the role of control function pursuant to Circular 285/2013 of the Bank of Italy, it guarantees the functional coordination of risk control measures of Group Companies and oversees - at Group level and in an integrated manner - the governance and control (Enterprise Risk Management), development and risk management (Risk Models) processes and the validation process of internal risk measurement models (Internal Validation).
The Risk Function and its internal structures are independent from operational functions and activities. In particular, they are responsible for:

- proposing and developing guidelines and policies regarding the management of the relevant risks, in accordance with the company's strategies and objectives;
- coordinating the implementation of the guidelines and the policies regarding the management of the relevant risks by the units assigned by the Group, also in different corporate areas;
- guaranteeing the measurement and control of the Group's exposure to the different types of risk and of the relative capital absorption, verifying the implementation of the guidelines and the policies established for the management of the relevant risks and the compliance with the thresholds established within the Group's Risk Appetite Framework;

- guaranteeing the development and continuous improvement of the models and metrics for the measurement of risk - of the First and Second Pillar in base and stressed conditions - also through projects to implement and enact advanced models, to align with the standards that are gaining recognition at international level over time, to implement supervisory regulations and directives, and to develop increasingly effective controls;
- overseeing the validation process of the internal models used to calculate capital requirements;
- overseeing the process to verify, through second level controls, that the trends of individual exposures are being correctly monitored, as well as to assess the consistency of the classifications, the appropriateness of provisions and the adequacy of the recovery process;
- ensuring that the information used for measurement, monitoring and reporting of the risks under their responsibility were subject to a robust Data Quality and Aggregation framework;
- formulating mitigation proposals, specifically through the use of insurance or financial cover, in order to externalise the risk, assigning the assessment and execution thereof to the functions in charge, monitoring the performance;
- with reference to the Covid-19 pandemic, ensuring adequate monitoring and support to the Corporate Bodies in the understanding and implementation of corrective measures by providing a risk opinion on the robustness and appropriateness of the processes and the choices of method made, particularly by the credit functions, and in general when making long-term forecasts.

The head of the Risk Function is also responsible for assisting the Corporate Bodies in performing their respective duties in terms of the Internal Control System, by:

- intercepting all the relevant information required to quantify and manage risk promptly and in a coordinated manner;
- ensuring a more integrated ability to process, organise and contextualise the information acquired and to make assessments (both in terms of risk and asset value) separately from other cases;
- drawing up a summarised (integrated) report on company risks and, therefore, enabling the Corporate Bodies to gain a better understanding of the main problems identified by the second-level internal control system;
- promptly implementing corrective measures, in accordance with the problems and the relative priorities indicated by the second-level Internal Control Functions.

The Internal Validation Function, which reports directly to the Risk Function, independently oversees the internal validation processes of the risk measurement and management systems. The Function assesses the model risk implicit in the methods used to measure risk and conducts tests to validate the calculation of capital requirements with reference to the application of internal validated models.

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 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 2021, the Compliance Function worked on identifying the applicable regulations and assessing their impacts on company processes, models and procedures, providing advice on compliance, as well as assessing compliance with internal regulations as part of the issuing process. In application of the annual or specific plan required by the Corporate Bodies or the Supervisory Authorities, the Function conducted compliance checks to evaluate the existence and adequacy of governance, organisation, control and IT measures of the Group, their strength and effectiveness in mitigating compliance risks, and the compliance of the operating practices and conduct of employees or workers, reporting any situations of non-compliance and identifying possible remediation actions, monitoring their implementation. The Compliance Function also provided advice and assistance to the Group's corporate structures on topics where compliance risk is important, particularly as regards preparatory work relating to the issue of internal regulations and sales proposals.

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

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 businesses 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.
  From March 2021, the Regulator authorised the Bank to use a more updated IRB framework with the introduction within the various areas of application (regulatory and operational) of new PD, LGD and EAD parameters for retail customers and corporate customers. The effects of these new parameters incorporate the new regulatory definition of default (EBA/GL/2016/07) and anticipate a range of aspects regarding the EBA guidelines on the estimation of PD, LGD and downturn (respectively EBA/GL/2017/16 and EBA/GL/2019/03).
  In 2021, the Bank launched an important project to review the AIRB system, with the aim of completing the process to align the current credit risk models with the regulatory requirements originating from the EBA Guidelines on the development of PD and LGD models (EBA/GL/2017/16), estimation of downturn (EBA/GL/2019/03, as well as EBA/RTS/2018/04) and Credit Risk Mitigation techniques (EBA/GL/2020/05). The projects to review credit risk models, the assessment criteria of the same (backtesting framework) and the adaptation of the various Bank processes, led to the submission of an AIRB model change application to the Regulator in the first quarter of 2022;
- market risk: following the request submitted in 2019 by Banco BPM Group, on 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 uses the extended model to calculate the capital requirement for Market Risk. Said requirement is therefore calculated on the basis of VaR, Stressed VaR – including the specific risk of debt securities – and IRC. During 2021, significant refinements were made to the internal model, with a view to fulfilling the Obligations of previous inspections: the changes regarded, in particular, the measurement of foreign exchange positions, the quality of VaR, Stressed VaR and IRC market parameter data, the process of identifying and managing Risks Not In Model Engine (RNIME) and the Incremental Risk Charge (IRC) calculation method. As regards the latter, a limitation is in place with a 10% Add-On on an individual and consolidated basis, until several relative methodological findings have been resolved;
- 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).

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 on reporting and disclosure of exposures subject to measures applied in response to the Covid-19 crisis (legislative and non-legislative moratoria as well as new loans guaranteed by the State or other Public entity).
For further details and information, please refer to the content of the specific paragraph entitled "Information on exposures subject to legislative and non-legislative moratoria on newly originated exposures subject to public guarantee schemes" contained in the document "Disclosure to the Public by Entities (Pillar III)" of Banco BPM, available on the website www.gruppo.bancobpm.it.

Impacts resulting from the Covid-19 pandemic

The period of global health emergency, which started at the beginning of 2020, has impacted the method of calculation of expected losses and the management of credit exposures. More specifically, the highly asymmetrical nature of the macroeconomic shock that occurred and the consequent mitigating measures implemented by the different Competent Authorities have imposed the introduction of model changes, and ad hoc fine tuning, of the models currently used, with a view to enabling the real risk level of the Group's portfolio to be correctly measured.
Said model changes and fine tuning, which regarded both the method for estimating expected losses and the stage assignment criteria, led Banco BPM to adopt, from June 2020, a method based on sector-related future rates of

default, able to factor in the mitigation measures consequent to the various forms of support introduced by the Italian Government (Heal Italy and Liquidity Decree).
In the first half of 2021, this method was modified by introducing the use of new sector satellite models developed by the Group for specific sectors of economic activity impacted to a lesser extent by the support measures cited above (particularly with reference to the moratoria).
For a full illustration of the changes to the models and to the staging criteria, please refer to the paragraph below "Changes due to Covid-19" in section "2.3 Measurement methods for expected losses".

It should also be noted that, within the context of the Covid-19 health emergency, from 2020, Banco BPM Group has provided numerous customer support measures, including moratoria pursuant to law (Heal Italy Decree), 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 envisages greater room for manoeuvre on this (particularly with the support of SACE). In accordance with the EBA guidelines, during the period from March to November 2020, the Group opted for the opportunity of applying the so-called EBA temporary framework, on the basis of which, new loans were exempted from the assessment of financial difficulties ("forbearance"), with the exception of restructuring, and the moratorium measures that complied with the requirements defined by the Regulator. Although the EBA temporary framework was applicable until 31 March 2021, from November 2020, the Group resumed the ordinary process of assessing forbearance for all support measures granted to the customer.
In order to carry out accurate monitoring of the overall support measures granted, Banco BPM Group set in motion specific customer interaction with those benefiting 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 - with the aim of highlighting borrowers with potential financial difficulties. For the counterparties selected in this way, the Group launched a customer relations programme through specific contact campaigns (also "early engagement" campaigns). The above activity, performed by the commercial network, enabled accurate feedback and qualitative information on the customer to be collected, which were made available to the function reporting to the Chief Lending Officer (CLO), for the appropriate assessments made by a dedicated function (Monitoring and prevention).
With a view to developing a better process to manage non-performing exposures, the functions reporting to the CLO, in collaboration with the Risk Function, started to work on specific activities to 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 Covid-19 and (ii) interaction with said counterparties to gather more updated information on their economic and financial situation and to check, where envisaged, compliance with contractual covenants.

2. Credit risk management policies

2.1 Organisational aspects

The Group governs credit risk by assigning specific responsibilities to the Bodies, functions and Committees of the Parent Company and its Subsidiaries, in line with its Internal Control System and on the basis of an organisational model that provides for the centralised control within the Parent Company to convey a consistent policy and governance when managing the risks.
The credit risk management policies represent the reference framework for the operations of the structures allocated with risk management, they are updated annually as part of the RAF and they guide credit policies in terms of the evolution of the company's activities, the expected risk profile and the external scenario.
As required by supervisory regulations, the Group has drawn up an internal ex-ante management process for Most Significant Transactions (MST) and for the supervision of large exposures, controlled by specific company regulations in this regard.
The Parent Company draws up Group credit policies, in parallel with the budget process and in line with the strategies, the risk appetite and the economic objectives approved by the Board of Directors.

To measure the different aspects and components of credit risk, the Group adopts models and metrics developed in accordance with supervisory regulations, with a view to guaranteeing the sound and prudent management of the risk

positions assumed and to comply with regulatory requirements, also assessing the effect of changes in the scenario to which the credit portfolio is exposed.
These models must periodically undergo backtesting and stress testing in order to guarantee their statistical and prudential robustness, validated by an operational unit that is independent to the function responsible for developing them, reviewed at least annually by the Audit Function.

From a regulatory perspective, risk-weighted assets (RWA) are calculated by a method based on internal ratings (AIRB Approach), risk segments/parameters validated by the Supervisory Authorities and using the Standard Approach for the other exposures, in accordance with the Group's roll-out plan. As regards the scope of Banca Akros and Banca Aletti, the standardised regulatory approach is applied.

The risk parameters of the models are periodically calibrated.
The development and updating "model change" process for the rating models entails a series of activities and procedures, the aim of which is to define, initially or when updated, the rating models applicable to credit exposures, namely statistical or empirical models to confirm the credit assessments made by the Companies of the Banking Group and to enable the capital requirements of the same against the risk of unexpected losses to be calculated.

With regard to the segments validated, these include:

- five rating models (4 for Business customers, 1 for Private customers), which use financial statement, performance and qualitative information (Business) and sociological/performance (Private), calibrated adopting a long-term approach (Through-the-Cycle), in order to neutralise the possible impacts of an expansive or recessive phase of the economic cycle;
- two LGD performing models (1 for Business, 1 for Private customers);
- two LGD non performing ELBE (Expected Loss Best Estimate) and Defaulted Asset models, separate for Corporate and Private customers;
- two EAD models for Corporate customers and for the Private customer portfolio respectively.

From an operational perspective, the unexpected loss on credit risk is measured by quantifying the economic capital through the application of a Credit VaR portfolio model.

The key component of the credit risk measurement models is the Rating System, namely a structured and documented set of methods, organisational and control processes and procedures to organise databases, which enables the relevant information to be collected and processed, to reach summary assessments of the risk level of a counterparty and of individual credit transactions.
The rating system is incorporated in the decision-making processes and in the management of the company's operations, playing an important role in the following Group processes:

- Lending policies;
- Business planning;
- Capital planning;
- Risk Appetite Framework;
- Product pricing;
- Granting loans;
- Monitoring and managing loans;
- Provisioning;
- Risk measurement and control;
- ICAAP and ILAAP;
- Management of the bonus system;
- A.Ba.Co. (other funding instruments).

The procedures for the operational use of the rating system in the various company processes are regulated by regulations issued over time in the above-mentioned areas. The regulatory framework set in place to oversee credit risk, developed in accordance with company standards, is based on specific Regulations and Process Rules, specifically the Regulations on counterparty credit risk and the Regulations for Limits of Autonomy and powers in the granting and management of loans.
The principles established in the Regulations issued have been applied and included in the wording of the regulations, for the processes included in company taxonomy.

The processes for the granting of loans guarantee an adequate, objective and harmonised assessment of creditworthiness and of risk, through the use of the rating system to guide the decision-making steps.
More specifically, the ratings are used to define the scope of decision-making, by means of a weighting method based on an assessment of the creditworthiness of each counterparty, summarised by the rating, as well as on the measures to mitigate the risk assumed.
An assessment of the risks already assumed or to be assumed is conducted for each individual customer and Risk Group, namely the set of parties related through the ties considered for the registration of Economic Groups, as well as joint account holders and those with a joint-obligation, as regards the entire Banking Group.
The criteria for the allocation of responsibilities to the various parties/organisational units that take part in the loan granting process are based on principles of separation in order to guarantee independence of judgement and prudence in the assumption of risk.
To this end, with regard to the activities envisaged in the loan granting process, the roles of "Proponent", of "Decision-maker" and of any "Intermediate body that gives an opinion" are clearly separated.
In the case of "non-resident" customers, compliance with the authorised maximum limit for "Country Risk" must first be checked, before the assumption of "Credit Risk", "Delivery Risk", "Placement Risk" and "Evidence Risk".
The "Authorisation, monitoring and management of overdrafts and/or past due loans" Rules establish the continuous monitoring activities that the Manager must perform when managing the account, with regard to overdrafts, past due instalments not paid and drawdowns on expired or reduced loans.
The management of overdrafts is accompanied by a specific procedure that has made access to data regarding positions classified as "becoming past due" more efficient, enabling both current and historical information available to be consulted, right down to the details of an individual account, as well as obtaining lists based on selection criteria entered by the user.
Forborne exposures are identified as part of the loan granting process and, therefore, through the ELA (Electronic Loan Application) function.
The identification of forborne exposures is carried out for both performing loan positions included in the watchlist, and for those classified as non-performing loans, for which a status of financial difficulty has been found (said status is objective for the positions classified as non-performing) and the granting of a tolerance.
The Account Manager, in the role of "Proponent", is responsible for:

- assessing the customer's situation of financial difficulty. To reach an opinion, all of the information from the preliminary check used to analyse creditworthiness in the ELA, including a specific additional checklist that differentiates between Business and Private customers;
- assessing the proposed award of forbearance measures;
- entering the Account Manager's assessment of the customer's situation of financial difficulty or otherwise in the information system and identifying award or otherwise of the proposed forbearance measures.

The Intermediate Body that gives an opinion is required to share the Proponent's assessments.
The Decision-making Bodies are responsible for ascertaining the consistency or otherwise of the assessment made by the Proponent.

The evidence expressed at the time of the decision on the individual line of credit automatically identifies all accounts related to it as "forborne".
Once classified as forborne, the exposures are managed in accordance with the relevant processes ("Monitoring and managing non-performing loans" for "Forborne non-performing exposures" and "Monitoring and managing loans: watch list" for "Other forborne exposures").
Decisions regarding situations in which the exposure is no longer forborne, or the reclassification of "Forborne non-performing exposures" as "performing" are assisted by the information system.
In this regard, all positions that surpass the objective parameters established by EBA regulations are automatically highlighted and the proposals are subject to a structured process which enables all of the available assessment elements to be examined and historicised.
The reclassification of a "performing" exposure, already the subject of forbearance measures, to a higher risk category, is automatic if the events established by EBA regulations occur.

Country Risk, which identifies the risk factors relating to the political, macroeconomic, institutional and legal situation of a foreign country, is considered, with regard to all business and financial transactions, if the counterparty is resident or has registered offices in a foreign country. Country risk is based on two main elements:

- political risk, namely the set of factors regarding the political and institutional system that may influence the country's willingness to honour its commitments;

- transfer risk, namely the set of economic factors that can influence the possibility that a certain country may establish, as an element of its economic policy, limits to the transfer of capital, dividends, interest, commission or royalties to foreign creditors and/or investors.

In the case of "non-resident" customers, compliance with the authorised maximum limit for "Country Risk" must first be checked, before the assumption of "Credit Risk", "Delivery Risk", "Placement Risk" and "Evidence Risk".
With regard to Transfer Risk, note that this risk is included in the credit portfolios that use ECAI ratings (exposures towards Governments and Central Administrations, Supervised Intermediaries and non-resident Corporate customers). The residual limited scope (non-resident customers without ECAI), is monitored periodically by the Parent Company's Risk Function.
The organisational structures of the Loans Function and of Loans of the Territorial Departments are defined in accordance with the credit granting, monitoring and management processes.
Furthermore, the Head of the Loans structure of the Territorial Departments reports functionally to the Head of the Loans Function and the Head of Loans for the Business Area, who, in turn, reports functionally to the Head of the Loans structure of the Territorial Department.
In terms of procedures and tools to support the processes, attention is drawn to the following:

- in "Loan Granting" processes, the Electronic Loan Application (ELA) procedure provides support to the Network in the preliminary examination, proposal, approval and finalisation stages and automatically calculates decision-making scope;
- the web-based Electronic Loan Application provides support to the loan granting process through a specific work flow based on parameters and enables each step of the process of preliminary examination - proposal - forwarding to higher Bodies and approval to be traced, as well as automatically checking the documents required and the validity of the assessment elements;
- as regards measures to assist "Private", "Small Business" and "Small Business Operator" customers, decision-making engines are used (ScoPri, Transact), to establish the financial feasibility of the proposed transaction, which make a summary assessment of the increasing risk;
- the process of monitoring and managing performing loans is assisted by a special procedure on a web platform that also permits the automatic interception of positions and classification on the watchlist, as well as the following of their management and verification of compliance with the decisions made. Positions are intercepted both when the thresholds for specific parameters are exceeded and via the use of an automatic indicator, which is calculated monthly, capable of producing a summary assessment of the performance of the account. This indicator can be searched both with reference to the month of processing and as an average indicator for the period (last six months) and can be integrated within credit processes as a parameter of evidence;
- to support the monitoring and management processes of non-performing loans, broken down by status (Past Due and Substandard; Restructured; Bad Loans) a new procedure "Electronic Management Procedure - EMP" has been created;
- the credit assessment processes are conducted using the "IFRS 9 SUITE" IT procedure.

The Loans Function prepares a quarterly report—in conjunction with the publication of the quarterly financial statements data—which includes a series of summary views on the main dimensions of loans. Specifically, the report focuses on the national scenario, the distribution of Group loans, the distribution of loans by sector, the distribution by rating classes, the development of loans and mortgages to Private customers – Consumer households.
The Risk Function produces monthly reports on "Credit Risk – Portfolio Model", which include evidence with group, company, economic sector and geographical area views.
In addition, a summary document has been introduced, with a monthly frequency, relating to the overall Pillar I and Pillar II risk trend, to support the periodic integrated Group risk report, with a view to monitoring the evolution of economic capital and to report the appropriate figures to the Corporate Bodies.

2.2 Management, measurement and control systems

Banco BPM Group uses an elaborate set of instruments to grant and manage credit and to monitor portfolio quality.
Rating plays a key role in loan granting, credit product disbursement, monitoring and performance management processes. In particular, it plays a role in defining guidelines for credit policies, in deciding which bodies are competent to approve loans, as well as on the mechanism for the automatic renewal of uncommitted credit facilities, and it contributes to determining automatic interception of the monitoring and management process (Watchlist).

To proactively manage counterparties that show signs of a deterioration of credit risk, the Group utilises a specific platform to intercept, monitor and manage anomalous exposures, as well as a performance scoring model to intercept the first signs of deterioration of the counterparty, before the default event. Considering the new EBA guidelines on the definition of default, applied by the Group from 1 January 2021, the above-cited monitoring platform incorporates the new rules relating to overdue exposures, making provision, from the first few days in which the overdue event materialises, for intervention processes differentiated by counterparty type and level of exposure, according to a management approach which is as business-oriented as possible, to prevent deterioration in credit risk and the consequent restoration of the ordinary management of the relationship. More specifically, the process currently in place envisages the interception of overdue positions on a daily basis, and their subsequent management according to a structured procedure, which entails clustering the portfolio with anomalies and the subsequent definition of interventions according to a defined scale of priorities. Although, as at 1 January 2021, the new definition of default led to an increase of non-performing exposures following the new rules of automatic interception of non-performing past-due positions (+113.4 million), the monitoring activities illustrated above enabled the increase in gross non-performing past-due exposures recorded as a whole in 2021 to be reduced to only 3.6 million. Moreover, this development follows the extraordinary support measures granted to customers with relation to Covid-19 initiatives, primarily moratoria.
For further details on the new definition of default and on the stock of non-performing past-due exposures, please refer to the content of the paragraph entitled "New Definition of Default (DoD)" contained in "Section 1 - Risks of the consolidated book".

The methodologies underlying the risk parameters PD (Probability of Default), LGD (Loss Given Default) and EAD (Exposure at Default), are used not only to assess the counterparty when granting, monitoring and renewing credit lines, but also to collectively write down receivables in the financial statements, in compliance with IFRS 9.
The credit assessment to calculate the amount of expected losses of non-performing loans differs according to the status and size of the exposure. The expected losses valued analytically by the manager are periodically reviewed.
For prudential purposes, credit risk monitoring at portfolio level is also based on a default model that is applied on a monthly basis to credit exposures of Banco BPM Group. For more information on the general features of this model, please refer to the following paragraph "E. Prudential consolidation - Credit risk measurement models".
For other exposures - other than performing loans with ordinary and financial resident customers - risk is controlled through the use of supervisory regulatory metrics (Standard).

Information on including ESG factors in credit processes

The main objective of the credit policies of Banco BPM Group is to guide the growth of volumes, with a view to optimising the risk-return ratio and to containing the future cost of credit risk, by already incorporating various clear ESG-related aspects from 2021, particularly as regards the Real Estate and Agrifood sectors. These aspects have been implemented in the loan application process through dedicated tools, which envisage acquiring information also relating to factors more linked to the environment and the climate during the proposal and approval stage.
The paragraphs below illustrate the changes that will be introduced in 2022.
For 2022, the credit policy framework will be fully revised, with a view to the extensive integration of the ESG assessment layer, developed in accordance with the guidelines of the same name stated in the 2021-2024 Strategic Plan. More specifically, the framework - which envisaged the adoption of different strategies depending on the rating, the assessment of the company's positioning (in relation to sector averages and to the outlook for the sector) and on an analysis of financial sustainability - will be integrated with a new assessment profile, the "ESG Score". This indicator represents a summary measurement of the information acquired regarding the environmental factors indicated below, using differentiated application/calibration approaches depending on the type of counterparty.
More specifically, the assessment of the ESG profile is based on four components:
- sector-based analysis to understand the potential transition risks relating to the micro-sector of reference;
- questionnaire to assess the counterparty (strategies and approach taken in terms of ESG) and the transaction;
- verification that the financed transaction is consistent with the European taxonomy;
- analysis of ESG financial sustainability (for example, the presence of investments with ESG objectives) incorporated in the future assessment tools (medium-long term business plan).

The first component of the ESG analysis is used to provide an indication of the transition risk associated with the sector to which the counterparty belongs (identification of high risk sectors, which are more exposed in view of a transition towards an economy with low carbon emissions and that is more environmentally sustainable).

Transition risk is expressed on a scale of 5 classes (Very High, High, Medium; Negligible, Green), with a specific treatment for the Construction and Real Estate sectors. The sector-related details are provided by the 4-digit ATECO code, and the elements analysed to identify the classification are European regulation (Taxonomy, the Emission Trading Scheme), emissions, soil/water pollution, technology and market development.
The main objectives of the ESG layer integrated into the 2022 reference framework for credit policies, consistent with the ESG guidelines already presented by Banco BPM in the Strategic Plan, regard:

- the application of a negative screening on sectors with a Very High transition risk (coal mining, manufacture of products using coal-fired blast furnaces, production of energy from coal) with a run-off target;
- the introduction of initiatives to encourage the Green reconversion of sectors associated with fossil fuels through new incremental disbursements dedicated to transition projects (target >80%);
- the introduction of incentive/disincentive mechanisms based on the reference sector (and therefore on the transition risk) and of the assessment of the counterparty and of green operations (new lending target towards green sectors or operations >65% by 2024).

Considering the sound distribution quality of the Banco BPM portfolio and the highly innovative scope of the topics under analysis, a gradual approach for the introduction of the ESG layer has been defined.
This approach envisages releases over time, which will enable the new tools to be tried out in the field and to progressively monitor the impacts on the portfolio.
In the stage activated in 2022, the following steps are envisaged:

- the inclusion of negative screening for sectors related to coal mining and to the production of energy from coal;
- the integration of Transition Risk as regards micro-sectors and counterparties;
- the introduction of the ESG questionnaire on specific segments/sectors and certification for so-called Green operations (namely aligned with the European taxonomy).

The ESG questionnaire is comprised, in turn, by two macro-sections:

- the "counterparty" section enables the Bank to assess to what extent the company analysed has defined policies and strategies (forward-looking perspective) to mitigate the main ESG risks in the sector it operates in, through qualitative questions (ESG strategy, industry specific) in the Environment, Social and Governance spheres, with variables differentiated depending on the sector-related risk and quantitative KPIs in ESG dimensions (for example, greenhouse gas emissions in the Environment dimension), also with a view to reporting and risk assessment;
- the aim of the "transaction" section is to assess whether the loan is directly related to an ESG objective and is therefore virtuous, regardless of the counterparty's business activity.

This approach will enable the Bank to increasingly acquire in-depth information on its customers as regards these topics, by gradually including the changes that will be made to the EU taxonomy over time, and by integrating the layer of ESG financial sustainability also with the assistance of market tools that the Bank will equip itself with over the year.
To facilitate the process of acquiring these new approaches, specific training courses were immediately organised for managers and other professional staff involved, with a view to spreading an ESG culture, as well as using the new products and tools made available by the Bank. In parallel, thematic workshops were held for customers, addressed in particular to SMEs (important target for the Bank), as well as customers that represent Italy's manufacturing base.

The models currently used by the Group to calculate the expected losses of performing loans (ECL) do not directly incorporate the risks resulting from the exposure of the borrower counterparty to aspects relating to climate and environment; nevertheless, these aspects are considered indirectly to the extent that the ECL calculation models consider the expected impact of the evolution of macroeconomic variables on credit risk parameters, also through the use of sector-based satellite models, namely of models that define the functional relationships between the evolution of macroeconomic variables and the Bank's risk parameters (PD and LGD). The same can be applied to non-performing exposures measured on a "lump-sum" basis.
With regard instead to non-performing loans to be assessed analytically, the risks related to climate and the environment are taken into consideration in the estimate of the present value of envisaged future cash flows, on an essentially discretionary basis and together with other pieces of information.

2.3 Measurement methods for expected losses

Changes due to Covid-19

With regard to the calculation of expected losses (ECL), in 2021, the process of revising and fine-tuning the current models, which started in 2020, continued, with a view to more accurately reflecting the expected losses of performing exposures, also as a consequence of the economic disruption caused by the Covid-19 crisis. This process moreover envisaged a series of post model managerial adjustments, in order to factor in certain measurement elements not adequately intercepted by current models.
The paragraphs below provide an illustration of the changes introduced to models and to the criteria to calculate expected losses following Covid-19, as well as further changes introduced in 2021 as part of the continuous process of revising models, depending on the type of intervention (assessment of the SICR, estimating forward-looking information, other changes to the model, and the use of any management overlays).
Overall, the above-cited interventions led to an increase in the Group's credit exposures classified as "Stage 2" with respect to those recorded at the beginning of the year, and even more so, with respect to the pre-Covid-19 situation. As highlighted in the Group Report on operations (see, for a comparison, particularly, the section on results), for the portfolio represented by loans to customers, gross exposures classified as "Stage 2" as at 31 December 2021 amounted to 11.7 billion (10.97% of total performing exposures), up by 4.5 billion compared to the start of the year (when they totalled 6.82% of all performing exposures).
The total coverage of performing loans was 0.43%, substantially aligned with that recorded as at 31 December 2020 (0.44%). In detail, the average coverage of "Stage 2" exposures was 2.82%, compared to 4.32% as at 31 December 2020.
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.

<u>Assessment of the SICR</u>

With regard to the stage assignment framework, to draw up the 2021 consolidated financial statements, some changes were made to the criteria used to assess any Significant Increase in Credit Risk (SICR), with respect to those used last year, which consequently conditioned the classification of performing exposures into stages (Stage 1 and Stage 2).
More specifically, in 2021, a new quantitative rule was introduced, which if met a SICR was assumed with respect to the date of disbursement of the loan. Said rule, called the "Threefold effect" represents a backstop criterion insofar as it envisages the automatic classification as Stage 2 of all loans granted by the Bank to counterparties that between the date of disbursement and the date of reference recorded an increase in the annualised probability of default of 300%, with the exception of cases in which the PD on the reference date was in any event lower than 0.30%, namely than the threshold considered to represent low credit risk.
The introduction of this criterion follows the analyses made during 2021, after receiving further instructions on the identification and measurement of credit risk in the context of the pandemic, contained in the ECB letter dated 4 December 2020.[1] In said letter, the ECB invited banks to consider, inter alia, the opportunity of adopting an increase equal to or higher than the 300% of the annualise lifetime PD as an indicator of SICR[2].
A further change was the classification as Stage 2 of credit lines of less than 500 thousand euro disbursed to counterparties which, by virtue of the provisions of the Support two Decree, requested an extension of the moratorium pursuant to Article 56 of the Heal Italy Decree, initially set by the Italian Government as 30 June 2021, to 31 December 2021.
The changes to the quantitative SICR model and to the "Backward-looking approach", already introduced in 2020, were confirmed for 2021 as well, as explained in more detail below.
With regard to the first change, to better reflect the effects of Covid-19, from the 2020 financial statements, the method of the quantitative model of the SICR was 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 of risk, 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.

[1] More specifically, this regards the letter sent by the ECB to European banks on 4 December 2020 entitled "Identification and measurement of credit risk in the context of the coronavirus (Covid-19) pandemic".
[2] Said threshold is justified by that observed by the ECB in the most recent quantitative surveys conducted before the beginning of the pandemic.

With regard to the second change, in accordance with that already applied at the time of preparation of the 2020 financial statements, counterparties that had been previously classified as Stage 1 due, solely, to the benefits resulting from obtaining a government support measure were brought back to Stage 2 ("Backward-looking approach").

Lastly, as part of the continuous process of revision of models currently used, with regard to counterparties of "Structured Finance Operations - SFO" (Income Producing Real Estate, Real Estate Development, Project Financing and Leveraged & Acquisition Finance), previously considered "unrateable", during 2021, a specific method was developed to calculate the operational rating. This enabled a new staging rule to be introduced, based on the counterparty rating, which envisages the classification of exposures relating to counterparties whose ratings have belonged to a medium/high risk band for at least six months, as Stage 2.

Estimate of forward-looking information

With reference to the inclusion of forward-looking information[1] from 30 June 2020, non-proprietary satellite sector-based models have been introduced, which enabled the consequences of the pandemic on the different sectors of the Italian economy to be assessed. In 2021, in addition to the usual update of the time series of risk parameters, a new proprietary sector-based satellite risk model has been developed, which has partly replaced the non-proprietary sector-based satellite model acquired from third parties and used for the financial statement valuations of the previous year. In any event, the latter continued to be used to calculate the effects on the risk parameters of the business sectors that most benefited from the moratoria introduced by the Italian Government following the pandemic crisis[2].
In addition, to calculate expected losses on performing credit exposures as at 31 December 2021, the macroeconomic scenarios and the relative probabilities were updated on the basis of the information provided by a leading provider, available at the beginning of 2021, based on three different scenarios ("baseline", "adverse" and "favourable"), as approved by a specific Scenario Council of Banco BPM, as envisaged by Group policy.
For further details, refer to the paragraph "Inclusion of forward-looking factors", below.

Other amendments to the model

In 2021, the internal models to calculate IFRS 9 risk parameters were revised, in order to implement the new definition of default (DoD) and, more generally, to reflect the project to revise A-IRB models. As illustrated in the previous "Section 2 - Risks of prudential consolidation", from March 2021, the Regulator authorised the Bank to use a more updated IRB framework with the introduction within the various areas of application (regulatory and operational) of new PD, LGD and EAD parameters for retail customers and corporate customers. The effects of these new parameters, which moreover incorporate the new regulatory definition of default (EBA/GL/2016/07) and anticipate a range of aspects regarding the EBA guidelines on the estimation of PD, LGD and downturn (respectively EBA/GL/2017/16 and EBA/GL/2019/03), were also introduced in the framework for the calculation of the IFRS 9 ECL, for the aspects retained compatible.
With regard to DOD regulations, the main change regarded the default rate forecasts, with an impact on the probability of default (PD) parameter, which was estimated by taking into account time series consistent with the dictates of the new regulation, and on the loss given default (LGD) parameter, which was calibrated to take the changes on default rates into account.
A further refinement introduced in 2021 relating to ECL calculation is represented by the full use of the information of internal models that assess the risk of Structured Finance Operations - SFO (Income Producing Real Estate, Real Estate Development, Project Financing and Leveraged & Acquisition Finance) through the calculation of the risk parameters relating to each individual operation to better assess the specific characteristics deriving, for the most part, from the relative business plans. With regard to the LGD parameter, following the activities conducted by the Internal Validation function, a regulatory floor of 15% was introduced for the above parameter, with respect to the results of the model in question.
Lastly, in line with the approach adopted last year, the calculation of expected losses as at 31 December 2021 evaluated the credit support actions introduced by the Italian Government towards businesses and households, through the banking system, in favour of which first application guarantees on loans granted to businesses are

[1] Conditioning of credit risk parameters (PD and LGD) calculated at a Point-in-Time, to estimate the future change based on the expected evolution of the main macroeconomic variables (e.g. GDP, rate of unemployment etc.)
[2] In particular, this regards sectors in which the percentage of moratoria was higher than a threshold corresponding to the average value of the Group portfolio of non-financial corporations at the beginning of 2021.

provided (Art. 13 of the Liquidity Decree) rather than subsidiary guarantees on 33% of the suspended instalments (Art. 56 of the Heal Italy Decree). In more detail, to calculate expected losses, the cash flows resulting from the enforcement of the above-cited state guarantees were taken into account, as better illustrated in the paragraph below "Expected Credit Loss - Stage 1 and Stage 2".

Use of any management overlays

In addition to the amendments illustrated (so-called in-model adjustments), at the time of preparation of the 2021 financial statements, the application of further "post model adjustments/management overlays" was deemed necessary. More specifically, greater value adjustments were recognised against performing credit exposures totalling 70.5 million, entirely related to the Parent Company, (56.0 million relating to cash exposures and 14.5 million to off-balance sheet exposures), of which 50.5 million against exposures classified as Stage 2. Said management overlay, which effectively neutralised the positive economic impacts that would otherwise have been recognised, was mainly justified by the fact that the estimation models applied may not fully capture the expected losses of the exposures that benefited from the state Covid-19 moratorium, which finished at the end of 2021, and in the foreseeable change in the risk parameters deriving from the new models being defined, also considering that the results deriving from the ECL calculation models are influenced by particularly positive macroeconomic scenarios, although a fair share is dependent on phenomena that are not yet fully consolidated and in any event still subject to extreme variability and uncertainty due to the evolution of the Covid-19 virus, the effective implementation of the National Recovery and Resilience Plan and the evolution of the global economic and political situation.

Measurement of expected losses

According to IFRS 9, all financial assets not measured at fair value through profit and loss, represented by debt securities and loans, and off-balance sheet exposures (commitments and guarantees given) must be subject to the impairment model based on expected losses (ECL – Expected Credit Losses).

Specifically, the IFRS 9 impairment model is based on the concept of forward-looking valuation, i.e. on the concept of Expected Credit Loss, whether calculated at 12 months (Stage 1) or for the entire residual lifetime of the instrument (lifetime loss for Stage 2 and Stage 3). In particular, the model establishes that financial assets should be classified into three separate stages, corresponding to different measurement criteria:

- Stage 1: to be measured on the basis of expected credit loss over a time horizon of one year. Stage 1 includes performing financial assets for which no significant impairment of credit risk has been observed with respect to the date of initial recognition;
- Stage 2: to be measured on the basis of expected credit loss over the entire residual life of the financial asset. Stage 2 includes financial assets that have undergone significant impairment of credit risk with respect to initial recognition;
- Stage 3: to be measured on the basis of an estimate of expected forward-looking loss, based on a 100% probability of default. Stage 3 includes financial assets considered non-performing.

According to the Expected Credit Loss calculation model, losses must be recorded not only with reference to objective evidence of impairment losses that had already occurred at the reporting date, but also on the basis of expectations of future impairment that is not clear yet, which must reflect:

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

Detailed information is provided below on the model used by the Group to verify whether there is a significant deterioration of credit risk (known as "Framework Stage Assignment") and to calculate the forward-looking expected 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, to enable a classification between Stage 1 and Stage 2, with those calculated using as reference the LPDR parameter calculated among 12-month PD[2].
That move is justified by the opportunity, in operational terms, to coordinate the stage allocation model with the internal rating model adopted for the purpose of credit management and monitoring. In that regard, it is noted that the internal rating system classifies exposures in 11 rating classes, which, for the purpose of the credit disbursement processes, are grouped into 5 homogeneous risk bands ("Low", "Medium-low", "Medium", "Medium-high" and "High").
The use of the risk bands indicated above thus guarantees the integration and consistency of the process of measuring performing credit exposures with the other internal credit management processes (disbursement, pricing, monitoring and classification).
That being established, the quantitative stage allocation model entails the grouping of the exposures with homogeneous risk into five risk bands. More specifically:

- 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.

[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.

As already illustrated in the introductory paragraph "Changes due to Covid-19", the assignment of exposures to a specific risk band, made on the basis of the segment and the rating class, also considered, from 2020, forward-looking information, differentiated by economic sector. This enable the highly asymmetrical nature of the macroeconomic shock in different production sectors, generated by Covid-19, and the consequent different support measures promoted by the competent authorities, primarily moratoria, to be incorporated in the assessment of the SICR. More specifically, by including forward-looking factors, a recalibration of the trigger threshold was obtained, such that the classification in the lowest staging band can be anticipated, even as regards an SICR model based on the same risk bands illustrated above. From a prudential perspective, any improvements in the risk band, related to a positive outlook observed in certain isolated sectors, have been inhibited. Overall, this change increased the percentage of exposures classified as Stage 2 intercepted, relating to those economic sectors characterised by macroeconomic forecasts that are impacted in a particularly negative way by Covid-19.

The stage allocation methodology described above is applied to all exposures to customers, excluding debt securities.
Regarding debt securities, the Group applies the Low Credit Risk Exemption, i.e. the practical expedient of assuming that credit risk has not increased significantly compared to the initial recognition of the instrument, classifying it at Stage 1. This exemption applies to securities rated as investment grade at the valuation date, in compliance with IFRS 9.
If on the valuation date, the securities have a rating level that is lower than investment grade - and therefore the "Low Credit Risk Exemption" is not applicable - the method developed by the Group is also based on the calculation of the LPDR[1], but differently to loans not based on risk bands. More specifically, the SICR threshold values identified for this specific scope were retrieved through a distributive approach and correspond to the 95th percentile of the LPDR distribution observed in the portfolio in question as at 31 December 2021.
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.

As already illustrated, for the assessment of the SICR, in 2021, a new quantitative criterion called the "threefold effect" was introduced. This criterion represents a "backstop indicator" insofar as it envisages the automatic classification as Stage 2 of all loans granted by the Bank to counterparties that between the date of disbursement and the date of reference recorded an increase in the annualised probability of default of 300%, with the exception of cases in which the PD on the reference date was in any event lower than 0.30%, namely than the threshold considered to represent low credit risk.

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 number of consecutive days past-due/overdue surpassing the 30-day threshold;
- the granting of forbearance measures. In greater detail, this includes all exposures affected by forbearance measures which have this attribute still active, regardless of whether the current probation period is regular;
- the inclusion of the counterparty in watchlist exposures subject to strict monitoring, in the presence of situations that suggest high risk (e.g. synthetic judgement of the degree of risk of the individual customer above a certain threshold, prejudicial events);
- the classification of the counterparty in the "High" risk band, illustrated above, save for the option of override by the competent company functions, which must be suitably justified. More specifically, all counterparties whose rating, on the reference date, is higher than a specific threshold are classified as Stage 2; in more detail, this regards rating threshold "11" for the retail segment and rating threshold "10" for the remaining segments;
- 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.

The table below shows the percentage breakdown of exposures allocated to Stage 2 on the basis of various classification triggers, which highlights that the breakdown of the exposures classified therein is influenced by both quantitative criteria based on the change in the probability of default, including therein the "threefold increase" rule introduced in 2021 as illustrated above, and qualitative criteria. Exposures classified as Stage 2 solely due to the presence of more than 30 past-due days represent a negligible percentage.

Type[1]	Stage 2	of which: Large Corporate	of which: Mid Corp.Plus	of which: Mid Corporate	of which: Small Businesses	of which: Private Individuals	of which: Banks	of which: unrated counterparties
Quantitative criteria	48.17%	50.09%	68.77%	54.28%	36.30%	59.30%	100.00%	3.87%
Qualitative criteria	51.34%	49.91%	30.79%	45.52%	63.37%	40.34%	-	93.15%
Exposures over 30 days past due	0.49%	-	0.44%	0.20%	0.33%	0.36%	-	2.98%
Total Stage 2	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Expected Credit Loss – Stage 1 and Stage 2

The model for calculating Expected Credit Loss (ECL) to measure the impairment of performing instruments, differentiated based on the classification of the exposure in Stage 1 or Stage 2, is based on the following formula:

$$ECL = \sum_{t=1}^{T} PD_t * EAD_t * LGD_t * (1+r)^{-t}$$

Where:

PDt	represents the probability of default at each cash flow date This is the probability of moving from performing status to non-performing status over the course of a year (1-year PD) or over the entire lifetime of the exposure (lifetime PD)
EADt	represents the counterparty's exposure at each cash flow date
LGDt	represents the associated loss by counterparty at each cash flow date. This is the percentage of loss in the event of default on the basis of historical experience over a given observation period, as well as the forward-looking evolution over the entire lifetime of the exposure;
r	represents the discount rate
t	represents the number of cash flows
T	represents the total number of cash flows, limited to the following 12 months for accounts in Stage 1, and referring to the entire residual life for those in Stage 2

The models used to estimate said parameters leverage the equivalent ones used for capital requirements for credit risk, making specific adaptations to take account of the different requirements and purposes of the IFRS 9 impairment model and the prudential impairment model.

The definition of said parameters, compared to the regulatory parameters, considered the following objectives:
- removal of the downturn component considered in calculating the regulatory LGD to take account of the adverse economic cycle;

[1] In cases in which a position is classified as stage 2 due to different types of criteria, its exposure has been allocated to the first cluster according to the order in which the classification criteria were presented.

- removal of the MoC (Margin of Conservatism) component considered in the regulatory LGD calculation to take further margins of conservatism into account as requested by the EBA Guidelines;
- adjustment of loss rates to manage the difference between the discount rate used for the regulatory LGD estimate[1] and the Effective Interest Rate (EIR) used to calculate losses at amortised cost;
- inclusion of the conditions of the current economic cycle (Point-in-Time risk measures) instead of the measurement of the parameters through the economic cycle (TTC - Through the cycle), which is required for regulatory purposes;
- introduction of forecast information regarding future trends in macroeconomic factors (forward-looking risk) considered potentially capable of influencing the debtor's situation;
- extend risk parameters to a long-term perspective, accounting for the lifetime of the credit exposure to be assessed.

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, as already illustrated in the previous paragraph dedicated to the impacts of the Covid-19 pandemic, Banco BPM considered the government measure on state guarantees in the calculations of the ECL. 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 forward-looking factors, is provided below.
In that regard, it must be noted that the update of the time series of the parameters and, as a result, their recalibration, is carried out on an annual basis. In particular, in December 2021, in line with that envisaged by internal processes, the risk parameters were updated to incorporate the matrix relating to the last available year (September 2020 - September 2021) in their estimates.

Estimating the PD parameter

The PD values are obtained on the basis of regulatory ones, which are anchored to the average level of risk observed in the long term, suitably calibrated to reflect the current conditions of the economic cycle (Point in Time approach). Subsequently, the PD values are conditioned, from a Forward-Looking perspective, by macroeconomic projections, through the use of forward-looking default rates at economic sector level, as well as through the application of the satellite models recently developed by the Group for those sectors for which moratoria were granted to an extent of less than 6%, as already specified at the beginning of this section, using the values of the macro pre-Covid variables (fourth quarter of 2019) as a starting point for the first forward-looking year. 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;

[1] The discount rate used for regulatory LGD estimates, in compliance with EBA Guidelines (*EBA/GL/2017/16*), corresponds to the 3-month Euribor with a prudential add-on of 5%.

- 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, integrated from June 2021 by a new version of internal PD satellite models applied to certain sectors, in which the moratoria had limited impact, and the effects resulting from the credit support measures (new loans covered by state guarantees);
- 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 prudential elements established by the regulatory models, which are represented by indirect costs, the MoC (Margin of Conservatism) and the component associated with the adverse economic cycle (the downturn component), as well as to reflect the most current recovery rates (PiT), the difference between the discount rate used to estimate the regulatory parameters[1] and the Effective Interest Rate (EIR), and expectations concerning future (forward-looking) trends. In detail, the forward-looking estimate of the parameter takes account of the impact on the economic cycle of the components represented by the probability of non-performance (Psoff) and the Loss Given Non-Performance (LGNP) using specific forward-looking scaling factors to obtain point in time and forward looking LGDs. More specifically, the forward-looking effects are channelled to LGD estimates through the application of specific satellite models for the main components of the LGD model (Psoff and LGNP), which compare the changes in macro factors with the residual estimations of the two above-cited parameters on the historical horizon.

<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. With regard to the exposures covered by internal models as at December 2021 with regard to IFRS 9, the CCF (Credit Conversion Factor) models have been calibrated to reflect the update of the time series.

<u>Inclusion of forward-looking factors</u>

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.
It is important to note that the Covid-19 pandemic had a particularly significant on macroeconomic variables, resulting in a decrease of Italian GDP in 2020 of around 9%. In 2021, this downturn was followed by an equally significant rebound, corresponding to around 6.5%. Faced with changes of this amplitude, which have rarely been seen in the past, the rate of default of the counterparties financed by the Bank was completely flat, and even recorded an overall downtrend against the pre-pandemic period. As satellite models were estimated in periods in which modest changes in macroeconomic variables had a notable impact on the credit risk of the borrowing counterparties, the mere application of satellite models fuelled with the cited changes in GDP, would have led to an

[1] The discount rate used for regulatory LGD estimates, in compliance with EBA Guidelines (EBA/GL/2017/16), corresponds to the 3-month Euribor with a prudential add-on of 5%.

irregular trend, insofar as there would have been significant increases in provisions in 2020, followed by equally significant releases in the subsequent periods of recovery (2021), that do not correspond to the real situation of the Bank's borrowers. On the other hand, neither a pandemic with such an enormous impact on Italy's economic activity, nor the introduction of such extensive government support measures in terms of duration and number of beneficiaries, had ever been experienced in the past.
With a view to overcoming these potential inconsistencies, in the forward-looking approach[1] applied to calculate ECL, in line with IFRS 9, sector-based satellite models were adopted, which enabled the highly diverse consequences of the pandemic on the different sectors of the Italian economy to be reflected, fed with the expected trajectories of the macro variables which actually linked the pre-pandemic levels (2019) to the post-pandemic ones (2022).
More specifically, note that from 30 June 2020, the Bank had utilised non-proprietary sector-based satellite models, supplied by a leading provider, as the models previously adopted did not have a sufficient level of granularity by economic sector of the borrower customer, and therefore would not have been able to reflect the significantly differentiated impacts of the crisis on the different economic sectors.
In 2021, in addition to the usual update of the time series of risk parameters, a new proprietary sector-based satellite risk model was developed, which has partly replaced the sector-based satellite model acquired from third parties and used for the financial statement valuations of the previous year. In any event, the latter continued to be used to calculate the effects on the risk parameters of the business sectors that most benefited from the moratoria introduced by the Italian Government following the pandemic crisis[2].
Lastly, to calculate the ECL as at 31 December 2021, the macroeconomic scenarios and the relative probabilities of occurrence were updated, based on the analyses conducted by the Scenario Council[3], in line with the processes already in use last year. To this end, the macroeconomic forecasts supplied by the leading provider, available in October 2021, were considered with reference to three different scenarios: "baseline", "adverse" and "favourable".
In order to allocate probabilities of occurrence to the above-mentioned scenarios, those implicit in the construction of the same were used as a base of reference, as supplied by the provider. Considering the uncertainty as how the health crisis would develop, plus the potential negative impact of an energy crisis, we decided, on a discretionary basis, to increase the probability of occurrence of the "adverse" scenario from the 25% indicated by the provider to 30%, allocating the latter the 5% probability that the provider attributed to an additional "extreme" negative scenario, which the Bank did not consider at the time as retained extreme. The probabilities of occurrence of the three macroeconomic scenarios considered are indicated below:

- "Baseline": 50%;
- "Adverse": 30%;
- "Favourable": 20%.

Furthermore, in 2021, the governance model for the process to update the macroeconomic scenarios was defined in more detail. On the basis of this model, it is envisaged that the macroeconomic scenarios are to be updated at least every six months (for the closure at year-end and at the first half of each year). The update may be made more frequently (quarterly) if the monitoring of the forecasts relating to GDP with respect to those implied in the scenarios utilised, indicates that a specific threshold[4] has been surpassed.

[1] Conditioning of credit risk parameters (PD and LGD) calculated at a Point-in-Time, to estimate the future change based on the expected evolution of the main macroeconomic variables (e.g. GDP, rate of unemployment etc.)
[2] In particular, this regards sectors in which the percentage of moratoria was higher than a threshold corresponding to the average value of the Group portfolio of non-financial corporations at the beginning of 2021.
[3] The Scenario Council consists of a team responsible for defining and updating or confirming the macroeconomic scenarios adopted in the Group's strategic processes in light of external events or specific vulnerabilities of the Bank. It is also responsible for identifying the processes impacted and their potential updating. The team is comprised by the Chief Financial Officer and the heads of the Planning and Control, Risk and Administration and Budget Functions, with the participation of the Head of the Audit Function as auditor.
[4] Threshold established as a change in GDP of over 0.5%.

The following table shows the values (expressed in terms of average annual percentage changes/absolute values for rates of return) of the main macroeconomic indicators for the period 2021-2024 for each of the three scenarios considered in the satellite models for the conditioning of the risk parameters to be used to calculate ECL:

Scenario	Macroeconomic indicators	2021 (*)	2022	2023	2024
adverse	GDP Italy	5.9	2.4	1.9	1.5
baseline	**GDP Italy**	**6.2**	**4.0**	**2.8**	**2.0**
favourable	GDP Italy	6.2	5.8	3.5	2.4
adverse	Unemployment rate	9.8	10.9	11.7	11.7
baseline	**Unemployment rate**	**9.8**	**10.2**	**10.0**	**9.0**
favourable	Unemployment rate	9.7	9.8	8.7	6.9
adverse	Index of residential property prices	1.4	0.6	0.4	0.6
baseline	**Index of residential property prices**	**1.4**	**1.5**	**1.9**	**1.9**
favourable	Index of residential property prices	1.4	1.9	2.8	3.0
adverse	Household consumption	4.8	2.8	1.5	1.4
baseline	**Household consumption**	**5.0**	**4.0**	**2.8**	**2.6**
favourable	Household consumption	5.0	5.7	4.2	3.3
adverse	Construction investments	21.4	4.5	3.7	1.3
baseline	**Construction investments**	**21.9**	**8.4**	**7.2**	**3.9**
favourable	Construction investments	21.9	11.9	11.3%	6.1
adverse	3-month Euribor	-0.55	-0.56	-0.39	-0.16
baseline	**3-month Euribor**	**-0.55**	**-0.55**	**-0.37**	**-0.10**
favourable	3-month Euribor	-0.51	-0.46	-0.19	0.13
adverse	ECB rate	0.00	0.00	0.00	0.25
baseline	**ECB rate**	**0.00**	**0.00**	**0.00**	**0.25**
favourable	ECB rate	0.00	0.00	0.12	0.50
adverse	Return on Italian 10-year government bonds	0.74	1.10	1.59	1.91
baseline	**Return on Italian 10-year government bonds**	**0.73**	**1.08**	**1.33**	**1.64**
favourable	Return on Italian 10-year government bonds	0.70	1.02	1.20	1.45
adverse	BTP/Bund Spread	1.12	1.24	1.43	1.43
baseline	**BTP/Bund Spread**	**1.08**	**1.03**	**0.97**	**0.94**
favourable	BTP/Bund Spread	1.05	0.80	0.46	0.36
adverse	Italian consumer price index	1.8	1.5	1.1	1.4
baseline	**Italian consumer price index**	**1.8**	**1.5**	**1.5**	**1.7**
favourable	Italian consumer price index	1.8	1.7	1.6	1.9
adverse	Imports	13	9	3	4
baseline	**Imports**	**13**	**12**	**7**	**6**
favourable	Imports	14	17	12	7
adverse	Exports	13	6	5	4
baseline	**Exports**	**13**	**9**	**6**	**3**
favourable	Exports	13	13	7	4
adverse	Public administration expenditure	1.4	0.4	0.0	-0.2
baseline	**Public administration expenditure**	**1.5**	**0.7**	**0.1**	**-0.2**
favourable	Public administration expenditure	1.4	0.5	0.1	-0.2

(*) the figures for 2021 encompass, for the fourth quarter, the last estimate available at the time, and cannot therefore be considered final.

Following the global recession in 2020, economic growth resumed at fairly different paces between the various geographical areas, with the industrialised countries and China, albeit just initially, showing the fastest growth pace. This trend evolved after the summer due to the new wave of cases and, from the end of November, by the faster spread of the Omicron variant.

The "Baseline" scenario envisages that partial restrictions will still impact sequential growth in the first and last months of 2021, essentially penalising the service sectors subject to social distancing rules, while the manufacturing and construction sectors will be little affected by the fourth wave. The 6.2% increase is largely due to the central quarters of the year, with sequential growth of 2.7% and 2.6% respectively.

2021 will benefit significantly from the extension of the support measures for income and credit, which will continue to distort, and in some cases, invert, the trends of several indicators such as: bank loans, bad loans and unemployment. The availability of vaccines, immunisation process timing and the emergence of new variants are influencing the evolution of the scenario, which projects the following:

- Italian GDP showed strong recovery in both the second and third quarters, but slowed down in the fourth due to the new wave of cases, although this did not prevent an average growth of +6.2% for the year. The rebound of economic activity will enable the pre-crisis levels to be recovered by the first half of 2022;
- the unemployment rate will rise to 10.2% in 2022, then fall to 10% after 2023;
- inflation will remain under 2%, confirming policy interest rates which will become positive before 2025;
- the return on Italian government bonds will rise in 2022, up to 1.6% in 2024, with a modest BTP Bund spread on average, around 100 bps, also thanks to the initial action of the ECB.

As regards the "Adverse" scenario, a slower recovery from the pandemic is envisaged, due to the worsening of the epidemiological situation in Autumn/Winter with the introduction of several limited restrictions. The increase in the number of cases and the consequent restrictions would lead to a slight slowdown of the economy, which would continue for a fair part of next year.
This is associated with a problematic implementation of the NRRP, which would translate into a period of relatively moderate economic growth from 2022, even in the absence of further periods of crisis. Italy's GDP would be 2 percentage points lower from 2023, the year in which the Italian economy recovers pre-Covid levels of activity.
This new phase would see the Italian economy aligned with that of the EU, although penalised by an unemployment rate of close to 12%, which slows down consumption, while a considerably lower level of confidence will significantly reduce investments.
More specifically, the following is expected:

- Italian GDP showing a more modest recovery in 2022 of +2.4%, and which does not surpass 2% in the following years, despite the tax incentives guaranteed by the NRRP, a trend that sees Italy aligned with the EU; growth of global GDP -2.6% lower with respect to the baseline scenario at year-end;
- substantial increase in the rate of unemployment as early as 2022 (10.9%), but above all from 2023, stabilising at 11.7% in the following years;
- spending trend for private investments practically halved from 2022 (both machinery and construction) also due to the termination of tax incentives;
- return on 10-year Italian government bonds which rises steadily, first due to a wider BTP Bund spread, then due to the effect of the recovery of the returns on the 10-year German bond. Returns surpass 1.9% in 2024, due to a disappointing growth which diverges and slows down the improvement of the fundamentals of public debt post-Covid, after the same has reached 156% of GDP 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, which doesn't meet any new obstacles at just one year from the start of the pandemic. Specifically:

- GDP up by 5.8% in 2022, which stayed well above the country's historic levels even in the following years, and returning below 3% only in 2024;
- unemployment rate down as early as 2023 at 8.7%, and which improves significantly in the following two years, reaching levels that have not been recorded recently in Italy;
- return of Italian 10-year government bonds, which rises steadily only due to the effect of the normalisation of market interest rates (Bund with positive returns from 2022), in the presence of a BTP Bund spread that is constantly decreasing, and returns to pre-sovereign crisis levels. The rapid improvement of the fundamentals is due to economic growth rates that improve the public debt to GDP ratio.

Sensitivity analysis of expected losses

<u>The assumptions underlying the sensitivity analysis</u>

In accordance with the provisions of paragraphs 1 and 125 of IAS 1, the Notes must provide information on the key factors of uncertainty that characterise financial statement estimates. Paragraph 129 envisages that this disclosure must be provided in a manner that helps users of financial statements to understand the judgements that management makes about the future and the relative impacts. The examples mentioned to pursue this objective include sensitivity analyses, through which the reader is able to appreciate the impacts on financial statement estimates of alternative calculation models, reasonably foreseeable changes in inputs and assumptions underlying said estimates.

The adjusting provisions of performing credit exposures (ECL) are an example of financial statements values whose estimation process is characterised by the presence of substantial factors of uncertainty.
As 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 expected losses on performing loans effectively entails the use of significant judgements, with specific reference to the models used to measure losses and the relative risk parameters, the triggers deemed expressive of significant loan impairment, and the selection of macroeconomic scenarios and the assignment to the latter of the relative probabilities of occurrence.
In this regard, 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.
For this reason, to be able to appreciate the impacts on the expected losses resulting from the selection of different macroeconomic scenarios, since the 2020 financial statements, the Bank has provided a sensitivity analysis on the expected losses of performing loans. For the 2020 financial statements, the analyses had been developed - keeping the probability assigned to the baseline scenario unchanged (60%) - based on the assignment of a 5% higher probability to the "adverse" and "favourable" scenarios, with respect to the assumed assignment of an equal probability to both scenarios considered for the preparation of the financial statements (20%).
This approach was revised in 2021, also in order to implement the recommendation contained in the report published by the ESMA on 15 December 2021 on the effective application of the requirements in terms of disclosure envisaged by IFRS 7 and IFRS 9. In particular, for the 2021 financial statements, the sensitivity analyses were conducted by allocating a weighting of 100% to each single macroeconomic scenario ("baseline", "adverse", "favourable") with respect to the financial statement results resulting from the application of the multi-scenario model, as illustrated below.
In this regard, note that the sensitivity analyses conducted for the 2020 financial statements are not reported insofar as they are not comparable, because they were drawn up on the basis of different assumption, as illustrated above.

<u>Quantitative results of sensitivity analyses of ECL</u>

Given the high uncertainty characterising the economic-financial context in question, and transposing the recommendations provided by the ESMA in a letter dated 29 October 2021[1], expected losses relating to performing exposures underwent sensitivity analysis with a view to analysing their variability with respect to different macroeconomic scenarios that condition the risk parameters in the calculation model. The selection of a multi-factor sensitivity, obtained by varying more than one parameter simultaneously, is justified by the fact that there are numerous interrelations between the different macroeconomic factors so as to render a sensitivity analysis based on a single factor less representative (by way of example, a change in GDP would effectively be related to changes in many other macroeconomic variables).
The above-mentioned analyses were conducted to represent the impacts, both in terms of ECL and of stage allocation, following the adoption of a single macroeconomic scenario with respect to the multi-scenario approach adopted for the preparation of these financial statements which, as described above, consider three different alternative scenarios. Alongside the "baseline" scenario, retained the most likely - 50% and, effectively, the relative probability of occurrence - an "adverse" scenario was considered, which was attributed a 30% probability of occurrence, and a "favourable" scenario with a 20% probability of occurrence.

[1] Public Statement by ESMA entitled: "European common enforcement priorities for 2021 annual financial reports" (ESMA32-63-1186).

The results of the sensitivity analyses of expected losses conducted on the portfolio of loans to customers, which represent over 90% of the expected losses recognised in the financial statements on performing exposures. Said results were obtained by comparing the expected losses of the financial statements, calculated on the basis of a multi-scenario approach, with those that would have been recognised if each scenario was adopted with a 100% probability of occurrence, with or without impacts on the allocation between credit quality stages. It should be clarified that the above impacts were calculated using the models implemented in ECL calculation procedures as reference, therefore not including the interventions on single specific positions and the post-model adjustments/management overlays previously illustrated.

Figures as at 31 December 2021 ***(thousands of euro)***	**Weighted scenario Financial statement balances**	**Simulation of alternative scenarios with the same stage allocation**			**Simulation of alternative scenarios with an impact on stage allocation**		
		Adverse	**Baseline**	**Favourable**	**Adverse**	**Baseline**	**Favourable**
GROSS LOANS	**106,577,184**	**106,577,184**	**106,577,184**	**106,577,184**	**106,577,184**	**106,577,184**	**106,577,184**
Stage **1** - Reverse repurchase agreements	3,658,922	3,658,922	3,658,922	3,658,922	3,658,922	3,658,922	3,658,922
Stage **1** - Other loans	91,228,746	91,228,746	91,228,746	91,228,746	90,071,475	91,504,663	92,074,383
Stage **2** *(*)*	11,689,516	11,689,516	11,689,516	11,689,516	12,846,787	11,413,599	10,843,879
TOTAL VALUE ADJUSTMENTS	**(454,331)**	**(500,786)**	**(444,333)**	**(404,787)**	**(504,781)**	**(444,137)**	**(404,139)**
Stage **1** - Reverse repurchase agreements	-	-	-	-	-	-	-
Stage **1** - Other loans	(124,342)	(131,668)	(122,775)	(117,384)	(128,924)	(123,045)	(118,643)
Stage **2** *(*)*	(329,989)	(369,118)	(321,558)	(287,403)	(375,858)	(321,092)	(285,496)
PERFORMING LOANS AT AMORTISED COST	**106,122,853**	**106,076,398**	**106,132,851**	**106,172,397**	**106,072,403**	**106,133,047**	**106,173,045**
% Breakdown	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
Stage **1** - Reverse repurchase agreements	3.43%	3.43%	3.43%	3.43%	3.43%	3.43%	3.43%
Stage **1** - Other loans	85.60%	85.60%	85.60%	85.60%	84.51%	85.86%	86.39%
Stage **2** *(*)*	10.97%	10.97%	10.97%	10.97%	12.05%	10.71%	10.17%
% Coverage	**0.43%**	**0.47%**	**0.42%**	**0.38%**	**0.47%**	**0.42%**	**0.38%**
Stage **1** - Reverse repurchase agreements	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Stage **1** - Other loans	0.14%	0.14%	0.13%	0.13%	0.14%	0.13%	0.13%
Stage **2** *(*)*	2.82%	3.16%	2.75%	2.46%	2.93%	2.81%	2.63%
Absolute change adjustments of alternative scenarios vs. weighted scenario		**(46,455)**	**9,998**	**49,544**	**(50,450)**	**10,194**	**50,192**
Stage **1** - Other loans		(7,326)	1,567	6,958	(4,582)	1,297	5,699
Stage **2** *(*)*		(39,129)	8,431	42,586	(45,869)	8,897	44,493
% change adjustments of alternative scenarios vs. weighted scenario		**10.22%**	**(2.20%)**	**(10.90%)**	**11.10%**	**(2.24%)**	**(11.05%)**
Stage **1** - Other loans		5.89%	(1.26%)	(5.60%)	3.68%	(1.04%)	(4.58%)
Stage **2** *(*)*		11.86%	(2.56%)	(12.91%)	13.90%	(2.70%)	(13.48%)

(*) including acquired or originated impaired loans

The main results of the above-cited sensitivity analyses are summarised below:

- assignment of a 100% probability of occurrence to the adverse scenario: in this case, and with the same stage allocation, the ECL would report an increase of +46.5 million with respect to that calculated by adopting the multi-scenario approach (+10.22% in percentage terms). If the impact in terms of a different stage allocation is also considered, the amount of the ECL would be 50.5 million higher than that calculated adopting the multi-scenario approach (+11.10% in percentage terms), against an increase in the percentage of exposures classified as Stage 2 of +1.08%. In this case, the average percentage coverage of performing credit exposures would increase by 4 bps;
- assignment of a 100% probability of occurrence to the baseline scenario: in this case, and with the same stage allocation, the amount of ECL would be -10 million lower with respect to the amount of ECL calculated by adopting the multi-scenario approach (-2.20% in percentage terms). If the impact in terms of a different stage allocation is also considered, the amount of the ECL would be -2.24% lower against a slight fall in the percentage of exposures classified as Stage 2 (0.26% in percentage terms). In this case, the average percentage coverage of performing credit exposures would decrease by -1 bp;
- assignment of a 100% probability of occurrence to the favourable scenario: in this case, and with the same stage allocation, the amount of ECL would be -49.5 million lower with respect to the amount of ECL calculated by adopting the multi-scenario approach (-10.90% in percentage terms). If the impact in terms of a different stage allocation is also considered, the amount of the ECL would be -50.2 million lower (-11.05% in percentage terms), against a fall in the percentage of exposures classified as Stage 2 of -0.80%. In this case, the average percentage coverage of performing credit exposures would decrease by -5 bps.

Expected Credit Loss – Stage 3

With regard to the models used to determine the expected losses on exposures classified under Stage 3, i.e. non-performing exposures, reference should be made to the section "Methods for determining impairment losses on IFRS 9 Financial Instruments" in Part "A.2 - Key financial statement items". As illustrated in detail in the cited paragraph, the quantification of the expected losses of the aforementioned exposures, in addition to the recovery expected through ordinary operations (internal workout), considered the flows retained recoverable from sales scenarios, in line with the disposal objectives established on each occasion by the Board of Directors.

As stated in the paragraph "Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated financial statements", contained in "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, 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 relating to Covid-19, may result in the recognition of additional, even significant, losses, in relation to those considered based on the conditions existing at the reporting date.

2.4 Credit risk mitigation techniques

The Group has always kept a watchful eye on the acquisition of loan collaterals and securities, i.e. the use of applications and techniques that mitigate credit risk. When deemed necessary, the typical bank guarantees are acquired, namely mortgages on properties, collaterals on securities in addition to personal guarantees issued by the guarantors.
In general, the decision on the acquisition of a guarantee is based on the customer's creditworthiness and on the characteristics of the transaction. Following this analysis, it may be deemed appropriate to obtain additional guarantees to mitigate credit risk, considering the estimated recoverable value offered by the collateral.
The system for the recording of collateral property used to guarantee lending transactions enables an automatic periodic assessment of the property's value and identifies which properties require updated appraisals, in line with the criteria established by current legislation.

The value of the financial collaterals is constantly and automatically monitored, enabling a comparison between the present value of the collateral and the initial one, and to allow the manager to act promptly in the event that the collateral incurs a significant impairment loss.
As regards collateral represented by a pledge on securities, an automatic warning system is in place, which is triggered when impairment goes beyond a certain threshold value, reporting the same to the customer relationship manager so that the same may take prompt action.
With regard to derivative transactions with market counterparties, we favour entities with which we have entered into agreements requiring the provision of collateral, especially ISDA - Credit Support Annex, to obtain a significant credit risk mitigation.

3. Non-performing credit exposures

3.1 Management strategies and policies

The classification of non-performing exposures is conducted in line with the criteria established by the EBA. More specifically, the classification as non-performing is made:

- automatically, for exposures that reach the thresholds envisaged by the provisions of the Supervisory Authority as regards Past Due;
- by means of a decision taken by an authorised Body (i) on a proposal generated automatically by the IT system, for exposures that reach the envisaged thresholds, on each occasion, by internal credit monitoring and management processes, or (ii) on the proposal of a proponent Body, for exposures that indicate the occurrence of events that may prejudice the "performing" status of the same.

The management of non-performing loans in Banco BPM Group is based, to a great extent, on a model that assigns the management of a specific set of loans (portfolio) to specialist resources. During 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 bad loan collection to a specialised partner, with the subsequent assignment of a management mandate for most of the new flows of bad loans for the following ten years. 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 Gardant 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 market value of the assets used as collateral, to align them to the amount that the Bank is likely to collect after their forced sale, and the timeframe that the manager has to consider in order to make an analytical assessment of the single position. The expected 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.

With regard instead to Past Due and Unlikely to Pay (UTP) positions, the credit assessment to determine the amount of expected losses considers different methods depending on 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.

Strategy for disposal of non-performing credit exposures

The strategy to manage non-performing exposures - in addition to the recovery activities carried out by the specific departments (known as internal work-out) as illustrated above - may envisage large-scale disposals to Group third-party counterparties, with a view to achieving specific derisking objectives, as resolved by the respective Boards of Directors.
Given the forward-looking nature of the impairment model envisaged by IFRS 9, the presence of approved disposal targets must be adequately factored into the models that calculate expected losses, as illustrated in more detail in the paragraph entitled "Methods for determining impairment losses on IFRS 9 Financial Instruments" in "Part A - Accounting policies" of these Notes.
With regard to the derisking exercise undertaken by the Group in 2021, and in particular the objectives of the large-scale disposal of non-performing exposures outstanding as at 31 December 2021, please refer to that illustrated in "Derisking activities" contained in the significant events during the year in the Group Report on operations.

Derisking activities

System of controls for credit processes

The structure of the control system relating to credit processes is based on:

- 1st level controls (or line controls), addressed to ensuring that the processes are correctly carried out. First level controls include so-called "automatic" controls, namely performed directly by applications procedures, controls performed directly by operating structures and hierarchical controls, performed within the same chain of responsibility. 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 Most Significant Transactions (MST) 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 "Guidance to Banks on Non-Performing Loans (NPL)" issued by the ECB, is the reduction in the gross book value of the loan following the acknowledgement that there are no reasonable expectations of its recovery for amounts exceeding those considered collectable or already received.
It does not imply a waiver by the Bank of its legal right to recover the debt and must be carried out if all the information available indicates that the debtor is unable to repay all or part of the amount of the debt.
For further details on the definition of write-off, please refer to the content of "Part A - Accounting policies" of these Notes.
The Group's credit monitoring processes envisage that, to supplement and support the decisions adopted by management, positions that require attention for write-off purposes are identified on a quarterly basis, with a view to making an operational assessment of the single positions and deciding whether or not to pursue the necessary approval procedures to finalise the write-off. Said list relates to exposures whose adjusting provisions are equal to or higher than a specific threshold and which have been classified as bad loans for longer than a certain number of years, differentiated by the type of guarantee and by the presence or otherwise of insolvency proceedings.

3.3 Acquired or originated impaired financial assets

With regard to the accounting treatment of these assets and the related presentation methods, reference should be made to that illustrated in part "A.2 - Key financial statement items" and in the Introduction to this section.

4. Financial assets subject to commercial renegotiations and forborne exposures

An analysis of forborne exposures is provided below, on the basis of seniority, distinguishing between non-performing and performing exposures.

Year of last forbearance	Performing exposures	Non-performing exposures	Total
2021	2,222,384	791,004	3,013,387
2020	435,583	418,119	853,702
2019	230,886	568,149	799,034
2018	123,271	501,669	624,939
2017	100,481	236,919	337,400
2016	72,657	234,351	307,008
2015	16,589	215,769	232,359
2014	26,504	131,287	157,791
2013	5,741	321,681	327,423
2012	1,326	12,730	14,056
2011	1,051	1,455	2,506
2010	1,746	12,049	13,795
previous years	6,961	4,342	11,304
Total	**3,245,180**	**3,449,524**	**6,694,704**

The above exposures, related to the scope of prudential consolidation, are broken down in the following table according to the number of forbearance measures granted to the counterparty (one measure, two measures, more than two measures).

Number of forbearance measures	Performing exposures	Non-performing exposures	Total
1	2,297,955	1,991,460	4,289,414
2	523,655	663,564	1,187,218
>2	423,571	794,501	1,218,072
Total	**3,245,180**	**3,449,524**	**6,694,704**

QUANTITATIVE INFORMATION

A. Credit quality

In this part, for the purposes of quantitative information on credit quality, the term "on-balance sheet credit exposures" means all financial assets held on-balance sheet with banks or customers, regardless of their portfolio of accounting allocations (at fair value through profit and loss, at fair value through other comprehensive income, at amortised cost, financial assets held for sale), but excludes equity instruments and UCIT units.

A.1 Non-performing and performing credit exposures: outstanding amounts, value adjustments, changes and economic distribution

A.1.1 Prudential consolidation – Distribution of financial assets by past due bands (book values)

Portfolios/risk stages	Stage 1			Stage 2			Stage 3			Acquired or originated impaired		
	From 1 day to 30 days	From more than 30 days to 90 days	Over 90 days	From 1 day to 30 days	From more than 30 days to 90 days	Over 90 days	From 1 day to 30 days	From more than 30 days to 90 days	Over 90 days	From 1 day to 30 days	From more than 30 days to 90 days	Over 90 days
1. Financial assets at amortised cost	306,819	23,026	1,823	130,819	93,544	15,094	32,612	89,032	1,965,565	301	2,451	80,639
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale	3	15	78	94	128	2,334	10	9	5,701	-	-	-
Total 31/12/2021	**306,822**	**23,041**	**1,901**	**130,913**	**93,672**	**17,428**	**32,622**	**89,041**	**1,971,266**	**301**	**2,451**	**80,639**
Total 31/12/2020 (*)	**893,683**	**189,676**	**63,388**	**150,867**	**226,515**	**248,858**	**41,852**	**119,125**	**3,051,361**	**199**	**4,776**	**226,552**

(*) The figures relating to the previous year have been restated to take into account the amendments introduced by the 7th update of Circular no. 262 of the Bank of Italy.

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						Stage 3 assets					
	Demand loans to banks and Central Banks	Financial assets at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	Demand loans to banks and Central Banks	Financial assets at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	Demand loans to banks and Central Banks	Financial assets at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs
Total value adjustments - opening balance (*)	**383**	**159,899**	**2,085**	**-**	**-**	**162,367**	**2**	**313,199**	**673**	**-**	**-**	**313,874**	**93**	**3,906,461**	**-**	**14,029**	**3,885,209**	**37,053**
Increases in financial assets acquired or originated	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Derecognitions other than write-offs	-	(147)	(358)	-	-	(505)	-	(53)	(231)	-	-	(284)	-	(1,089,138)	-	(7,224)	(1,096,362)	-
Net credit impairment losses/recoveries	(362)	(30,148)	1,018	772	-	(28,720)	(2)	26,097	(60)	124	-	26,159	(93)	508,300	-	-	508,207	-
Contractual modification without derecognition	-	11	-	-	-	11	-	1,637	-	-	-	1,637	-	6,873	-	-	6,873	-
Changes in estimation methodology	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly in the income statement	-	(1,046)	-	-	-	(1,046)	-	(15,190)	-	-	-	(15,190)	-	(488,111)	-	-	(488,111)	-
Other changes	-	(907)	-	-	-	(907)	-	(3,411)	-	-	-	(1,637)	-	51,838	-	(4,987)	45,169	-
Total value adjustments - closing balance	**21**	**127,662**	**2,745**	**772**	**-**	**131,200**	**-**	**322,279**	**382**	**124**	**-**	**324,559**	**-**	**2,896,223**	**-**	**1,818**	**2,860,985**	**37,053**
Recoveries from collections on financial assets subject to write-off	-	-	-	-	-	-	-	-	-	-	-	-	-	13,386	-	-	13,386	-
Write-offs recorded directly in the income statement	-	-	-	-	-	-	-	(4,349)	-	-	-	(4,349)	-	(61,627)	-	-	(61,627)	-

(*) The figures relating to the previous year have been restated to take into account the amendments introduced by the 7th update of Circular no. 262 of the Bank of Italy.

Causes/risk stages	Total value adjustments					Total provisions for commitments to disburse funds and financial guarantees given				Tot.
	Acquired or originated impaired financial 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	Stage 1	Stage 2	Stage 3	Commitments to disburse funds and financial guarantees given acquired or originated impaired	
Total value adjustments - opening balance (*)	**417,726**	**-**	**-**	**415,953**	**1,773**	**23,406**	**8,021**	**24,743**	**44**	**4,870,764**
Increases in financial assets acquired or originated	X	X	X	X	X	-	-	-	-	**-**
Derecognitions other than write-offs	(144,482)	-	-	(144,482)	-	-	-	-	-	**(1,241,633)**
Net credit impairment losses/recoveries	48,003	-	-	39,825	8,178	(9,842)	(475)	(3,772)	270	**539,830**
Contractual modification without derecognition	-	-	-	-	-	-	-	-	-	**8,521**
Changes in estimation methodology	-	-	-	-	-	-	-	-	-	**-**
Write-offs not recognised directly in the income statement	(40,389)	-	-	-	(40,389)	-	-	-	-	**(544,736)**
Other changes	(20,806)	-	-	(20,806)	-	-	-	-	-	**21,727**
Total value adjustments - closing balance	**260,052**	**-**	**-**	**290,490**	**(30,438)**	**13,564**	**7,546**	**20,971**	**314**	**3,654,473**
Recoveries from collections on financial assets subject to write-off	-	-	-	-	-	-	-	-	-	**13,386**
Write-offs recorded directly in the income statement	(1,091)	-	-	-	-	-	-	-	-	**(67,067)**

(*) The figures relating to the previous year have been restated to take into account the amendments introduced by the 7th update of Circular no. 262 of the Bank of Italy.

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	6,303,562	1,862,573	697,257	94,638	178,624	22,574
2. Financial assets measured at fair value through other comprehensive income	5,221	30,757	-	-	-	-
3. Financial assets held for sale	1,855	910	4,107	54	1,828	252
4. Commitments to disburse funds and financial guarantees given	1,699,593	240,435	23,077	3,639	38,876	1,708
Total 31/12/2021	**8,010,231**	**2,134,675**	**724,441**	**98,331**	**219,328**	**24,534**
Total 31/12/2020 (*)	**3,707,130**	**1,988,257**	**600,915**	**207,512**	**424,423**	**39,782**

(*) The figures relating to the previous year have been restated to take into account the amendments introduced by the 7th update of Circular no. 262 of the Bank of Italy.

A.1.3a Loans subject to Covid-19 support measures: transfers between the different credit risk stages (gross values)

Portfolio/quality	Gross amounts/nominal value					
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
	From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
A. Loans measured at amortised cost	**2,214,210**	**246,405**	**164,007**	**895**	**49,073**	**192**
A.1 subject to forbearance measures compliant with GL	18,343	2,712	1,435	408	299	-
A.2 subject to current moratorium measures no longer compliant with GL and not assessed as forborne	1,419,098	45,913	138,369	23	25,368	-
A.3 subject to other forbearance measures	15,641	-	2,965	259	489	-
A.4 new loans	761,128	197,780	21,238	205	22,917	192
B. Loans measured at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**
B.1 subject to forbearance measures compliant with GL	-	-	-	-	-	-
B.2 subject to current moratorium measures no longer compliant with GL and not assessed as forborne	-	-	-	-	-	-
B.3 subject to other forbearance measures	-	-	-	-	-	-
B.4 new loans	-	-	-	-	-	-
Total 31/12/2021	**2,214,210**	**246,405**	**164,007**	**895**	**49,073**	**192**
Total 31/12/2020	**869,242**	**333,091**	**27,662**	**7,477**	**25,144**	**474**

The table in question envisaged by the Bank of Italy Communication of 21 December 2021, shows the transfers between the three stages of risk of exposures subject to Covid-19 support measures, if the risk stage at year-end is different to the risk stage that the exposures were classified as at the beginning of the year or on the date of initial recognition (if after the beginning of the year).

A.1.4 Prudential consolidation - On-balance sheet and off-balance sheet credit exposures to banks: gross and net values

Type of exposure/value	Gross exposure					Total value adjustments and total provisions					Net Exposure	Total partial write-offs *
		Stage 1	Stage 2	Stage 3	Acquired or originated impaired		Stage 1	Stage 2	Stage 3	Acquired or originated impaired		
A. ON-BALANCE SHEET CREDIT EXPOSURES												
A.1 ON DEMAND	**28,220,078**	**28,207,322**	**12,756**	**-**	**-**	**(17)**	**(17)**	**-**	**-**	**-**	**28,220,061**	**-**
a) Non-performing	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	28,220,078	28,207,322	12,756	X	-	(17)	(17)	-	X	-	28,220,061	-
A.2 OTHER	**14,625,195**	**14,222,741**	**45,745**	**-**	**-**	**(2,590)**	**(2,527)**	**(64)**	**-**	**-**	**14,622,605**	**-**
a) Bad loans	-	X	-	-	-	-	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
b) Unlikely to pay	-	X	-	-	-	-	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
c) Non-performing past-due exposures	-	X	-	-	-	-	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
d) Performing past-due exposures	-	-	-	X	-	-	-	-	X	-	-	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-
e) Other performing exposures	14,625,195	14,222,741	45,745	X	-	(2,590)	(2,527)	(64)	X	-	14,622,605	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-
TOTAL (A)	**42,845,273**	**42,430,063**	**58,501**	**-**	**-**	**(2,607)**	**(2,544)**	**(64)**	**-**	**-**	**42,842,666**	**-**
B. OFF-BALANCE SHEET CREDIT EXPOSURES												
a) Non-performing	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	5,256,110	1,885,546	20,750	X	-	(326)	(236)	(1)	X	-	5,255,784	-
TOTAL (B)	**5,256,110**	**1,885,546**	**20,750**	**-**	**-**	**(326)**	**(236)**	**(1)**	**-**	**-**	**5,255,784**	**-**
TOTAL (A+B)	**48,101,383**	**44,315,609**	**79,251**	**-**	**-**	**(2,933)**	**(2,780)**	**(65)**	**-**	**-**	**48,098,450**	**-**

(*) Value to be shown for disclosure purposes

A.1.5 Prudential consolidation - On-balance sheet and off-balance sheet credit exposures to customers: gross and net values

Type of exposure/value	Gross exposure					Total value adjustments and total provisions					Net Exposure	Total partial write-offs *
		Stage 1	Stage 2	Stage 3	Acquired or originated impaired		Stage 1	Stage 2	Stage 3	Acquired or originated impaired		
A. ON-BALANCE SHEET CREDIT EXPOSURES												
a) Bad loans	2,196,291	X	-	2,076,358	102,250	(1,289,617)	X	-	(1,204,744)	(71,974)	906,674	427,545
- of which: forborne exposures	533,675	X	-	512,547	21,023	(298,817)	X	-	(281,553)	(17,237)	234,858	36,963
b) Unlikely to pay	4,353,819	X	-	3,817,641	345,099	(1,934,756)	X	-	(1,670,046)	(178,103)	2,419,063	-
- of which: forborne exposures	2,904,491	X	-	2,477,207	324,517	(1,255,384)	X	-	(1,060,387)	(163,297)	1,649,107	-
c) Non-performing past-due exposures	65,890	X	-	65,731	96	(15,669)	X	-	(15,642)	(24)	50,221	-
- of which: forborne exposures	11,358	X	-	11,282	76	(1,613)	X	-	(1,596)	(17)	9,745	-
d) Performing past-due exposures	609,404	332,408	273,484	X	413	(32,132)	(644)	(31,471)	X	(17)	577,272	-
- of which: forborne exposures	64,803	2	64,667	X	134	(3,035)	-	(3,030)	X	(4)	61,768	-
e) Other performing exposures	134,582,538	121,693,443	11,534,997	X	156,515	(429,188)	(128,009)	(291,247)	X	(9,934)	134,153,350	-
- of which: forborne exposures	3,180,377	1,032	3,110,716	X	47,849	(102,676)	(5)	(101,210)	X	(1,461)	3,077,701	-
TOTAL (A)	**141,807,942**	**122,025,851**	**11,808,481**	**5,959,730**	**604,373**	**(3,701,362)**	**(128,653)**	**(322,718)**	**(2,890,432)**	**(260,052)**	**138,106,580**	**427,545**
B. OFF-BALANCE SHEET CREDIT EXPOSURES												
a) Non-performing	812,157	X	-	540,530	6,064	(87,194)	X	-	(20,971)	(313)	724,963	-
b) Performing	60,457,390	39,951,589	2,857,607	X	3,612	(43,621)	(13,327)	(7,545)	X	(1)	60,413,769	-
TOTAL (B)	**61,269,547**	**39,951,589**	**2,857,607**	**540,530**	**9,676**	**(130,815)**	**(13,327)**	**(7,545)**	**(20,971)**	**(314)**	**61,138,732**	**-**
TOTAL (A+B)	**203,077,489**	**161,977,440**	**14,666,088**	**6,500,260**	**614,049**	**(3,832,177)**	**(141,980)**	**(330,263)**	**(2,911,403)**	**(260,366)**	**199,245,312**	**427,545**

(*) Value to be shown for disclosure purposes

A.1.5a Loans subject to Covid-19 support measures: gross and net values

Type of exposure/value	Gross exposure					Total value adjustments and total provisions					Net exposure	Total partial write-offs *
		Stage 1	Stage 2	Stage 3	Acquired or originated impaired		Stage 1	Stage 2	Stage 3	Acquired or originated impaired		
A. BAD LOANS	**22,486**	**-**	**-**	**22,486**	**-**	**(8,893)**	**-**	**-**	**(8,893)**	**-**	**13,593**	**-**
b) Subject to forbearance measures compliant with GL	-	-	-	-	-	-	-	-	-	-	-	-
b) Subject to moratorium measures no longer compliant with GL and not subject to forbearance measures	6,339	-	-	6,339	-	(3,841)	-	-	(3,841)	-	2,498	-
b) Subject to other forbearance measures	1,830	-	-	1,830	-	(579)	-	-	(579)	-	1,251	-
d) New loans	14,317	-	-	14,317	-	(4,473)	-	-	(4,473)	-	9,844	-
B. UNLIKELY TO PAY LOANS	**289,633**	**-**	**-**	**277,091**	**11,840**	**(85,165)**	**-**	**-**	**(81,776)**	**(3,021)**	**204,468**	**-**
b) Subject to forbearance measures compliant with GL	4,881	-	-	4,520	360	(1,160)	-	-	(1,100)	(60)	3,721	-
b) Subject to moratorium measures no longer compliant with GL and not subject to forbearance measures	216,602	-	-	204,422	11,480	(66,705)	-	-	(63,375)	(2,961)	149,897	-
b) Subject to other forbearance measures	15,470	-	-	15,470	-	(4,504)	-	-	(4,504)	-	10,966	-
d) New loans	52,680	-	-	52,679	-	(12,796)	-	-	(12,797)	-	39,884	-
C. NON-PERFORMING PAST-DUE LOANS	**4,432**	**-**	**-**	**4,432**	**-**	**(857)**	**-**	**-**	**(857)**	**-**	**3,575**	**-**
b) Subject to forbearance measures compliant with GL	89	-	-	89	-	(5)	-	-	(5)	-	84	-
b) Subject to moratorium measures no longer compliant with GL and not subject to forbearance measures	1,188	-	-	1,188	-	(391)	-	-	(391)	-	797	-
b) Subject to other forbearance measures	227	-	-	227	-	(40)	-	-	(40)	-	187	-
d) New loans	2,928	-	-	2,928	-	(421)	-	-	(421)	-	2,507	-
D. OTHER PERFORMING PAST-DUE LOANS	**103,334**	**59,550**	**43,784**	**-**	**-**	**(1,258)**	**(80)**	**(1,179)**	**-**	**-**	**102,076**	**-**
b) Subject to forbearance measures compliant with GL	320	139	181	-	-	(7)	-	(7)	-	-	313	-
b) Subject to moratorium measures no longer compliant with GL and not subject to forbearance measures	32,737	15,015	17,722	-	-	(926)	(20)	(907)	-	-	31,811	-
b) Subject to other forbearance measures	3,233	-	3,233	-	-	(82)	-	(82)	-	-	3,151	-
d) New loans	67,044	44,396	22,648	-	-	(243)	(60)	(183)	-	-	66,801	-
E. OTHER PERFORMING LOANS	**20,000,768**	**16,211,587**	**3,782,688**	**-**	**5,923**	**(82,375)**	**(7,235)**	**(74,790)**	**-**	**(349)**	**19,918,393**	**-**
b) Subject to forbearance measures compliant with GL	82,783	52,341	30,442	-	-	(827)	(115)	(711)	-	-	81,956	-
b) Subject to moratorium measures no longer compliant with GL and not subject to forbearance measures	3,299,650	1,105,891	2,187,295	-	5,893	(69,819)	(1,965)	(67,505)	-	(349)	3,229,831	-
b) Subject to other forbearance measures	111,064	-	111,065	-	-	(877)	-	(877)	-	-	110,187	-
d) New loans	16,507,271	15,053,355	1,453,886	-	30	(10,852)	(5,155)	(5,697)	-	-	16,496,419	-
TOTAL (A+B+C+D+E)	**20,420,653**	**16,271,137**	**3,826,472**	**304,009**	**17,763**	**(178,548)**	**(7,315)**	**(75,969)**	**(91,526)**	**(3,370)**	**20,242,105**	**-**

(*) Value to be shown for disclosure purposes

Based on the communication of the Bank of Italy dated 21 December 2021, the table shows the credit quality of the exposures subject to Covid-19 support measures, represented by loans for which moratoria have been granted or other forbearance measures not yet expired as at the reporting date of the financial statements, or by new loans disbursed through public guarantee mechanisms.

The loans affected by these support measures totalled 20,420.7 million (22,704.9 million as at 31 December 2020), in terms of gross exposure, and entirely relate to the Parent Company.
More specifically, these loans are classified for 20,419.4 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 1.3 million refers to exposures subject to moratoria classified in the accounting portfolio "Financial assets mandatorily measured at fair value through profit and loss".
For an illustration of the content of the different types of moratoria envisaged in the table, along with the moratoria granted by the Group, and of the relative credit quality of those still active, please refer to the content of the paragraph entitled "Risks, uncertainties and impacts of the Covid-19 pandemic" contained in "Part A - Accounting policies" of these Notes. In this regard, note that the moratoria represented in sub-items a) b), amounting in total to 3,644.6 million (of which 3,643.3 million relate to the portfolio of assets at amortised cost) were fully expired as at 1 January 2022.
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 the measures that meet the criteria contained in the EBA Guidelines (EBA/GL/2020/02), refer instead to the content of the document "Disclosure to the public by entities (Pillar III)" of Banco BPM, available on the website www.gruppo.bancobpm.it.

A.1.6 Prudential consolidation - On-balance sheet credit exposures to banks: changes in gross non-performing exposures

Causes/Categories	Bad loans	Unlikely to pay	Non-performing past-due exposures
A. Gross exposure: opening balance	**116**	**-**	**-**
- of which: exposures transferred but not derecognised	-	-	-
B. Increases	**-**	**-**	**-**
B.1 entries from performing exposures	-	-	-
B.2 entries from acquired or originated impaired financial assets	-	-	-
B.3 transfers from other categories of non-performing loans	-	-	-
B.4 contractual modification without derecognition	-	-	-
B.5 other increases	-	-	-
C. Decreases	**(116)**	**-**	**-**
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	(116)	-	-
D. Gross exposure: closing balance	**-**	**-**	**-**
- 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 2021, 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	**3,602,612**	**5,217,616**	**62,278**
- of which: exposures transferred but not derecognised	29,104	11,581	1,205
B. Increases	**596,846**	**1,208,557**	**86,895**
B.1 entries from performing exposures	75,551	873,774	75,416
B.2 entries from acquired or originated impaired financial assets	-	-	-
B.3 transfers from other categories of non-performing loans	471,174	45,772	1,241
B.4 contractual modification without derecognition	-	855	42
B.5 other increases	50,121	288,156	10,196
C. Decreases	**(2,003,167)**	**(2,072,354)**	**(83,283)**
C.1 exits to performing exposures	(4,087)	(161,272)	(8,571)
C.2 write-offs	(177,470)	(414,662)	(220)
C.3 collections	(150,184)	(554,069)	(18,765)
C.4 gains on disposal	(396,551)	(152,849)	-
C.5 losses on disposal	(401,221)	(57,980)	-
C.6 transfers to other categories of non-performing loans	(328)	(463,400)	(54,459)
C.7 contractual modification without derecognition	-	(7,760)	(9)
C.8 other decreases	(873,326)	(260,362)	(1,259)
D. Gross exposure: closing balance	**2,196,291**	**4,353,819**	**65,890**
- of which: exposures transferred but not derecognised	18,968	9,141	622

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	**4,305,689**	**1,805,566**
- of which: exposures transferred but not derecognised	10,184	10,651
B. Increases	**951,414**	**2,247,987**
B.1 entries from non-forborne performing exposures	307,727	2,118,049
B.2 entries from forborne performing exposures	289,639	X
B.3 entries from forborne non-performing exposures	X	126,884
B.4 entries from non-forborne non-performing exposures	696	-
B.4 other increases	353,352	3,054
C. Decreases	**(1,807,579)**	**(808,373)**
C.1 exits to non-forborne performing exposures	X	(439,954)
C.2 exits to forborne performing exposures	(126,884)	X
C.3 exits to forborne non-performing exposures	X	(289,639)
C.4 write-offs	(362,233)	-
C.5 collections	(431,214)	(78,780)
C.6 gains on disposal	(189,027)	-
C.7 losses on disposal	(196,136)	-
C.8 other decreases	(502,085)	-
D. Gross exposure: closing balance	**3,449,524**	**3,245,180**
- of which: exposures transferred but not derecognised	7,307	6,666

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	**93**	**-**	**-**	**-**	**-**	**-**
- of which: exposures transferred but not derecognised	-	-	-	-	-	-
B. Increases	**-**	**-**	**-**	**-**	**-**	**-**
B.1 value adjustments to acquired or originated 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	-	-	-	-	-	-
B.4 other increases	**(93)**	**-**	**-**	**-**	**-**	**-**
C.1 recoveries from valuation	(93)	-	-	-	-	-
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	**-**	**-**	**-**	**-**	**-**	**-**
- 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	**2,131,994**	**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
B. Increases	**907,941**	**360,355**	**924,071**	**679,589**	**15,752**	**3,847**
B.1 value adjustments from acquired or originated impaired financial assets	-	X	-	X	-	X
B.2 other value adjustments	304,217	101,086	829,096	570,544	9,824	1,343
B.3 losses on disposal	401,221	165,303	57,980	30,833	-	-
B.4 transfers from other categories of non-performing exposures	180,669	73,110	9,584	3,041	5,320	295
B.5 contractual modification without derecognition	-	-	7,760	7,760	9	9
B.6 other increases	21,834	20,856	19,651	67,411	599	2,200
C. Decreases	**(1,750,318)**	**(588,043)**	**(1,302,352)**	**(877,895)**	**(16,469)**	**(3,912)**
C.1 recoveries from valuation	(56,286)	(20,058)	(335,003)	(230,035)	(4,570)	(503)
C.2 recoveries from collection	(47,712)	(3,696)	(88,958)	(74,326)	(398)	(53)
C.3 gains on disposal	(178,151)	(58,212)	(21,335)	(4,038)	-	-
C.4 write-offs	(177,470)	(13,698)	(414,662)	(348,535)	(220)	-
C.5 transfers to other categories of non-performing exposures	(3,810)	-	(180,524)	(73,132)	(11,239)	(3,314)
C.6 contractual modification without derecognition	-	-	(855)	(855)	(42)	(42)
C.7 other decreases	(1,286,889)	(492,379)	(261,015)	(146,974)	-	-
D. Total value adjustments - closing balance	**1,289,617**	**298,817**	**1,934,756**	**1,255,384**	**15,669**	**1,613**
- of which: exposures transferred but not derecognised	4,998	335	713	406	45	25

With regard to sales of non-performing loans, the item "Other decreases" includes the total amount of derecognitions other than accounting write-offs (i.e. for the amount equal to the difference between the gross credit exposure and the amount of the transfer).

A.2 Classification of exposures according to external and internal ratings

A.2.1 Prudential consolidation - Distribution of financial assets, commitments to disburse funds and financial guarantees given by external rating classes (gross values)

Exposures	External rating classes						Unrated	Total
	AAA/AA-	A+/A-	BBB+/BBB-	BB+/BB-	B+/B-	below B-		
A. Financial assets at amortised cost	**5,350,202**	**4,843,509**	**13,322,185**	**2,980,077**	**620,857**	**361,288**	**116,735,586**	**144,213,704**
- Stage 1	5,350,202	4,787,221	13,171,600	2,386,211	490,798	182,696	99,493,224	125,861,952
- Stage 2	-	56,288	150,585	573,776	128,989	71,513	10,802,528	11,783,679
- Stage 3	-	-	-	20,090	1,070	44,081	5,898,459	5,963,700
- Acquired or originated impaired	-	-	-	-	-	62,998	541,375	604,373
B. Financial assets measured at fair value through other comprehensive income	**4,335,694**	**2,670,667**	**2,658,270**	**102,366**	**118,314**	**-**	**453,539**	**10,338,850**
- Stage 1	4,332,454	2,641,065	2,628,210	102,366	118,314	-	450,542	10,272,951
- Stage 2	3,240	29,602	30,060	-	-	-	2,997	65,899
- Stage 3	-	-	-	-	-	-	-	-
- Acquired or originated impaired	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**126,657**	**126,657**
- Stage 1	-	-	-	-	-	-	113,692	113,692
- Stage 2	-	-	-	-	-	-	4,652	4,652
- Stage 3	-	-	-	-	-	-	8,313	8,313
- Acquired or originated impaired	-	-	-	-	-	-	-	-
Total (A+B+C)	**9,685,896**	**7,514,176**	**15,980,455**	**3,082,443**	**739,171**	**361,288**	**117,315,782**	**154,679,211**
D. Commitments to disburse funds and financial guarantees given	**110,363**	**1,097,968**	**2,847,561**	**1,855,676**	**194,696**	**13,719**	**39,145,715**	**45,265,698**
- Stage 1	110,363	1,087,385	2,717,791	1,644,789	184,844	5,629	36,086,332	41,837,133
- Stage 2	-	10,583	129,770	210,887	6,881	7,950	2,512,287	2,878,358
- Stage 3	-	-	-	-	2,971	140	537,420	540,531
- Acquired or originated impaired	-	-	-	-	-	-	9,676	9,676
Total (D)	**110,363**	**1,097,968**	**2,847,561**	**1,855,676**	**194,696**	**13,719**	**39,145,715**	**45,265,698**
Total (A+B+C+D)	**9,796,259**	**8,612,144**	**18,828,016**	**4,938,119**	**933,867**	**375,007**	**156,461,497**	**199,944,909**

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	**623**	**188,827**	**743,466**	**1,230,497**	**125,530**	**725**	**-**	**-**	**10,510,598**	**12,800,266**
- Stage 1	623	188,827	743,466	1,205,520	125,273	725	-	-	10,510,399	12,774,833
- Stage 2	-	-	-	24,977	257	-	-	-	199	25,433
- Stage 3	-	-	-	-	-	-	-	-	-	-
- Acquired or originated impaired	-	-	-	-	-	-	-	-	-	-
B. Financial assets measured at fair value through other comprehensive income	**2,076**	**122,579**	**540,723**	**609,980**	**207,734**	**-**	**-**	**-**	**10,097**	**1,493,189**
- Stage 1	-	107,339	540,723	606,984	207,734	-	-	-	10,097	1,472,877
- Stage 2	2,076	15,240	-	2,996	-	-	-	-	-	20,312
- Stage 3	-	-	-	-	-	-	-	-	-	-
- Acquired or originated impaired	-	-	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Stage 1	-	-	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-	-	-
- Acquired or originated impaired	-	-	-	-	-	-	-	-	-	-
Total Financial assets	**2,699**	**311,406**	**1,284,189**	**1,840,477**	**333,264**	**725**	**-**	**-**	**10,520,695**	**14,293,455**
D. Commitments to disburse funds and financial guarantees given										
- Stage 1	2,000	207,327	582,358	617,822	373,178	7,378	-	-	97,625	1,887,688
- Stage 2	-	-	-	13,177	-	-	-	-	7,573	20,750
- Stage 3	-	-	-	-	-	-	-	-	-	-
- Acquired or originated impaired	-	-	-	-	-	-	-	-	-	-
Total commitments to disburse funds and financial guarantees given	**2,000**	**207,327**	**582,358**	**630,999**	**373,178**	**7,378**	**-**	**-**	**105,198**	**1,908,438**
Total	**4,699**	**518,733**	**1,866,547**	**2,471,476**	**706,442**	**8,103**	**-**	**-**	**10,625,893**	**16,201,893**

Exposures to customers	Internal rating classes							Total
	LOW	MEDIUM-LOW	MEDIUM	MEDIUM-HIGH	HIGH	Default	Unrated	
A. Financial assets at amortised cost	**28,022,883**	**33,515,952**	**18,289,459**	**4,749,270**	**2,236,183**	**4,956,107**	**236,228**	**92,006,082**
- Stage 1	27,570,423	31,096,062	14,369,683	2,513,126	319,310	-	205,705	76,074,309
- Stage 2	450,106	2,405,782	3,895,566	2,197,768	1,902,011	-	30,523	10,881,756
- Stage 3	-	-	-	-	52	4,576,634	-	4,576,686
- Acquired or originated impaired	2,354	14,108	24,210	38,376	14,810	379,473	-	473,331
B. Financial assets measured at fair value through other comprehensive income	**168,500**	**18,821**	**14,504**	**-**	**-**	**-**	**-**	**201,825**
- Stage 1	168,500	12,497	14,504	-	-	-	-	195,501
- Stage 2	-	6,324	-	-	-	-	-	6,324
- Stage 3	-	-	-	-	-	-	-	-
- Acquired or originated impaired	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**275**	**1,975**	**2,244**	**881**	**899**	**581**	**-**	**6,855**
- Stage 1	275	1,939	2,175	859	847	-	-	6,095
- Stage 2	-	36	69	22	52	-	-	179
- Stage 3	-	-	-	-	-	581	-	581
- Acquired or originated impaired	-	-	-	-	-	-	-	-
Total (A + B + C)	**28,191,658**	**33,536,748**	**18,306,207**	**4,750,151**	**2,237,082**	**4,956,688**	**236,228**	**92,214,762**
D. Commitments to disburse funds and financial guarantees given								
- Stage 1	21,101,507	8,839,796	4,796,691	437,220	45,308	-	100,245	35,320,767
- Stage 2	92,033	1,086,049	1,053,101	266,624	220,573	-	247	2,718,627
- Stage 3	-	-	-	-	-	511,192	-	511,192
- Acquired or originated impaired	42	81	2,813	632	3	6,064	-	9,635
Total (D)	**21,193,582**	**9,925,926**	**5,852,605**	**704,476**	**265,884**	**517,256**	**100,492**	**38,560,221**
Total (A+B+C+D) by segment	**49,385,240**	**43,462,674**	**24,158,812**	**5,454,627**	**2,502,966**	**5,473,944**	**336,720**	**130,774,983**
Grand total	**-**	**-**	**-**	**-**	**-**	**1,478,772**	**51,490,393**	**52,969,165**
Total	**49,385,240**	**43,462,674**	**24,158,812**	**5,454,627**	**2,502,966**	**6,952,716**	**51,827,113**	**183,744,148**

Exposures	Internal rating classes							Total
	LOW	MEDIUM-LOW	MEDIUM	MEDIUM-HIGH	HIGH	Default	Unrated	
Large Corporate	8,675,647	3,746,152	4,794,461	105,034	145,741	204,994	-	17,672,029
Mid Corporate Plus	8,704,867	8,172,753	3,347,267	907,526	288,166	1,092,039	16,169	22,528,787
Mid Corporate	13,251,613	8,062,187	4,796,724	1,875,190	596,158	1,347,718	27,486	29,957,076
Small Businesses	9,332,829	7,354,240	8,722,590	1,966,611	646,779	1,957,004	233,813	30,213,866
Private	9,420,284	16,127,342	2,497,770	600,266	826,122	872,189	59,252	30,403,225
Total Exposures by segment	**49,385,240**	**43,462,674**	**24,158,812**	**5,454,627**	**2,502,966**	**5,473,944**	**336,720**	**130,774,983**

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				Personal guarantees (2)										Total (1)+(2)
							Credit derivatives					Unsecured loans					
								Other derivatives									
			Real estate - Mortgages	Property - Loans for leases	Securities	Other collateral	CLN	Central counterparties	Banks	Other financial companies	Other entities	Public Administrations	Banks	Other financial companies	Other entities	
1. Secured on-balance sheet credit exposures:	**513,592**	**513,584**	**-**	**666**	**479,507**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**525**	**1,243**	**481,941**
1.1. fully secured	513,441	513,434	-	666	479,507	-	-	-	-	-	-	-	-	525	1,097	481,795
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2. partially secured	151	150	-	-	-	-	-	-	-	-	-	-	-	-	146	146
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured off-balance sheet credit exposures:	**64,998**	**64,985**	**-**	**-**	**42,722**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**713**	**4,133**	**7,573**	**55,141**
2.1. fully secured	47,754	47,751	-	-	42,722	-	-	-	-	-	-	-	285	1,052	3,692	47,751
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2. partially secured	17,244	17,234	-	-	-	-	-	-	-	-	-	-	428	3,081	3,881	7,390
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.3.2 Prudential consolidation - On-balance sheet and off-balance sheet secured credit exposures to customers

	Gross exposure	Net exposure	Collateral (1)				Personal guarantees (2)										Total
							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)+(2)
1. Secured on-balance sheet credit exposures:	**85,990,163**	**83,370,748**	**42,097,393**	**1,016,061**	**4,588,410**	**1,995,237**	**-**	**-**	**-**	**-**	**-**	**18,227,753**	**145,068**	**402,776**	**6,683,033**	**75,155,731**
1.1. fully secured	68,464,262	66,082,790	42,090,203	1,016,061	4,408,979	1,746,405	-	-	-	-	-	8,922,957	40,225	360,963	6,357,627	64,943,420
- of which non-performing	4,953,948	2,871,432	1,953,737	342,976	4,398	143,111	-	-	-	-	-	108,706	811	15,689	197,334	2,766,762
1.2. partially secured	17,525,901	17,287,958	7,190	-	179,431	248,832	-	-	-	-	-	9,304,796	104,843	41,813	325,406	10,212,311
- of which non-performing	336,580	126,688	5,363	-	7,004	815	-	-	-	-	-	45,435	1,210	15,125	21,180	96,132
2. Secured off-balance sheet credit exposures:	**11,872,950**	**11,840,838**	**758,205**	**51**	**1,106,426**	**685,457**	**-**	**-**	**-**	**-**	**-**	**848,486**	**226,624**	**547,775**	**5,978,366**	**10,151,390**
2.1. fully secured	8,531,427	8,506,828	731,816	51	950,934	565,733	-	-	-	-	-	323,956	126,256	363,033	5,189,217	8,250,996
- of which non-performing	88,923	76,517	12,567	-	2,086	2,284	-	-	-	-	-	1,041	-	820	57,573	76,371
2.2. partially secured	3,341,523	3,334,010	26,389	-	155,492	119,724	-	-	-	-	-	524,530	100,368	184,742	789,149	1,900,394
- of which non-performing	78,868	73,099	180	-	546	3,103	-	-	-	-	-	3,397	-	7	35,434	42,667

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	**952,145**	**1,047,192**	**(435,368)**	**611,824**	**37,551**
A.1. Used in operations	53,726	62,766	(38,266)	24,500	-
A.2. For investment purposes	898,419	984,426	(397,102)	587,324	37,551
A.3. Inventories	-	-	-	-	-
B. Equity instruments and debt securities	**15,554**	**15,554**	**(6,057)**	**9,497**	**-**
C. Other assets	**-**	**-**	**-**	**-**	**-**
D. Non-current assets and disposal groups held for sale	**44,595**	**50,299**	**(26,431)**	**23,868**	**-**
D.1. Property, plant and equipment	44,595	50,299	(26,431)	23,868	-
D.2. Other assets	-	-	-	-	-
Total 31/12/2021	**1,012,294**	**1,113,045**	**(467,856)**	**645,189**	**37,551**
Total 31/12/2020	**987,205**	**1,086,368**	**(355,690)**	**730,678**	**5,257**

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	-	-	11,298	(10,636)	-	-	688,938	(1,074,784)	206,438	(204,196)
- of which: forborne exposures	-	-	716	(816)	-	-	194,032	(273,430)	40,111	(24,570)
A.2 Unlikely to pay	1,164	(1,814)	47,443	(72,324)	-	-	1,772,365	(1,693,071)	598,091	(167,548)
- of which: forborne exposures	10	(24)	11,607	(13,176)	-	-	1,257,844	(1,162,646)	379,646	(79,538)
A.3 Non-performing past-due exposures	1	(1)	109	(16)	-	-	6,768	(2,595)	43,343	(13,057)
- of which: forborne exposures	-	-	-	-	-	-	1,561	(536)	8,184	(1,077)
A.4 Performing exposures	27,352,568	(7,438)	16,251,642	(75,661)	201,625	(276)	57,477,104	(276,285)	33,649,308	(101,936)
- of which: forborne exposures	2,554	(55)	15,376	(677)	-	-	2,320,565	(78,493)	800,974	(26,486)
Total (A)	**27,353,733**	**(9,253)**	**16,310,492**	**(158,637)**	**201,625**	**(276)**	**59,945,175**	**(3,046,735)**	**34,497,180**	**(486,737)**
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	12,773	(815)	1,274	(439)	-	-	700,550	(84,463)	10,366	(1,477)
B.2 Performing exposures	7,737,104	(159)	4,220,154	(3,620)	162,379	(21)	42,950,574	(34,510)	4,518,809	(5,332)
Total (B)	**7,749,877**	**(974)**	**4,221,428**	**(4,059)**	**162,379**	**(21)**	**43,651,124**	**(118,973)**	**4,529,175**	**(6,809)**
Total (A+B) 31/12/2021	**35,103,610**	**(10,227)**	**20,531,920**	**(162,696)**	**364,004**	**(297)**	**103,596,299**	**(3,165,708)**	**39,026,355**	**(493,546)**
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)**

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	901,276	(1,275,046)	4,646	(13,304)	513	(120)	-	(949)	239	(197)
A.2 Unlikely to pay	2,400,534	(1,898,865)	17,906	(34,443)	60	(10)	562	(1,436)	1	(3)
A.3 Non-performing past-due exposures	50,206	(15,661)	12	(5)	2	(2)	1	(1)	-	-
A.4 Performing exposures	118,595,406	(457,445)	11,488,427	(1,873)	4,115,070	(1,603)	400,656	(381)	131,063	(18)
Total (A)	**121,947,422**	**(3,647,017)**	**11,510,991**	**(49,625)**	**4,115,645**	**(1,735)**	**401,219**	**(2,767)**	**131,303**	**(218)**
B. Off-balance sheet credit exposures	-	-	-	-	-	-	-	-	-	-
B.1 Non-performing exposures	713,938	(86,577)	10,278	(17)	-	-	739	(600)	8	-
B.2 Performing exposures	54,217,385	(43,265)	3,457,315	(191)	1,447,386	(114)	57,841	(31)	246,714	(20)
Total (B)	**54,931,323**	**(129,842)**	**3,467,593**	**(208)**	**1,447,386**	**(114)**	**58,580**	**(631)**	**246,722**	**(20)**
Total (A+B) 31/12/2021	**176,878,745**	**(3,776,859)**	**14,978,584**	**(49,833)**	**5,563,031**	**(1,849)**	**459,799**	**(3,398)**	**378,025**	**(238)**
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)**

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	372,021	(512,043)	132,334	(208,970)	259,940	(352,902)	136,981	(201,131)
A.2 Unlikely to pay	1,315,116	(1,105,715)	393,769	(355,952)	459,211	(331,678)	232,438	(105,520)
A.3 Non-performing past-due exposures	16,465	(6,322)	10,767	(2,666)	12,695	(3,722)	10,279	(2,951)
A.4 Performing exposures	54,297,863	(252,072)	23,600,760	(103,103)	34,640,721	(78,485)	6,056,062	(23,785)
Total (A)	**56,001,465**	**(1,876,152)**	**24,137,630**	**(670,691)**	**35,372,567**	**(766,787)**	**6,435,760**	**(333,387)**
B. Off-balance sheet credit exposures								
B.1 Non-performing exposures	287,287	(49,591)	157,111	(18,467)	235,500	(15,611)	34,040	(2,908)
B.2 Performing exposures	26,567,791	(31,946)	13,458,983	(5,158)	12,206,882	(4,975)	1,983,729	(1,186)
Total (B)	26,855,078	(81,537)	13,616,094	(23,625)	12,442,382	(20,586)	2,017,769	(4,094)
Total (A+B) 31/12/2021	**82,856,543**	**(1,957,689)**	**37,753,724**	**(694,316)**	**47,814,949**	**(787,373)**	**8,453,529**	**(337,481)**
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)**

B.3 Prudential consolidation - Breakdown by geographic area of on- and off-balance sheet credit exposures to banks

Exposures/Geographic areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance sheet credit exposures										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	40,834,332	(1,727)	1,782,264	(687)	158,709	(62)	22,581	(33)	44,778	(98)
Total (A)	**40,834,332**	**(1,727)**	**1,782,264**	**(687)**	**158,709**	**(62)**	**22,581**	**(33)**	**44,778**	**(98)**
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	932,539	(79)	2,384,259	(106)	114,421	(20)	520,794	(53)	204,555	(68)
Total (B)	**932,539**	**(79)**	**2,384,259**	**(106)**	**114,421**	**(20)**	**520,794**	**(53)**	**204,555**	**(68)**
Total (A+B) 31/12/2021	**41,766,871**	**(1,806)**	**4,166,523**	**(793)**	**273,130**	**(82)**	**543,375**	**(86)**	**249,333**	**(166)**
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)**

B.4 Large exposures

From 30 June 2021, the prudential requirements for banks and investment firms contained in Regulation (EU) no. 575/2013, as updated by Regulation (EU) no. 876/2019 (CRR 2), later amended by Regulation (EU) no. 873/2020 and in Directive no. 2013/36/EU, as updated by Regulation (EU) 878/2019 (CRD V) came into force. These transposes the standards defined by the Basel Committee on Banking Supervision.
This item shows the amount ("non-weighted value" and "weighted value") and the number of the "risk positions" that represent a "large exposure" according to the provisions of Art. 14 of Implementing Regulation (EU) no. 451/2021, laying down implementing technical standards with regard to supervisory reporting of institutions.

An entity's exposure to a customer or a group of related customers is considered a large exposure if the value is equal to or more than 10% of the entity's eligible capital ("CRR 2", Art. 392). In any event, customers or groups of customers with an exposure exceeding 300 million, even if not considered large exposures must be disclosed in the consolidated financial statements.
Taking into account the effect of the exemptions and the credit risk mitigation, large exposures must, in any case, individually respect the limit of 25% of the entity's eligible capital: said limit is set at 150 million if the 25% of the eligible capital is lower.
As at 31 December 2021, the eligible capital coincides with the amount of Tier 1 capital.

In addition to the implementing technical standards for the supervisory reporting of entities, the reporting of Large Exposures was produced, applying the EBA Guidelines (EBA-GL-2017-15) on connected clients, limited to the alternative approach to Central Governments.

On the basis of the new combined provisions, at said date there were 32 risk positions classified as "large exposures" for a total ("non-weighted") amount of 689,746.5 million corresponding to a net ("weighted") exposure of 20,804.2 million.

The main Groups identified as "large exposures" have the following risk assets:

- the Ministry of Economy and Finance for 35,828.2 million (657.8 million considering the weight factors and the exemptions pursuant to Art. 400 of the CRR), mainly consisting of the government bonds in the portfolio, the guarantees issued and tax assets.
  The exposures of this Central Government are in turn included in each group of connected clients, identified separately for directly-controlled or directly-related legal entities, as better specified in paragraph 5 (Alternative approach for exposures to central governments) of the previously-cited EBA guidelines;
- Euronext for 34,108.3 million (32.4 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 13,142.4 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 38,231.8 million (124.0 million considering the weight factors and the exemptions pursuant to Art. 400 of the CRR), mainly consisting of demand deposits and for the minimum reserve;

The remaining 25 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.

	31/12/2021	**31/12/2020**
a) Amount (book value) (*)	689,746,479	410,816,906
b) Amount (weighted value) (*)	**20,804,227**	**9,804,654**
c) Number	32	25

(*) figures in thousands of euro

C. Securitisation transactions

1. Traditional securitisations acting as originator

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 2021 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).

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 2021.

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
Securitisations fully derecognised from the financial statements				
Red Sea SPV S.r.l.	Banco BPM	June 2018	Project Exodus	Bad loans
Leviticus SPV S.r.l.	Banco BPM	February 2019	Project Ace	Bad loans
Tiberina SPV S.r.l.	Banco BPM	December 2020	Project Django	UTP and Bad loans
Titan SPV S.r.l.	Banco BPM and Release	December 2020	Project Titan	Bad loans
Aurelia SPV S.r.l.	Banco BPM	June 2021	Project Rockets	Bad loans

The securitisation transactions that are "fully derecognised" are represented by the 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

Aurelia SPV S.r.l. (Project Rockets)

On 3 June 2021, the sale without recourse, against payment and *en bloc* of a portfolio of loans classified as bad loans, originated by Banco BPM S.p.A. (hereinafter also the "Transferor" or "Originator") was finalised for a total gross value of 1,509.5 million.

More specifically, the transaction was finalised through the sale of the loans to Aurelia SPV S.r.l., the securitisation SPE specifically established and not belonging to Banco BPM Group, pursuant to Italian Law 130/99.

The purchase of the loans by the SPE was funded through the issue, on 22 June 2021, of three tranches of securities (Senior, Mezzanine and Junior), which were fully subscribed pro-rata by the Originator, for a total nominal amount of 394 million, as illustrated in the following table.

Class - Type	Issue value
Class A - Senior	342,000
Class B - Mezzanine	40,000
Class J -Junior	12,000
Total	**394,000**

The structure also envisaged the establishment of a Cash Reserve of 15.4 million, corresponding to 4.5% of the nominal value of the Senior Class A securities outstanding on each payment date.
Said reserve was established by means of a Limited Recourse Loan disbursed by Banco BPM to the special purpose entity Aurelia SPV, for a total value of 15.6 million, remunerated on the basis of a fixed annual interest rate of 1.75%, antedated with respect to the senior securities.

With a value date of 29 June 2021, Banco BPM sold 95% of the Mezzanine tranche and 95% of the Junior tranche to a market counterparty, retaining the entire Senior tranche and 5% of the Mezzanine and Junior tranches, in accordance with the retention rule envisaged by prudential regulations (Reg. EU no. 575/2013, known as "CRR").

Following the finalisation of this transaction, a State Guarantee for the Securitisation of Bad Loans ("GACS") on the Senior securities was requested: on 23 December 2021, the decree with which the guarantee of the Ministry of Economy and Finance was released, was issued.

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 2021, of the securities subscribed by the Parent Company is summed up below:

Type	Type	Nominal issue value	Nominal share subscribed by the Group	Initial recognition value	Value as at 31/12/2021	Maturity	Rating	Interest rate
Class A Asset Backed Floating Rate Notes due July 2047	Senior	342,000	342,000	342,000	341,708	30/07/2047	DBRS: BBB Scope: BBB	Euribor 6M + 0.5%
Class B1 Asset Backed Floating Rate Notes due July 2047	Mezzanine	40,000	2,000	580	665	30/07/2047	Unrated	Euribor 6M + 8%
Class J Asset Backed Floating Rate and Variable Return Notes due July 2047	Junior	12,000	600	-	-	30/07/2047	Unrated	Euribor 6M + 10%
Total		**394,000**	**344,600**	**342,580**	**342,373**			

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

BP Mortgages 1 (March 2007)

In July 2021, with the signing of the relative contracts, the early closures of the securitisation transaction finalised by the SPE BP Mortgages S.r.l. in April 2007 ("BP Mortgages 1") took place. More specifically, (i) on 29 June 2021, Banco BPM repurchased the entire residual portfolio of mortgage loans underlying the transaction and (ii) on the interest payment date of 20 July 2021, the SPE closed the transaction and repaid the outstanding securities in advance. On 19 July 2021, 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 S.r.l. in liquidation

Following the early closure, in the previous year, of the last outstanding securitisation transaction, on 22 July 2021, the Shareholders' Meeting approved, with effect from 29 July 2021, the early dissolution and placement in liquidation of the SPE.

Existing and significant securitisation transactions during 2021

BP Mortgages 2 (June 2007)

On 22 June 2007, Banca Popolare di Novara and Credito Bergamasco, both now Banco BPM sold a portfolio of residential landed mortgage loans and residential mortgage loans backed by a voluntary mortgage on the property to the SPE BP Mortgages S.r.l. The portfolio sold amounted to 1,610 million; on 29 June 2007, the SPE issued four classes of rated securities that were placed with institutional investors and two classes of unrated junior securities subscribed by the Originators; all of the classes of securities were listed on the Irish Stock Exchange.
The Originator Banks, now only Banco BPM, acted as Servicers and managed the loan collection.

Loans portfolio

Bank	Value 31/12/2021	Value 31/12/2020
Banco BPM	180,251	212,178

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 31/12/2021	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	47,434	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**	**127,952**			

(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 2021.

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 2021, the amount of collateral paid in was 8.6 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.

Significant events during 2021 - Rating

On 21 December 2021, following the upgrade of Italy's rating, upgraded the rating of A2, B and C Class securities from "AA-" to "AA".

Tiberina SPV S.r.l (Project Django)

On 11 December 2020, the contract for the sale of loans between Banco BPM and Tiberina SPV was signed, as part of the securitisation transaction, pursuant to Italian Law 130/99. The sale regarded a portfolio of 40 positions classified as Unlikely to Pay and 1 position classified as Bad Loan, for a total gross value of 288 million.

On 22 December 2020, the purchase of the loans portfolio was funded by the SPV through the issue of the following asset backed securities for a total nominal value of 120.0 million:

- Class A Senior for a nominal value of 84.0 million;
- Class B1 Mezzanine for a nominal value of 18.0 million;
- Class B1 Mezzanine for a nominal value of 9.0 million;
- Class J Junior for a nominal value of 9.0 million.

The senior tranche was entirely subscribed by Banco BPM, together with 5% of the mezzanine tranche and of the junior tranche - in accordance with the retention rule envisaged by regulatory provisions - for a total nominal value of 85.8 million.

The remaining 95% of the Mezzanine and Junior tranches was instead subscribed by Credito Fondiario.

The finalisation of this sale resulted in the significant transfer of the risks and rewards of the loans sold, which were, therefore, derecognised from the financial statements, based on the regulations set out in the accounting standard IFRS 9.

The situation of the securities subscribed by the Parent Company as at 31 December 2021, is summarised below:

Type	Type	Nominal amount subscribed by Banco BPM on the issue date	Nominal amount subscribed by Banco BPM outstanding as at 31/12/2021	Value as at 31/12/2021	Maturity	Rating	Interest rate
Class A Asset Backed Floating Rate Notes due October 2040	Senior	84,037	67,404	67,688	01/10/2040	Unrated	Euribor (floor @0%) +2%
Class B1 Asset Backed Floating Rate Notes due October 2040	Mezzanine	901	754	771	01/10/2040	Unrated	Euribor (floor @0%) +9%
Class B2 Asset Backed Floating Rate Notes due October 2040	Mezzanine	451	451	465	01/10/2040	Unrated	Euribor (floor @0%) +12%
Class J Asset Backed Variable Return Notes due October 2040	Junior	451	451	451	01/10/2040	Unrated	n.a.
Total		**85,840**	**69,060**	**69,375**			

Titan SPV S.r.l. (Project Titan)

On 12 December 2020, a multi-originator securitisation transaction was stipulated (Banco BPM S.p.A., Release S.p.A. and Alba Leasing S.p.A.), where the underlying was a portfolio of Lease NPL with a gross contractual value totalling 335.4 million (value referred to the valuation date, which under the contract was 31 December 2019).

On 28 December 2020, the purchase of the portfolio sold was funded by the SPE through the issue of the following asset backed securities for a nominal value of 115.6 million, including the issue to fund Alba Leasing:

- Class A Senior for a nominal value of 90.5 million, for which the State Guarantee on the Securitisation of Bad Loans ("GACS") has been obtained;
- Class B Mezzanine for a nominal value of 15.0 million;
- Class J Junior for a nominal value of 10.1 million. The issue of the 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). Subsequently, 95% of the Group's Mezzanine and Junior tranches was placed with a third-party investor and Release sold the Parent Company the tranches of the securities it had subscribed.

The finalisation of this sale resulted in the significant transfer of the risks and rewards of the loans sold, which were, therefore, derecognised from the financial statements, based on the regulations set out in the accounting standard IFRS 9.

The situation of the securities subscribed by the Parent Company as at 31 December 2021, is summarised below:

Type	Type	Nominal amount subscribed by Banco BPM on the issue date	Nominal amount subscribed by Banco BPM outstanding as at 31/12/2021	Value as at 31/12/2021	Maturity	Rating as at 31 December 2021	Interest rate
Class A Asset Backed Floating Rate Notes due January 2041	Senior	32,343	29,675	29,650	31/01/2041	DBRS: BBB Scope: BBB	Euribor 6M + 0.5%
Class B1 Asset Backed Floating Rate Notes due January 2041	Mezzanine	269	269	82	31/01/2041	Unrated	Euribor 6M + 8%
Class J Asset Backed Variable Return Notes due January 2041	Junior	200	200	0	31/01/2041	Unrated	n.a.
Total		**32,812**	**30,144**	**29,732**			

Leviticus SPV S.r.l. (Project Ace)

In December 2018, a transaction to sell a portfolio of bad loans was set in motion, pursuant to the law on securitisation (Italian Law no. 130/1999). On the sale date, the gross value of the portfolio sold amounted to around 6 billion, net of write-offs of around 1.1 billion (the nominal value was 7.4 billion, before write-offs, related to the date of accrual established in the contract as at 30 June 2018).

The transaction was finalised on 6 February 2019 through the issue, by Leviticus SPV S.r.l., of the following classes of securities, fully subscribed by Banco BPM:

- *Class A Senior* corresponding to 1,440.0 million, for which the guarantee from the Italian State was obtained pursuant to Italian Decree Law 18/2016 ("GACS");
- *Class B - Mezzanine* for 221.5 million;
- *Class J - Junior* for around 248.8 million.

Subsequently, the sale to a third party of 95% of the Mezzanine tranche and 95% of the junior tranche was completed. In compliance with the retention rule set out in the supervisory regulations, Banco BPM retained ownership of 5% of those securities. Banco BPM also retained ownership of 100% of the senior securities.

The finalisation of this sale resulted in the significant transfer of the risks and rewards of the loans sold, which were, therefore, derecognised from the financial statements, based on the regulations set out in the accounting standard IFRS 9.

The situation of the securities subscribed by the Parent Company as at 31 December 2021, is summarised below:

Type	Type	Nominal amount subscribed by Banco BPM on the issue date	Nominal amount subscribed by Banco BPM outstanding as at 31/12/2021	Value as at 31/12/2021	Maturity	Rating as at 31 December 2021	Interest rate
Class A Asset Backed Floating Rate Notes due July 2040	Senior	1,440,033	938,767	938,271	31/07/2040	DBRS: BB; Scope: BBB-	6M Euribor +0.6%
Class B Asset Backed Floating Rate Notes due July 2040	Mezzanine	11,078	11,078	4,483	31/07/2040	Unrated	6M Euribor +8%
Class J Asset Backed Variable Return Notes due July 2040	Junior	12,443	12,443	-	31/07/2040	Unrated	n.a.
Total		**1,463,554**	**962,288**	**942,753**			

Red Sea SPV S.r.l. (Project Exodus)

In June 2018, Banco BPM finalised the sale of a portfolio of bad loans for a gross nominal value of around 5.1 billion to Red Sea SPV S.r.l..

The transaction was carried out through the issue, by the special purpose entity, of securities totalling around 1.9 billion, broken down as follows:

- *Class A Senior* corresponding to 1,656.5 million, for which the guarantee from the Italian State was obtained pursuant to Italian Decree Law 18/2016 ("GACS");
- *Class B Mezzanine* for 152.9 million;
- *Class J Junior* for 51 million.

The securities fully subscribed by Banco BPM, were subsequently sold, specifically a share of 95% of the mezzanine and junior securities, to a third-party investor. With the placement of the mezzanine and junior securities, the requirements were met for the derecognition of the bad loans sold to the SPE.

The situation of the securities subscribed by the Parent Company as at 31 December 2021, is summarised below:

Type	Type	Nominal amount subscribed by Banco BPM on the issue date	Nominal amount subscribed by Banco BPM outstanding as at 31/12/2021	Value as at 31/12/2021	Maturity	Rating as at 31 December 2021	Interest rate
Class B Asset Backed Floating Rate Notes due October 2038	Senior	1,656,504	921,361	920,243	29/10/2038	Moody's: Baa1; Scope: BBB-	6M Euribor +0.6%
Class B Asset Backed Floating Rate Notes due October 2038	Mezzanine	7,646	7,646	2,944	29/10/2038	Unrated	6M Euribor +6%
Class J Asset Backed Variable Return Notes due October 2038	Junior	2,549	2,549	-	29/10/2038	Unrated	n.a.
Total		**1,666,699**	**931,556**	**923,187**			

2. Synthetic securitisations acting as originator

Synthetic securitisations envisage, through the contracting of collateral arrangements, the purchase of protection from the credit risk underlying a portfolio of loans, of which the Originator retains full ownership. Thus, the purpose of those transactions is to transfer the credit risk from the Originator to an external counterparty, without derecognising the assets, which are therefore kept in the Originator's financial statements.
The characteristics of these transactions allow regulatory and economic capital to be freed up due to the reduction in the level of risk of the underlying portfolio ("Significant Risk Transfer" pursuant to prudential regulations), thereby contributing to creating value by optimising the use of capital.
The reference regulations for those transactions is EU Regulation no. 575/2013 (Capital Requirements Regulation, "CRR"). Art. 245 of the CRR establishes the conditions at which the Significant Risk Transfer (SRT) criterion is met, i.e. the significant transfer of risk to third parties using collateral or personal guarantees as credit protection. Those conditions must be constantly monitored for the entire duration of the transaction.

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The following table shows synthetic securitisation transactions in place as at 31 December 2021.

Guarantor	Originator	Transaction date	Type of securitisation
European Investment Fund	Banco BPM	December 2020	Performing loans
European Investment Fund	Banco BPM	December 2021	Performing loans
Market investor	Banco BPM	December 2021	Performing loans

New synthetic securitisation transactions in the year

European Investment Fund synthetic securitisation 2021 - project Audrey

In December 2021, Banco BPM concluded its third synthetic securitisation transaction with the European Investment Fund (EIF).
The portfolio securitised was comprised by performing loans originated by Banco BPM to around 6,000 SMEs and Corporate customers, for 1,696 million.
Based on the structure of the transaction, the portfolio is virtually divided into 2 tranches based on the degree of risk: Senior and Junior, for an initial value of the portfolio of 1,567 million, broken down as follows:

- *Senior*: 1,476 million;
- *Junior*: 91 million.

In addition, to meet the requirement to retain a minimum economic interest of at least 5% (retention), 129 million is expected to be initially withheld from the entire portfolio.

Specifically, the Senior portion is not secured in any way, while the Junior portion is guaranteed by the European Investment Fund (EIF) and counter-guaranteed by the European Investment Bank (EIB), through the use of funds from the European Guarantee Fund (EGF).
Against said guarantee, a commitment is also envisaged for the Bank, to establish, within 18 months of the start of the transaction, a portfolio of new loans amounting to around 954 million to be disbursed with a view to supporting investments and working capital, to SMEs (with a workforce of up to 249 employees, who report an annual turnover not exceeding 50 million and/or total annual financial statement result not exceeding 43 million, 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 2022.

As at 31 December 2021, the securitised portfolio amounted to 1,615.1 million and Banco BPM's net exposure was 1,552.9 million, of which 1,428.2 million was represented by Senior securities and 124.7 million by retention.

Large Corporate synthetic securitisation 2021 – project Brigitte

In December 2021, Banco BPM concluded its fourth synthetic securitisation transaction, the first with a market investor.
The portfolio securitised was comprised of performing loans originated by Banco BPM to around 100 SMEs belonging to the Corporate segment, for 2,857 million.
Based on the structure of the transaction, the portfolio is virtually divided into 2 tranches based on the degree of risk: Senior and Junior, for an initial value of the portfolio of 2,200 million, broken down as follows:

- *Senior*: 2,046 million;
- *Junior*: 154 million.

In addition, to meet the requirement to retain a minimum economic interest of at least 5% (retention), 657 million is expected to be initially withheld from the entire portfolio.
Specifically, the Senior portion is not secured in any way, while the Junior portion is guaranteed by a market investor through a Funded Financial Guarantee.

As at 31 December 2021, the securitised portfolio amounted to 2,769.3 million and Banco BPM's net exposure was 2,657.4 million, of which 2,005.4 million was represented by Senior securities and 652.0 million by retention.

Synthetic securitisation transactions concluded during the year

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 had been 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, had been envisaged to be withheld to meet the requirement to retain a minimum economic interest (retention).

In August 2021, Banco BPM exercised the early termination option, contractually envisaged, thus closing the transaction in question.

Outstanding synthetic securitisation transactions

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 was 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.
In particular, 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).
Against said guarantee, the transaction envisaged 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").
The disbursement of these loans was completed in 2021.

As at 31 December 2021, the securitised portfolio amounted to 1,060.0 million and Banco BPM's net exposure was 1,028.7 million, of which 892.1 million was represented by Senior securities, 17.2 million by Junior securities and 119.4 million by retention.

3. Investments in traditional securitisations acting as sponsor

The Group is also active in the market of financing the receivables of its corporate customers through the securitisation of trade receivables in which the Group acts as sponsor, pursuant to Art. 6, paragraph 3 (a) of Regulation (EU) 2017/2402, and as senior investor.
Transactions started in FY 2021 with the performance of two transactions, through Banca Akros, acting as Arranger, finalised through the special purpose vehicle SUN SPV S.r.l. established pursuant to Italian Law 130/1999, as illustrated below.

QUALITATIVE INFORMATION

Securitisations in the energy sector

The securitisation programme regards performing trade receivables for a maximum revolving amount of around 50 million originated by a Group customer, operating in the energy distribution sector, and resulting from the provision of natural gas and electricity.
The Group acts as senior noteholder, sponsor and account bank.

The revolving purchase by SUN SPV S.r.l was financed through the issue of three tranches of unrated ABS (Senior, Mezzanine and Junior classes).

The table below shows the total securities issued by the SPE and the part subscribed by Banco BPM: 100% of the Senior security, 5% of the Mezzanine and Junior securities.

Class – Type	Nominal issue value	BANCO BPM	
		Nominal value	Drawn down 31/12/2021
Senior security (*)	42,703	42,703	27,717
Mezzanine security (*)	5,402	271	176
Junior security	1,500	75	75
Total	**49,605**	**43,049**	**27,968**

(*) The Senior and the Mezzanine securities are classified as partly paid variable funding.

Securitisations in the steel sector

The securitisation programme regards performing trade receivables for a maximum revolving amount of 30 million, originated by a Group customer operating in the steel and other non-ferrous materials sectors, vis-à-vis customers in various European jurisdictions.
The Group acts as senior noteholder, sponsor and account bank.

The revolving purchase by SUN SPV S.r.l was financed through the issue of three tranches of unrated ABS (Senior, Mezzanine and Junior classes).

The table below shows the total securities issued and the part subscribed by Banco BPM: 100% of the Senior security, 5% of the Mezzanine and Junior securities.

Class – Type	Nominal issue value	BANCO BPM	
		Nominal value	Drawn down 31/12/2021
Senior security (*)	26,350	26,350	26,160
Mezzanine security (*)	2,626	132	131
Junior security	948	48	48
Total	**29,924**	**26,530**	**26,339**

(*) The Senior and the Mezzanine securities are classified as partly paid variable funding.

4. Investments in traditional securitisations

QUALITATIVE INFORMATION

During 2021, on behalf of institutional customers of Banco BPM (supervised entities and financial intermediaries), the Group structured three credit securitisation transactions; again for these transactions, Banca Akros acted as Arranger.

The transactions envisaged the issue of different classes of ABS (Asset Backed Securities) by several SPEs established pursuant to Italian Law 130/1999.
Banco BPM intervened by purchasing all or part of the Senior tranche alone.

SPV Project 2011 S.r.l.

The transaction regarded several Project Finance loans disbursed to companies operating in the wind power and photovoltaic sector.

The table below shows the total securities issued by the SPE and the part subscribed by Banco BPM.

Class - Type	Nominal issue value	BANCO BPM	
		Nominal value	Drawn down 31/12/2021
Senior security	16,500	15,675	15,675
Junior security	9,068	-	-
Total	**25,568**	**15,675**	**15,675**

The securitisation is currently at the stage of redeeming the securities. The investment as at 31 December 2021 amounted to 8.7 million

Perseveranza SPV S.r.l.

The transaction regards a portfolio of loans granted to SMEs secured by a guarantee of the Central Guarantee Fund for SMEs, as envisaged by the provisions of the law issued following the Covid-19 emergency.

The table below shows the total securities issued by the SPE and the part subscribed by Banco BPM.

Class – Type	Nominal issue value	BANCO BPM	
		Nominal value	Drawn down 31/12/2021
Class A - Senior (*)	180,000	31,200	28,626
Class B - Mezzanine (*)	20,000	-	-
Class C -Junior (*)	25,000	-	-
Total	**225,000**	**31,200**	**28,626**

(*) The Senior and the Mezzanine securities are classified as partly paid.

Igloo SPV S.r.l.

The transaction regards a portfolio of loans granted to SMEs and Mid-Caps, secured by a guarantee of the Central Guarantee Fund for SMEs or by SACE, as envisaged by the provisions of the law issued following the Covid-19 emergency.

The table below shows the total securities issued by the SPE and the part subscribed by Banco BPM.

Class – Type	Nominal issue value	BANCO BPM	
		Nominal value	Drawn down 31/12/2021
Class A1, A2 – Senior	134,700	35,000	191
Class B – Upper Mezzanine	23,300	-	-
Class Y – Lower Mezzanine	7,800	-	-
Class J – Junior	4,200	-	-
Total	**170,000**	**35,000**	**191**

(*) The Senior and the Mezzanine securities are classified as partly paid.

QUANTITATIVE INFORMATION

C.1 Prudential consolidation - Exposures deriving from the main "own" securitisation transactions broken down by type of securitised asset and by type of exposure

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	**2,416,525**	**(1,919)**	**9,410**	**-**	**451**	**-**
Non-performing assets:						
A.1 Bad loans	2,416,525	(1,919)	9,410	-	451	-
Performing assets:						
A.2 Leases	-	-	-	-	-	-
B. Partially derecognised						
C. Not derecognised	**4,356,774**	**(1,895)**	**29,487**	**-**	**92,224**	**(65)**
Performing assets:						
C.1 Residential mortgage loans	31,044	-	29,487	-	75,044	-
C.2 Loans to businesses (*)	4,325,730	(1,895)	-	-	17,180	(65)

(*) The sub-item "Loans to businesses" relates to the synthetic securitisation transaction. As at 31 December 2021 the value of the retention by Banco BPM came to 896.1 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	Senior
	Book value	Losses/ Recoveries	Book value	Losses/ Recoveries	Book value	Losses/ Recoveries
A.1 BNT PORT 14-42 TV		-			28,571	
Agricultural and animal husbandry loans						
A.2 PHARMA FIN.SR3 TV 28	1,274	-				-
Other						
A.3 PHARMA FIN.SRL TV 28		-	603			-
Other						
A.4 PHARMA FIN.EUR TV 28		-	4,524			-
Other						
A.5 *FAW3 SPV 23 A-1-S 2% (*)*	8,001	(12)				-
Other						
A.6 SUN SPV 21-28 TV A	27,703	(14)				
Trade receivables						
A.7 SUN SPV 21-29 TV A	26,142	(19)				
Trade receivables						
A.8 SUN SPV 21-28 TV B			176			
Trade receivables						
A.9 SUN SPV 21-28 TV J					75	
Trade receivables						
A.10 SUN SPV 21-29 TV B			131			
Trade receivables						
A.11 SUN SPV 21-29 TV J					48	
Trade receivables						
A.12 PERSEVERANZA SPV 21-31 TV A	28,683	(24)				
Loans with SMEGF guarantee						
A.13 IGLOO 21-31 TV A1	191					
Loans with SMEGF guarantee						
A.14 SPV PROJ 21-28 TV A	8,672	(7)				
Project finance loans						
A.15 Luzzati			381			
Non-performing loans						
A.16 Luzzati					5	
Non-performing loans						

(*) This was a single tranche, typically indicated as a Senior security

The part of the table relative to the guarantees issued and the credit facilities is omitted inasmuch as there are none.

In addition to that shown in the table, note that the Mezzanine security of the Berenice Securitisation held through the Voluntary Scheme, was fully written down during the year. For further details, refer to the paragraph entitled "Other significant aspects relating to Group accounting policies" contained in Part A - "Accounting policies" of these Notes.

Exposures deriving from third party securitisation transactions amounted to 135.2 million, of which 35.8 million is classified in the portfolio of "Financial assets at fair value through profit and loss c) other financial assets mandatorily measured at fair value", and the remaining 99.4 million in the portfolio of "Financial assets at amortised cost".
The exposure relative to "BNT Port 14-42 TV", classified under "Financial assets at fair value through profit and loss: c) other financial assets mandatorily measured at fair value" is referred to 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 2021, 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 28.6 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	146,703	-	14,039	-	-	254,486
BP Mortgages giu 2007	Milan	accounting	181,055	-	36,215	47,434	64,408	16,165

C.4 Prudential consolidation - SPE for non-consolidated securitisation

As at 31 December 2021 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" and Aurelia SPV S.r.l., an SPE established for the transactions regarding the sale of a portfolio of bad loans called "Project Rockets", 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	Aurelia SPV
Total assets	**970,251**	**992,184**	**69,375**	**37,399**	**358,237**
Other financial assets mandatorily measured at fair value	2,944	4,483	1,687	82	665
Loans to customers	966,396	987,675	67,688	37,317	357,479
Other assets	911	27			93
Total liabilities	**7,300**	**149,900**	**-**	**3,676**	**266**
Due to customers	7,299	149,900		3,676	-
Other liabilities	1	-	-	-	266
(thousands of euro)	Red Sea SPV	Leviticus SPV	Tiberina SPV	Titan SPV	Aurelia SPV
Net interest income	1,221	1,771	1,702	20	85

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

In 2021, the Group did not act as a servicer for its own securitisation transactions in which the assets sold were derecognised from the financial statements.

C.6 Prudential consolidation - 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 2021, 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 (180.3 million);
- repurchase agreements payable on treasury securities mainly classified in the portfolio of "Financial assets measured at fair value through other comprehensive income" and "Financial assets at amortised cost".

For repurchase agreements, the non-derecognition of the security of the repurchase agreement derives from the fact that the Bank substantially holds the risks and rewards linked to the security, having the obligation of the forward repurchase at a contractually established price. Therefore the securities transferred continue to be represented in the relative accounting portfolio; the payment for the sale is posted under the "Financial liabilities at amortised cost: a) due to banks or b) due to customers", according to the type of counterparty. To this regard, it must be noted that the following table does not include the repurchase agreements payable on securities not posted in the financial statements if its availability is consequent to reverse repurchase agreements (see the paragraph "Other information" in Part B of these Notes).

The securitisation transactions described in the preceding paragraph "C. Securitisation transactions" are not derecognised due to the Group's subscription of the tranches of junior securities or similar exposures which involve the first loss risk for the Group and, similarly, the reward linked to the yield of the portfolio of the transferred assets. The payment collected for the transfer is posted as a balancing entry of a payable due to the SPE, net of the tranches of the underlying securities subscribed or the use of forms of liquidity support for the SPE for the payment of the principal. The loan to the SPE, thus posted, will decrease by effect of the sums collected from the originator in its capacity as servicer and transferred to said SPE.
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.

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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	**1,050,924**	**-**	**1,050,924**	**X**	**990,489**	**-**	**990,489**
1. Debt securities	292,837	-	292,837	X	292,903	-	292,903
2. Equity instruments	758,087	-	758,087	X	697,586	-	697,586
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value	**3,932**	**3,932**	**-**	**200**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	3,932	3,932	-	200	-	-	-
C. Financial assets designated at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**3,844,865**	**-**	**3,844,865**	**-**	**3,856,895**	**-**	**3,856,895**
1. Debt securities	3,844,865	-	3,844,865	-	3,856,895	-	3,856,895
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets at amortised cost	**7,369,837**	**176,319**	**7,193,518**	**22,775**	**7,394,578**	**45,482**	**7,349,096**
1. Debt securities	7,193,518	-	7,193,518	-	7,349,096	-	7,349,096
2. Loans	176,319	176,319	-	22,775	45,482	45,482	-
Total 31/12/2021	**12,269,558**	**180,251**	**12,089,307**	**22,975**	**12,241,962**	**45,482**	**12,196,480**
Total 31/12/2020	**9,220,720**	**318,520**	**8,902,200**	**32,292**	**8,914,259**	**88,525**	**8,825,734**

"Fully recognised financial assets sold" amounted to 539.9 million in book value underlying funding repurchase agreements of the Parent Company, shown in the table in "Associated financial liabilities" for 459.0 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 2021 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	
			31/12/2021	31/12/2020
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	**3,932**	**-**	**3,932**	**4,531**
1. Debt securities	-	-	-	-
2. Loans	3,932	-	3,932	4,531
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)	**187,050**	**-**	**187,050**	**333,148**
1. Debt securities	-	-	-	-
2. Loans	187,050	-	187,050	333,148
Total financial assets	**190,982**	**-**	**190,982**	**337,679**
Total associated financial liabilities	**45,482**	**-**	**X**	**X**
Net value as at 31/12/2021	**145,500**	**-**	**190,982**	**X**
Net value as at 31/12/2020	**249,154**	**-**	**X**	**337,679**

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.

During the year and in previous years, Banco BPM Group concluded several sales of classified exposures to mutual investment funds in exchange for units issued by the same funds.

QUALITATIVE INFORMATION

General objectives of the loan sale transactions carried out through the mutual investment fund scheme

In general, the business and strategic objective in this case is to assign the management of several exposures classified as high risk to specialist, independent operators (i.e. represented by asset management companies, hereinafter also "SGR"), which, through changes in management, should enable more effective company turnaround than what the Bank could achieve by continuing to manage its own exposure. The strategies pursued by the asset management company specifically focus on managerial leverage that is difficult for single banks to activate, such as, merely by way of example: converting the loans into equity, joining the management bodies of the companies to carry out effective operational turnaround, developing distressed M&A operations to safeguard the value of the companies through business partnerships, directly repossessing the property in the case of real estate operators and, lastly, third party investors contributing new financing to relaunch the companies.

In that view, the intervention of an asset management company enables the creation of suitable mechanisms to safeguard the rights of the contributing banks, through the powers assigned to specific investor committees. In addition, in order to align the interests of the asset management company with those of the contributing banks, the structure of fees to the asset management company generally entails management fees consistent with the net assets of the fund, as well as performance fees or a carried interest on the extra yield of the transaction.

Accounting treatment

In accounting terms, pursuant to the accounting standard IFRS 9, the above sale transactions resulted in the derecognition of the loans sold, as the Group did not substantially retain the risks or rewards of the transferred assets, and also did not retain any substantial control over the assets, as the control was instead assumed by the fund management company. In particular, the risks and rewards that the Group may obtain from the units held in exchange for the loans are not anchored to the occurrence, amount or timing of the events that involve the loans sold, given that the economic and financial dynamics linked to the single loans will not automatically or directly influence the returns of individual unitholders (including Banco BPM) which, instead, will depend on the general performance of the fund managed by the asset management company. In that regard, it must be noted that, as these are multi-originator transactions, the loans contributed by the single participants may differ from those contributed by other participants and, where these concerns the same debtor, may also change the percentage of exposure contributed by each participant.

In relation to said derecognition, the fund units obtained as a conversion from the sale were recognised in the accounting portfolio of "Other financial assets mandatorily measured at fair value". The difference between these derecognised loans and the recognition value of the fund units was recognised in the income statement as an effect of the loans, based on the regulations set out in paragraph 3.2.12 of the accounting standard IFRS 9.

With regard to the need to consolidate the mutual funds subscribed - in line with that illustrated in "Part A – Accounting policies" with regard to the requirements of the accounting standard IFRS 10 for holding control over an entity - no funds were identified that required consolidation. Based on the powers assigned to the bodies establishing the fund (Board of Directors, Investors Committee, Investors' Meeting) and the majorities required to pass the related resolutions, no funds were identified in which the Group is deemed to hold the power to manage significant activities.

New transactions of the period

Back2 Bonis (Cuvée transaction – Wave 4)

Objectives and main characteristics of the fund

The multi-originator transaction called Cuvée was finalised on 20 December 2021, through the sale of loans to Ampre S.r.l. - an SPE established pursuant to the law on securitisations (Italian Law no. 130/99) - and the simultaneous subscription of the units of a mutual investment fund managed by Prelios SGR, called Back2Bonis, released through the contribution to the same fund of the loans due from Ampre against the loans sold. Ampre then issued a single untranched security as payment of its debt towards the fund.

Ampre signed a servicing mandate with Amco, which acted as special and master servicer of the securitisation SPE, and a real estate advisory mandate with Prelios Integra, a Group company of the SGR, with a view to efficiently managing the real estate portfolio guaranteeing the loans.

More specifically, the transaction in question regards the sale of a portfolio of Real Estate Small & Medium Size loans classified as Unlikely to Pay (hereinafter also UTP), resulting from loans granted to companies operating in the

real estate sector, or to real estate funds, with different risk profiles in terms of territorial distribution, intended use and lifecycle of the underlying real estate assets.
The aim of the transaction is to guarantee the more proactive and effective management of the loans guaranteed through i) the disbursement of new financing where retained necessary to develop and complete the real estate assets, ii) the eventual repossession of said assets, through a datio in solutum mechanism, and iii) the better and more effective sale of the same, by exploiting the specific expertise of the Group of the assignee SGR.

Amount of loans sold and Banco BPM's stake
The participants in the transaction sold their credit exposures to the fund for a total gross value of 124 million; the total loans managed therefore exceed 1.1 billion, confirming its market leadership.
Banco BPM sold 9 exposures classified as UTP to the SPE, for a gross value of 76.3 million, corresponding to an initial assignment value of 21.7 million. Against the cited transaction, Banco BPM received 46.483 units of the Back2bonis fund. More specifically, this assignment involved several counterparties from which the Cuvéè Fund had already purchased portions of loans from other banks: the aim of Banco BPM's assignment was therefore, inter alia, to increase Cuvèe's share of wallet vis-à-vis the counterparties sold, thus increasing its negotiating power at restructuring tables, with a view to boosting the recovery.

Accounting treatment
On 20 December 2021, the loans sold were derecognised from the financial statements, as a balancing entry to the recognition of the units of the Back2bonis fund.
The fair value of the Back2bonis fund, based on the Discounted Cash Flow method (DCF) illustrated in the paragraph below, was 19.1 million, showing a decrease of around 11.8% with respect to the contribution value indicated by the SGR at the time of the contribution (21.7 million).
Considering the recognition value of the loans as at 1 January 2021 and the collections to be repaid, the sale transaction entailed the recognition of a negative economic effect, attributable to the loans sold, of 12.1 million.

As at 31 December 2021, the total fair value of the fund also including the units relating to previous sales, was 54.4 million.

Methodologies for determining fair value and sensitivity analysis of fair value
Based on the Discounted Cash Flow method, the fair value is obtained by analysing the expected cash flows from the recovery of the overall exposures held by the fund at a discount rate determined using the Weighted Average Cost of Capital ("WACC") method.
In detail, the WACC is the calculation procedure that identifies the rate representing the weighted average cost of capital, and expresses the remuneration requested by investors for a purchase at normal market conditions of a similar asset to the one being valued.

In particular, the WACC was calculated by applying the following formula:

$$\mathbf{WACC=Ke * (E/(D+E)) + Kd * (1-t) * (D/(D+E))}$$

where:
Ke = β*(Mrp)+Rf: represents the cost of capital, calculated using the Capital Asset Pricing Model (CAPM), based on which the return on a risk asset is equal to the sum of a risk-free rate (Rf) and an adequate risk premium, determined based on the indicator β, as illustrated in greater detail below.
β: Beta ratio, which indicates the risk of a specific equity instrument out of the stock market as a whole. To that end, the unlevered adjusted β for the sector in which the single companies subject to sale operate was considered, weighting the result obtained based on the weight of each credit exposure out of the total.
Mrp: represents the premium, i.e. the differential yield requested by investors for an investment in equity instruments with respect to a risk-free investment. To that end, the implied equity risk premium is considered (source: Damodaran)
Rf: represents the risk-free rate, i.e. the yield on risk-free assets identified based on the yield of 10-year Italian government securities (source: Bloomberg)
Kd: represents the cost of debt, determined based on the rate of the new financing envisaged in the individual transactions. Where there are numerous rates, an average weighted rate was calculated
t: represents the tax rate;
(E/(D+E) and (D/(D+E): represents the financial structure of each operation, in terms of the combination of capital (E: *Equity*) and debt (D: *Debt*).

Considering the specific characteristics of the instruments being measured – illiquid instruments in small enterprises - in determining the cost of capital (Ke), an additional risk premium was considered, established on discretionary basis, and variable based on the type of credit, ranging from 2% for guaranteed exposures to 4% for unsecured exposures.
The fair value determined this way is classified in level 3 of the fair value hierarchy envisaged by the accounting standard IFRS 13, as it is significantly influenced by discretionary parameters not observable on the market.

Based on the DCF method, the table below sets out a sensitivity analysis of the fair value of the Back2bonis fund in relation to changes in the most significant non-observable input, which, in this case, is represented by cash flows of the fund from recovery (a positive or negative change of 5% was considered) and the cost of capital Ke (a positive or negative change of 1% was considered).

Back2bonis Fund Change in fair value in absolute value (and percentage) as a result of changes of +1%/-1% and of +5%/-5%, respectively, in expected cash flows				
		Ke -1%	**Ke%**	**Ke +1%**
Change in cash flows	**+5%**	+4.12 million (+7.6%)	+2.7 million (+5%)	+1.36 million (+2.5%)
	0	+1.34 million (+2.5%)	-	-1.29 million (-2.4%)
	-5%	-1.45 million (-2.7%)	-2.7 million (-5%)	-3.95 million (-7.3%)

QUANTITATIVE INFORMATION

Breakdown of units of mutual investment funds held as at 31 December 2021

As at 31 December 2021, the value of mutual investment funds in the financial statements deriving from the transactions in question totalled 180.5 million (164.6 million as at 31 December 2020), 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 31/12/2021(*)**	**Asset Management Company**	**First closing date/subsequent contributions**	**Fund investment policy**
IDeA Corporate Credit Recovery I	1,445	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	17,774	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	81,027	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	25,874	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	54,385	Prelios SGR	23 December 2019 20 December 2021	Untranched asset backed securities issued as part of securitisation transactions carried out pursuant to Law 130/99, whose underlying is represented by 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 15.9 million, is attributable to the increase of Back2bonis units due to the sale on 20 December 2021 (+18.1 million), to distributions received from the SGRs (-8.8 million), to the valuation

losses (-0.1 million), as well as to the effects of the conversion of the investment into dollars held in the "IDeA Corporate Credit Recovery II - Shipping segment" fund (+6.7 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. Effective 1 July 2021, Banco BPM has also acted as Administrative Servicer, namely it performs the administrative, accounting and tax functions on behalf of both SPEs.

QUANTITATIVE INFORMATION

Existing and significant programmes during 2021

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 2021:

Bank	Value as at 31/12/2021	Value as at 31/12/2020
Banco BPM	3,426,788	3,964,753

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 31/12/2021	Value as at 31/12/2020
Banco BPM	129,767	281,252

In 2021, the mortgage loans portfolio generated collections totalling 594.2 million, of which 536.7 million represented principal and 57.5 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. Therefore, as at 31 December 2021, 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	30/06/2025 (**)	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.
(**) In April 2021, the maturity date was extended from 30 June 2021 to 30 June 2025.
(***) Rating as at 31 December 2021.

Other information

In April 2021, the Final Terms of the Twelfth Series retained were amended in order to extend the maturity from 30 June 2021 to 30 June 2025.

In June 2021, Banco BPM repurchased the positions classified as bad loans as at 31 May 2021 "en bloc" and the relative price was paid to the SPE in July 2021.

During the year, the SPE redeemed part of the Subordinated Loan granted by Banco BPM for a total amount of 250 billion in advance (of which 200 million on the Guarantor Payment Date of 30 September 2021 and 50 million on the Guarantor Payment Date of 31 December 2021).

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 12.1 billion.

In June 2021, by signing the related contracts, Banco BPM sold a new portfolio of residential mortgage loans, including disbursements to employees of the Group, and commercial mortgage loans, for a total residual debt of 503 million to the SPE BPM Covered Bond S.r.l. ("Third Banco BPM Portfolio", tenth sale to the SPE).

The SPE paid the purchase prices of the various portfolios using the Subordinated Loans granted by the Originator Banks, now Banco BPM, and the available liquidity deriving from the amortisation of the loan portfolio deposited in its current accounts held at Banco BPM. The Originator Banks, now Banco BPM, 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 2021:

Bank	Value as at 31/12/2021	Value as at 31/12/2020
Banco BPM	5,158,058	5,429,849

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 31/12/2021	Value as at 31/12/2020
Banco BPM	115,868	466,801

In 2021, the mortgage loans portfolio generated collections totalling 839.3 million, of which 770.8 million represented principal and 68.5 million represented interest.

Bonds issued by Banco BPM

As part of the "BPM CB1" Programme, Banco BPM issued eleven CB Series, listed on the Luxembourg Stock Exchange, for a total of 11,150 million, originally subscribed by institutional investors or by Banco BPM itself. These have been redeemed for a total of 6,100 million, of which 600 million in 2021 as the partial early repayment of the Ninth Series, fully held by Banco BPM.

Thus, as at 31 December 2021, 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 5,050 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	07/11/2025 (*)	100.00	Aa3
26/04/2018	9th Series	1,900,000	3-month Euribor + 30 bps	26/04/2025 (**)	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		**5,050,000**				

(*) In October 2021, the maturity date was extended from 7 November 2021 to 7 November 2025.
(**) In April 2021, the maturity date was extended from 26 April 2021 to 26 April 2025.
(***) Rating as at 31 December 2021.

Other information

With reference to the Ninth Series retained of CBs issued (i) on 7 January 2021 an early partial repayment was carried out for 600 million and (ii) in April 2021 the Final Terms were amended in order to extend the maturity from 26 April 2021 to 26 April 2025. Furthermore, in October 2021, the maturity date of the Eighth Series retained was extended from 7 November 2021 to 7 November 2025.

On the Guarantor Payment Dates of 15 January, 15 April, 15 July and 15 October 2021, the subordinated loan granted by Banco BPM to the SPE was repaid for a total of 840 million.

In June 2021, Banco BPM repurchased the positions classified as bad loans as at 31 May 2021 "en bloc" and the relative price was paid to the SPE in July 2021.

Events occurring after the end of the year

The subordinated loan granted by Banco BPM to the SPE was repaid for 230 million on the Guarantor Payment Date of 17 January 2022.

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.

In June 2021, by signing the related contracts, Banco BPM sold a new portfolio of residential mortgage loans, excluding disbursements to employees of the Group, for a total residual debt of 2,498 million to the SPE BPM Covered Bond S.r.l. ("Sixth Banco BPM Portfolio", eleventh sale to the SPE).

To pay the purchase price of the portfolios, the SPE used a subordinated credit facility granted by the Originator Banks. The Originator Banks, now Banco BPM, 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 2021:

Bank	**Value as at 31/12/2021**	**Value as at 31/12/2020**
Banco BPM	7,280,076	5,772,963

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 31/12/2021**	**Value as at 31/12/2020**
Banco BPM	65,447	296,338

In 2021, the mortgage loans portfolio generated collections totalling 1,084.7 million, of which 977.5 million represented principal and 107.2 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 2021, 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 2021.

Other information

On the Guarantor Payment Dates of 18 January, 19 April, 19 July and 18 October 2021, the subordinated loan granted by Banco BPM to the SPE was repaid for a total of 1,090 million.

In June 2021, Banco BPM repurchased the positions classified as bad loans as at 31 May 2021 "en bloc" and the relative price was paid to the SPE in July 2021.

Events occurring after the end of the year

The subordinated loan granted by Banco BPM to the SPE was repaid for 230 million on the Guarantor Payment Date of 18 January 2022.

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 2021 the book value of the mortgages is (i) 3,428 million for the BP CB1 programme, (ii) 5,151 million for the BPM CB1 programme and (iii) 7,274 million for the BPM CB2 programme. Said value is specifically indicated under the "Assets pledged to secure own liabilities and commitments" in the Section "Other information" in "Part B – Information on the Balance sheet" of these Notes;
- the CBs issued are posted under debt securities in issue (item 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 2021 amounts to (i) 1,283.5 million relative to the BP CB programme, (ii) 500 million relative to the BPM CB1 programme and (iii) 4,282.6 million relative to the BPM CB2 programme. Note that the issues of part of the BPM CB1 programme and part of the BP CB1 programme are not posted inasmuch as used as collateral for monetary policy operations with the Eurosystem, as described previously;
- the Covered Bond Swap contracts, between the SPEs and the market counterparties outside the Group, are classified under item 50 "Hedging derivatives" in assets and/or under item 40 "Hedging derivatives" in liabilities.

The consolidated income statement has the following components:

- interests on the loans sold (cover pool), as mentioned above, posted under the item "Interest and similar income";
- interest on the Covered Bonds issued, posted under the item "Interest and similar expense";
- the differentials relative to the hedging derivatives (which transform the Covered Bond rate from fixed to floating) which are posted under the "Interest and similar income" or "Interest and similar expense" according to the balance;
- the fair value delta of the hedging contracts and of the items covered, posted under item 90 "Fair value gains/losses on hedging derivatives".

E. Prudential consolidation - Credit risk measurement models

When measuring the credit risk of portfolios, the Bank uses an econometric model for management purposes, supported by an extensive set of data and risk variables, known as the Portfolio Model.
The model allows for, through the use of Credit-VaR metrics, the definition of the probability distribution of losses in the loan portfolio. This distribution is used to measure the maximum potential loss over a yearly time period and with a specific level of confidence.
More specifically, in order to obtain this distribution, the model's processing engine uses a Monte Carlo simulation approach, which simulates a sufficiently high number of scenarios so as to provide a good empirical approximation of the theoretical distribution of loan portfolio losses.
The calculation of the maximum potential loss, which can be broken down into the classic measures of Expected Loss and Unexpected Loss (Economic Capital), is affected by concentration risk and systematic risk, respectively.
Concentration risk derives from large exposures to single counterparties – name concentration – or types of peer counterparties in terms of industries, whose credit risk depends on one or more systematic factors (industry concentration).

On the other hand, systematic risk derives from the impact of unexpected changes in macroeconomic factors on risk parameters (PD and LGD) of the single accounts, using the elasticity estimated using satellite models capable of linking PD and LGD of peer counterparties and accounts and a set of (international and domestic) economic-financial factors.
Lastly, the portfolio model periodically undergoes stress testing to evaluate the credit risk sensitivity of the Group's portfolio to extreme changes in economic and financial factors.

As at 31 December 2021, the expected loss, calculated on the Basel III validation perimeter (for which Banco BPM was authorised by the Regulator to use internal rating systems to calculate the capital requirements on credit risks), was 0.45% of the exposure to default, while the overall loss (expected and unexpected loss measured by the C-VaR method with a 99.9% confidence level within the A-IRB perimeter) amounted to 2.57% of the exposure to default.

The internal models for estimating PD, LGD and EAD are subject to an internal validation process by the Risk Function and to a third-tier control by the Audit Function. The outcome of these processes is outlined in special reports submitted to the Corporate Bodies and sent to the European Central Bank/Bank of Italy.

Lastly, please note that the changes made starting from June 2020 to the risk parameter stress testing methodologies, particularly with reference to the PD satellite models based on sector default rate projections, already cited with reference to the impacts resulting from the Covid-19 pandemic, were accordingly incorporated within the methodological framework of operational measures through the portfolio model.

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 Business 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, for which the Internal Validation Function did not identify any significant problems for the estimates produced on corporate and private customer models.

Testing was conducted in relation to retail CCF, the outcome of which did not identify any significant problems for the estimates produced on 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.

1.2.1 Interest rate risk and price risk - regulatory trading book

QUALITATIVE INFORMATION

A. General aspects

Market risk is the risk that the Bank may generate less revenues than expected, or suffer from the impairment of balance sheet items or capital losses from financial positions held, due to sharp and adverse changes in market conditions, in particular interest rates, share prices, exchange rates, commodities and the associated volatilities and correlations (generic risk), or due to events that may impair the issuer's redemption capability (default risk) or which in any event result in a change in the solvency of the issuer (credit spread risk). Market risks can materialize both with regard to the trading book, which includes trading instruments and the associated derivative instruments, and with regard to the banking book, which includes financial assets and liabilities that are accounted for differently than those included in the trading book.
The organisational model adopted by Banco BPM Group for the trading books exposed to interest rate risk and price risk requires:

- the centralisation of the management of Treasury 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, on 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 uses the extended model to calculate the capital requirement for Market Risk. Said requirement is therefore calculated on the basis of VaR, Stressed VaR – including the specific risk of debt securities – and IRC (Incremental Risk Charge). During 2021, significant refinements were made to the internal model, with a view to fulfilling the Obligations of previous inspections by the Supervisory Authority: the changes regarded, in particular, the measurement of foreign exchange positions, the quality of VaR, Stressed VaR and IRC market parameter data, the process of identifying and managing Risks Not In Model Engine (RNIME) and the IRC calculation method. As regards the latter metric, a limitation is in place with a 10% Add-On on an individual and consolidated basis, until several relative methodological findings have been resolved.

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, almost completely a bond portfolio. At the end of 2021, the Parent Company's bond portfolio amounted to a nominal value of approximately 414 million (nominal short position), equally split between Italian and foreign government bonds and by a marginal share of financial and Italian corporate 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 -19 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 +77 thousand euro, considering a 1 basis point shock. That exposure is the result of a long exposure subject to sensitivity on German government securities. The position in Italian government securities is marginal. In addition to the bond portfolio, there is the price risk component of the equity trading portfolio, which has a small exposure of approximately 6 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, excluding Banco BPM issues, amounted to a nominal value of around 114 million at the end of the year, 76% (86 million) of which was represented by Financial securities (mainly Italian), 33% (37 million) by Corporate bonds, 15% (17.1 million) by Supranational bonds, and the remainder by a short position in Italian (-5%; -5.4 million) and foreign (-18%; -20.9 million) government bonds, the latter mainly German bonds.
The exposure to credit spread risk was approximately -25 thousand euro overall (net of Banco BPM issues), considering a shock of 1 basis point, deriving mainly from financial securities (credit spread sensitivity: approximately -25 thousand euro), most of which Italian. Instead, the exposure to Italian government bonds at the end of the year was substantially nil, equal to a credit spread sensitivity of around -0.5 thousand euro, considering a shock of 1 basis point.
The sensitivity (delta) to the overall interest rate risk at the end of the year, net of long and short exposures on the various currencies and yield curve nodes, was + 30 thousand euro, assuming a parallel change in the interest rate curve of 1 basis point. The greatest exposure to interest rate risk was recorded on the EUR (33 thousand euro, positive rho) and CHF (2 thousand euro, positive rho) curves.

The main exposures to equity risk are related to trading on cash markets and associated listed or plain vanilla derivatives on the derivatives and OTC structured products market and the listed derivatives market.
Specifically, the scope includes portfolios of equities and related listed derivatives, held for trading purposes, for market making transactions on individual stock futures and options and for activities related to specialist services (continuous exposure of proposals to buy/sell), as well as transactions in structured instruments and listed derivatives. The destructuring of complex operations based on the underlying enables the centralised management of the interest rate, exchange rate and price risks within the specific offices, which use a sophisticated position keeping system specialised in interest rate and credit spread, 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 price risk of the share portfolio is equivalent to a delta equivalent short position of about +10 million, concentrated in the Eurozone (+26 million), USA (-15 million) and Asia (-2 million). With regard to the indicator Vega (sensitivity to changes in the implicit volatility of the underlying), relating to the equity risk class, at the end of 2021 the exposure was positive, corresponding to around 1 million, considering a parallel shock of 1% on volatility levels. That exposure mainly originates from liquid share indices and “Large Cap” single stocks.

Lastly, the sensitivity to the dividend risk factor, considering a parallel shock of 10% on the levels of this parameter, was approximately +700 thousand euro at the end of the year, concentrated mainly in the Oil&Gas and Utilities sectors.

Banca Akros' risk to the aforementioned exposures are monitored daily to ensure that the operating limits set by the Board of Directors are complied with for the entire portfolio and for the individual underlying assets.

B. Interest-rate risk and price risk management 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 of the underlying market parameters). 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 January and December 2020 for Banca Akros, (August 2011 - August 2012 for the Parent Company) as the most severe scenario (in the fourth quarter of 2021). The period of stress is monitored with a frequency and a method defined by internal regulations, which enable it to be promptly identified when changes in the composition of the portfolio occur, at the same time guaranteeing a certain degree of stability.
As envisaged by prudential requirements, that model is used to calculate the capital requirement for market risk, as well as for operational purposes.
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 and the specific risk of debt securities, as well as the equity and exchange rate risks. In addition, operational risk measurement includes dividend and correlation risks, through stress testing techniques and without the benefit of diversification with respect to VaR metrics.
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).

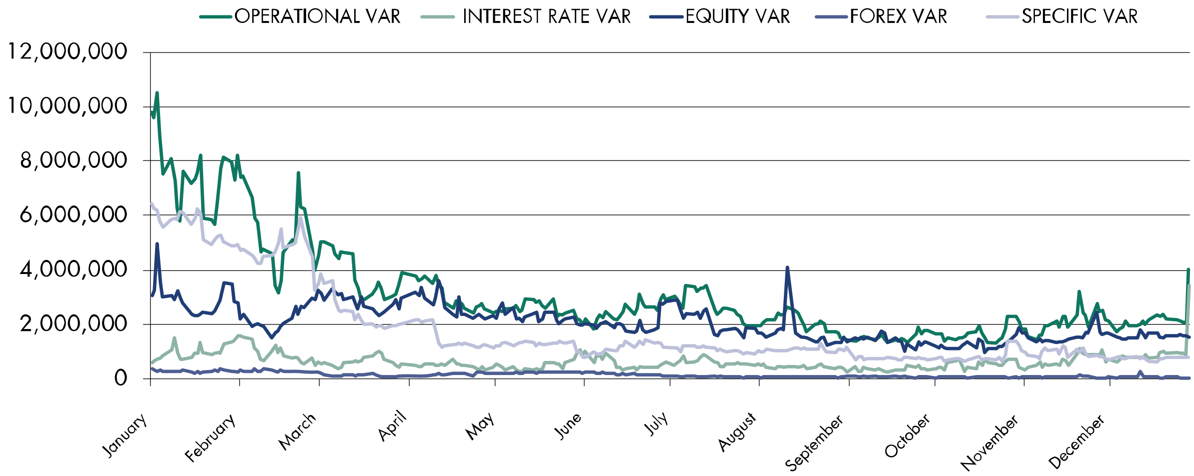
QUANTITATIVE INFORMATION

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 2021, referring to the regulatory trading book of Banco BPM Group.

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

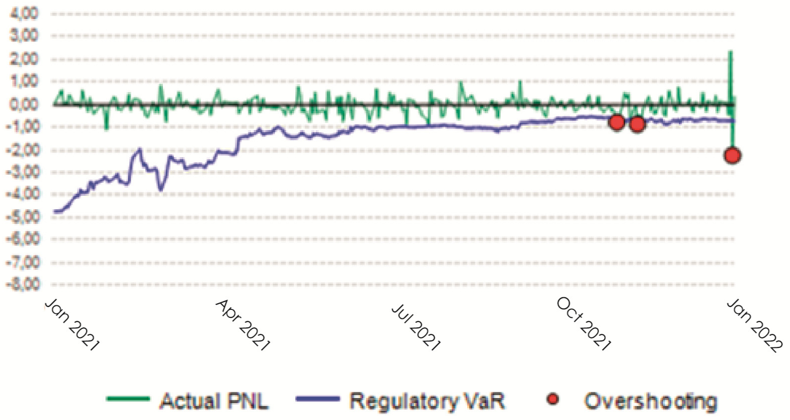


Regulatory trading books	**2021**			
(in millions of euro)	**31 December**	**average**	**maximum**	**minimum**
Interest Rate Risk	3.459	0.638	3.459	0.257
Exchange Rate Risk	0.044	0.140	0.377	0.020
Equity Risk	1.553	2.044	4.967	0.970
Dividend and Correlation Risk	0.765	0.660	1.140	0.245
Specific Debt Securities Risk	0.765	1.841	6.438	0.595
Total uncorrelated	**6.587**			
Diversification effect	-2.572			
Combined risk (*)	**4.015**	**3.094**	**10.497**	**1.312**

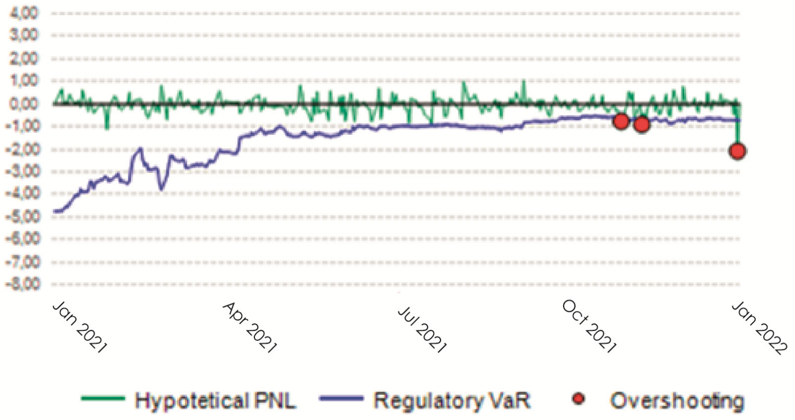
(*) Overall operational VaR

Looking at the graph and the table shown above, it can be noted that the risk component identified in the second half of 2021 is that related to generic risk on equity instruments (with the exception of the peak of interest rate risk at the end of the year due to a technical change of the repo curves at year-end) and, to a lesser extent, that relating to the specific risk on debt securities. Changes in these securities mostly account for trends in the Group's overall risks. More specifically, the portfolio showed a lower level of risk in the second half of the year, due to lesser importance of the specific risk component, following its exit from relevant scenarios for the calculation of VaR in March/April 2020 and the significant reduction of the exposure in Italian government securities in the second half of the year.
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.

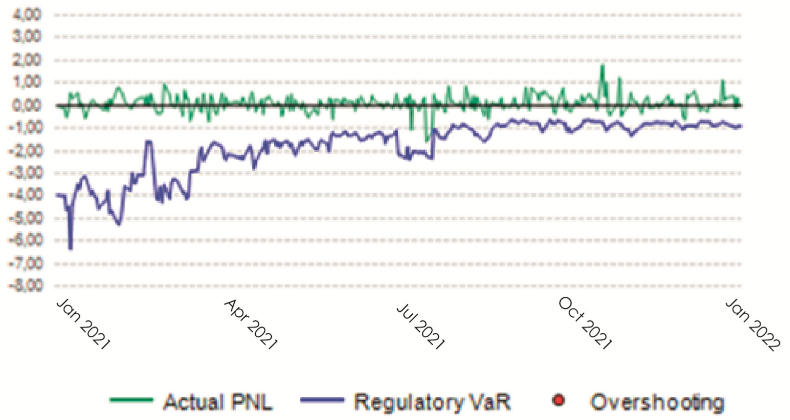
Actual backtesting Banco BPM



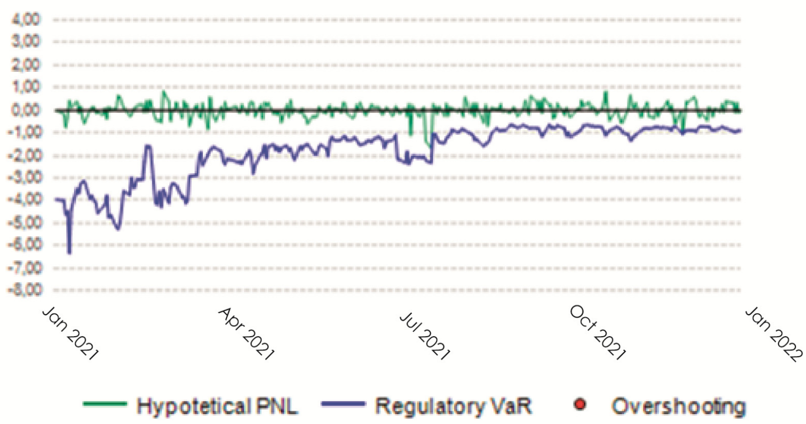
Theoretical backtesting Banco BPM



Actual backtesting Banca Akros



Theoretical backtesting Banca Akros



As regards Banca Akros, in 2021, no Actual or Theoretical Backtesting exceptions were recorded on the Trading book.
As regards the Parent Company, in 2021, 3 Actual and Theoretical P&L Backtesting exceptions were recorded on the Trading book, mainly due to the narrowing of the credit spread of German and Spanish government securities, against a long sensitivity position.

Validation activities

Banco BPM Group adopts internal models to quantify capital requirements for Market Risk, on which the Internal Validation function conducts qualitative and quantitative analyses to assess their soundness and the accuracy of the estimates for all significant risk components. Furthermore, it expresses an opinion on the regular functioning, on the predictive capacity, on the performance of internal risk measurement methods and on the adequacy of operating processes to ensure, on a continuous basis, the compliance of internal methods with company needs and the evolution of the reference market.
With reference to backtesting, the data produced to support overruns is analysed, as well as specific statistical tests (Proportion of Failures test, Time Until First Failure test, Christoffersen Interval Forecast test, Mixed Kupiec test and Conditional Coverage test) that are conducted in regard to different portfolio hierarchical levels and time horizon for Banca Akros and the Parent Company. The results of the analysis showed that the model has a good capacity to predict the number of backtesting overruns, above all following the introduction of specific risk.
Additionally, the adequacy of the scaling method used to quantify the capital requirement, as required by regulations, was reviewed.
To verify the severity of the stressed period used in the Stressed VaR risk measurement, appropriate analysis is carried out to assess any alternative periods that are more conservative than the one currently used to quantify the risk. The analyses showed the adequacy of the stressed period used in the quantification of risk.
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.
During the year, tests were also conducted to validate the new standardised approach requested by the Fundamental Review of the Trading Book and the evolutions of the model proposed by the development function and aimed at strengthening the methodological framework for the quantification of risk.

1.2.2 Interest rate risk and price risk - banking book

QUALITATIVE INFORMATION

A. General aspects, management procedures and 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 2021, the usual periodic maintenance and update of internal models was conducted, in particular the introduction of conditional cash-flows for prepayment models and on-demand items, also identifying transactional deposits for the latter; Furthermore, discounting through the €STR curve was introduced.
In particular, as part of the monitoring of interest rate risk, the risk measures used internally and subject to the RAF limit are:

- the change in expected net interest income following a parallel shock of the spot rate curves of +/- 40 bps over a time horizon of twelve months (income perspective) in keeping with both a dynamic and static approach to financial statements;
- the change in economic value following a parallel shock of spot interest rate curves of +/- 200 basis points with relation to Own Funds (capital perspective); furthermore, the value at risk of the banking book based on the VaR (Value at Risk) method over 12 months and with a confidence interval of 99.9% is also monitored as an 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	**19,937,921**	**64,151,056**	**7,246,517**	**5,925,350**	**23,929,452**	**16,462,224**	**9,069,338**	**1,133**
1.1 Debt securities	111,840	2,080,745	2,408,158	2,825,158	9,618,949	10,760,553	593,203	-
- with early redemption option	7,005	1,460,043	33,784	139,154	367,965	323,077	28,214	-
- other	104,835	620,702	2,374,374	2,686,004	9,250,984	10,437,476	564,989	-
1.2 Loans to banks	531,375	10,950,467	222,251	2,963	9,595	-	-	-
1.3 Loans to customers	19,294,706	51,119,844	4,616,108	3,097,229	14,300,908	5,701,671	8,476,135	1,133
- current accounts	8,400,208	-	864	4,182	87,369	1,040	-	-
- other loans	10,894,498	51,119,844	4,615,244	3,093,047	14,213,539	5,700,631	8,476,135	1,133
- with early redemption option	3,342,603	46,388,215	3,865,697	2,869,055	13,338,087	5,562,256	8,416,786	-
- other	7,551,895	4,731,629	749,547	223,992	875,452	138,375	59,349	1,133
2. On-balance sheet liabilities	**106,988,226**	**3,940,242**	**324,847**	**1,477,354**	**47,903,562**	**1,607,849**	**326,161**	**-**
2.1 Due to customers	103,981,145	624,736	289,509	352,954	525,178	286,760	302,722	-
- current accounts	101,352,760	6	2	1,102	5,000	-	-	-
- other payables	2,628,385	624,730	289,507	351,852	520,178	286,760	302,722	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	2,628,385	624,730	289,507	351,852	520,178	286,760	302,722	-
2.2 Due to banks	2,881,883	85,040	22,533	16,065	38,779,276	9,059	1,798	-
- current accounts	79,823	-	-	-	-	-	-	-
- other payables	2,802,060	85,040	22,533	16,065	38,779,276	9,059	1,798	-
2.3 Debt securities	125,179	3,230,466	12,805	1,108,335	8,599,108	1,312,030	21,641	-
- with early redemption option	36,886	999,879	55	104,979	796,755	1,194,874	226	-
- other	88,293	2,230,587	12,750	1,003,356	7,802,353	117,156	21,415	-
2.4 Other liabilities	19	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	19	-	-	-	-	-	-	-
3. Financial derivatives	**3,143,914**	**14,415,664**	**2,841,661**	**7,041,107**	**12,680,474**	**9,281,486**	**1,647,565**	**-**
3.1 With underlying security	2,200,000	-	37,500	-	7,500	-	-	-
- Options	-	-	37,500	-	7,500	-	-	-
+ Long positions	-	-	22,500	-	4,500	-	-	-
+ Short positions	-	-	15,000	-	3,000	-	-	-
- Other	2,200,000	-	-	-	-	-	-	-
+ Long positions	2,200,000	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	943,914	14,415,664	2,804,161	7,041,107	12,672,974	9,281,486	1,647,565	-
- Options	1,291	96,842	36,748	13,404	68,525	19,811	12,689	-
+ Long positions	1,291	91,927	28,079	301	184	93	2,780	-
+ Short positions	-	4,915	8,669	13,103	68,341	19,718	9,909	-
- Other derivatives	942,623	14,318,822	2,767,413	7,027,703	12,604,449	9,261,675	1,634,876	-
+ Long positions	437,623	4,816,500	2,731,825	6,926,500	6,888,894	2,820,385	1,150,000	-
+ Short positions	505,000	9,502,322	35,588	101,203	5,715,555	6,441,290	484,876	-
4. Other off-balance sheet transactions	**31,340,628**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ Long positions	15,670,314	-	-	-	-	-	-	-
+ Short positions	15,670,314	-	-	-	-	-	-	-

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	**150,387**	**1,051,370**	**295,330**	**4,903**	**1,410,281**	**1,839,495**	**1,372**	**-**
1.1 Debt securities	19,957	250,191	1,770	-	1,401,744	1,837,263	-	-
- with early redemption option	236	-	-	-	8,803	16,059	-	-
- other	19,721	250,191	1,770	-	1,392,941	1,821,204	-	-
1.2 Loans to banks	18,667	145,314	762	1,956	-	-	-	-
1.3 Loans to customers	111,763	655,865	292,798	2,947	8,537	2,232	1,372	-
- current accounts	79,565	-	-	-	-	2	-	-
- other loans	32,198	655,865	292,798	2,947	8,537	2,230	1,372	-
- with early redemption option	6,337	279,308	247,085	1,470	6,642	1,524	1,372	-
- other	25,861	376,557	45,713	1,477	1,895	706	-	-
2. On-balance sheet liabilities	**881,636**	**3,895,745**	**213,378**	**3,461**	**-**	**-**	**-**	**-**
2.1 Due to customers	818,793	145,820	133,619	812	-	-	-	-
- current accounts	815,606	36	133,619	812	-	-	-	-
- other payables	3,187	145,784	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	3,187	145,784	-	-	-	-	-	-
2.2 Due to banks	62,843	3,749,925	79,759	2,649	-	-	-	-
- current accounts	2,369	-	-	-	-	-	-	-
- other payables	60,474	3,749,925	79,759	2,649	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**1,602,508**	**66,219**	**738,301**	**1,465,654**	**941,374**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	1,602,508	66,219	738,301	1,465,654	941,374	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	1,602,508	66,219	738,301	1,465,654	941,374	-	-
+ Long positions	-	1,602,508	66,219	738,301	-	-	-	-
+ Short positions	-	-	-	-	1,465,654	941,374	-	-
4. Other off-balance sheet transactions	**-**	**122,511**	**934**	**17,697**	**-**	**-**	**-**	**-**
+ Long positions	-	51,940	934	17,697	-	-	-	-
+ Short positions	-	70,571	-	-	-	-	-	-

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 2021 in accordance with operational risk measurements.

Risk ratios (%)	2021				2020	
	31 December	average	maximum	minimum	31 December	average
For shift + 100 bp						
Financial margin at risk/Financial margin	*22.7%*	*23.3%*	*26.9%*	*19.2%*	14.1%	14.5%
For shift - 100 bp (EBA floor)						
Financial margin at risk/Financial margin	*-8.5%*	*-6.4%*	*-4.9%*	*-8.9%*	-5.6%	-6.8%
For shift + 100 bp						
Economic value at risk/Economic value of capital	*-0.2%*	*-0.2%*	*4.2%*	*-1.8%*	1.4%	-0.5%
For shift - 100 bp (EBA floor)						
Economic value at risk/Economic value of capital	*0.4%*	*0.6%*	*2.6%*	*-0.4%*	1.7%	0.9%

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

As the Group's Corporate & Investment Bank, Banca Akros, given its specific business model and, in particular, as regards the exchange risk generated by the trading book, has centralised the management of the same with the Forex & Commodities Unit.
The total exposure for Banca Akros as at 31 December 2021, adding all the exchange rate positions against the euro, was substantially at break-even, corresponding to around +270 thousand euro (long foreign currency, short euro), concentrated mainly in the USD (US Dollar, exposure: -630 thousand euro), CHF (Swiss Franc, exposure: -730 thousand euro), AUD (Australian Dollar, exposure: +840 thousand euro) and GBP (Pound, exposure: +790 thousand euro).
Regarding the methods for measuring and controlling the exchange rate risk generated by the trading book, please refer to the method described in the "Interest rate risk and price risk - Regulatory trading book" section.
With regard to calculation of capital requirements, note that, with the Final Decision on 16 November 2020, the Supervisory Authority made the authorisation to extend the exchange rate risk of the banking book subject to a condition (therefore it will take effect only after fulfilling several relative obligations, following certification by the company control functions and the Supervisory Authority in question). However, as at 31 December 2021 the Banking Book of Banca Akros had no exposure to exchange rate risk.

B. Exchange rate risk hedging

Exchange rate risk exposures are monitored on a daily basis and are hedged by the various desks so as to meet the risk limits defined by the Group.
The Money Market & Forex Unit, where the management of the Parent Company's exchange rate risk is centralised, hedges currency exposures both relating to other desks and to its own market making activities, with a view to the unitary and dynamic management of exchange rate risk and exchange rate volatility "on the book", thus with the possibility to carry out hedging "upstream" and to assume risks within the preset limits defined by the internal policies.

QUANTITATIVE INFORMATION

The table below shows the distribution, by currency, of the assets, liabilities and derivatives of the Group, based on the rules for preparation envisaged by Bank of Italy Circular no. 262.

In this regard, note that the imbalance resulting from the above-mentioned distribution does not necessarily represent the Group's actual foreign exchange position, as can be inferred from operational risk results. This mainly results from the fact that the table includes certain instruments in foreign currency, operationally related to other instruments which, however, are not subject to exposure as they are denominated in euro, although a part of the cash flows depends on exchange rate risk.

1. Breakdown by currency of assets and liabilities and of derivatives

Items	Currencies					
	USD	GBP	JPY	CHF	HKD	OTHER
A. Financial assets	**5,200,782**	**54,607**	**121,106**	**109,468**	**29,577**	**128,761**
A.1 Debt securities	3,510,814	-	-	22,269	-	10,347
A.2 Equity instruments	509,393	33,237	104,446	64,733	27,757	96,169
A.3 Loans to banks	136,472	5,204	13,852	15,390	494	18,211
A.4 Loans to customers	1,044,103	16,166	2,808	7,076	1,326	4,034
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**53,880**	**20,212**	**6,955**	**28,674**	**190**	**28,381**
C. Financial liabilities	**4,835,718**	**68,714**	**11,005**	**20,070**	**66**	**58,648**
C.1 Due to banks	3,869,123	7,251	109	127	1	18,564
C.2 Due to customers	966,595	61,463	10,896	19,943	65	40,084
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**21,817**	**757**	**106**	**1,205**	**23**	**2,617**
E. Financial derivatives						
- Options						
+ Long positions	105,557	2,049	-	3,368	-	15,585
+ Short positions	138,518	389	6,480	208	-	3,134
- Other derivatives						
+ Long positions	14,465,957	243,410	212,829	6,847	32,513	168,239
+ Short positions	14,446,272	235,572	218,770	94,889	36,167	180,242
Total assets	**19,826,176**	**320,278**	**340,890**	**148,357**	**62,280**	**340,966**
Total liabilities	**19,442,325**	**305,432**	**236,361**	**116,372**	**36,256**	**244,641**
Imbalance (+/-)	**383,851**	**14,846**	**104,529**	**31,985**	**26,024**	**96,325**

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	**358,949**	**(140,244)**	**1,465,624**	**(1,605,868)**
of which: Listed/Quoted Derivatives	355,272	71,417	247,175	(175,758)
of which: Certificates valued using internal models developed by the financial engineering department of Banca Akros	26	(168,280)	-	(168,280)
of which: OTC derivatives valued using the proprietary models of the Front Office system	3,237	(241,685)	572,044	(813,729)
of which: OTC derivatives valued using internal models developed by the financial engineering department of Banca Akros	412	197,465	645,566	(448,101)
of which: OTC derivatives valued using external contributors	2	839	839	-

1.3.1 Trading derivative instruments

A. FINANCIAL DERIVATIVES

A.1 Trading financial derivatives: year-end notional values

Underlying assets/Derivative types	**Total 31/12/2021**				**Total 31/12/2020**			
	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	37,085,821	37,208,379	15,243,424	1,425,919	36,507,566	29,788,462	13,716,474	937,200
a) Options	-	22,849,540	2,268,340	14,324	-	13,418,203	2,466,080	86,200
b) Swaps	37,085,821	14,358,839	11,097,296	-	36,507,566	16,370,259	9,432,029	-
c) Forwards	-	-	78,000	-	-	-	57,000	-
d) Futures	-	-	1,799,788	1,411,595	-	-	1,761,365	851,000
e) Other	-	-	-	-	-	-	-	-
2. Equity instruments and share indices	-	10,882,157	1,409,667	1,134,792	-	10,636,861	1,627,201	1,001,981
a) Options	-	10,882,157	968,990	1,102,154	-	10,636,861	1,256,943	964,593
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	440,677	32,638	-	-	370,258	37,388
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	-	28,279,994	1,380,863	-	-	36,605,277	1,164,478	-
a) Options	-	57,793	316,632	-	-	199,349	269,441	-
b) Swaps	-	3,890	16,267	-	-	-	15,138	-
c) Forwards	-	28,218,311	1,032,915	-	-	36,405,928	875,202	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	15,049	-	-	-	4,697	-
4. Commodities	-	80,511	14,262	-	-	38,027	9,623	-
5. Other	-	-	-	-	-	-	-	-
Total	**37,085,821**	**76,451,041**	**18,048,216**	**2,560,711**	**36,507,566**	**77,068,627**	**16,517,776**	**1,939,181**

A.2 Trading financial derivatives: gross positive and negative fair value - breakdown by products

Derivative types	Total 31/12/2021				Total 31/12/2020			
	Over the Counter				Over the Counter			
		Without central counterparties		Organised markets		Without central counterparties		Organised markets
	Central counterparties	With netting arrangements	Without netting arrangements		Central counterparties	With netting arrangements	Without netting arrangements	
1. Positive fair value								
a) Options	-	861,792	25,514	59,666	-	680,670	52,748	47,922
b) Interest rate swaps	344,233	273,266	119,470	-	457,759	473,689	249,740	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	604,711	8,082	-	-	1,064,054	7,873	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	31,620	8,279	-	-	10,872	1,706	-
Total	**344,233**	**1,771,389**	**161,345**	**59,666**	**457,759**	**2,229,285**	**312,067**	**47,922**
2. Negative fair value								
a) Options	-	636,046	193,276	29,350	-	587,065	370,671	41,616
b) Interest rate swaps	417,310	361,161	34,845	-	635,395	563,899	27,193	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	577,384	9,963	-	-	1,187,272	11,201	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	35,553	3,848	-	-	10,176	1,945	-
Total	**417,310**	**1,610,144**	**241,932**	**29,350**	**635,395**	**2,348,412**	**411,010**	**41,616**

A.3 OTC trading financial derivatives: notional values, gross positive and negative fair value by counterparties

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
Contracts not included in netting arrangements				
1) Debt securities and interest rates				
- notional value	X	2,112,888	389,739	12,740,797
- positive fair value	X	1	2,892	128,366
- negative fair value	X	-	1,038	40,454
2) Equity instruments and share indices				
- notional value	X	440,677	59,184	909,806
- positive fair value	X	-	6,730	5,658
- negative fair value	X	-	849	182,610
3) Currencies and gold				
- notional value	X	582,124	15,049	783,690
- positive fair value	X	1,041	202	8,483
- negative fair value	X	4,177	-	8,955
4) Commodities				
- notional value	X	199	-	14,063
- positive fair value	X	-	-	7,973
- negative fair value	X	-	-	3,848
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	37,085,821	23,098,466	12,278,364	1,831,551
- positive fair value	344,233	323,568	117,211	13,790
- negative fair value	417,309	300,540	148,504	3,731
2) Equity instruments and share indices				
- notional value	-	7,587,555	3,294,602	-
- positive fair value	-	547,782	132,200	-
- negative fair value	-	411,258	132,284	-
3) Currencies and gold				
- notional value	-	21,983,329	6,052,649	244,017
- positive fair value	-	470,904	132,969	1,381
- negative fair value	-	434,380	140,048	3,847
4) Commodities				
- notional value	-	63,401	6,630	10,480
- positive fair value	-	25,851	668	5,064
- negative fair value	-	34,484	1,022	47
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	28,892,527	49,181,762	11,463,335	89,537,624
A.2 Financial derivatives on equity instruments and share indices	4,355,307	7,594,126	342,391	12,291,824
A.3 Financial derivatives on currencies and gold	29,608,984	51,873	-	29,660,857
A.4 Financial derivatives on commodities	94,773	-	-	94,773
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2021	**62,951,591**	**56,827,761**	**11,805,726**	**131,585,078**
Total 31/12/2020	**60,335,220**	**52,783,943**	**16,974,808**	**130,093,971**

OTC financial derivatives: counterparty risk/financial risk – Internal models

With regard to counterparty risk, defined as the risk that the counterparty in a transaction defaults before the final settlement of the cash flows of said transaction (Regulation (EU) no. 575/2013), solely 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 purposes of Prudential supervision, the Group adopts the standardised approach SA-CCR, which came into force in June 2021, to estimate exposure for the entire derivatives scope.
For the remainder of the perimeter exposed to counterparty risk (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 Credit Value Adjustment (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.

Furthermore, from September 2021, the Group has met the obligation envisaged by European Legislation (Delegated Regulation (EU) 2016/2251), by exchanging, based on the relative contracts (CTA - Collateral Transfer Agreement), the initial margins of OTC derivatives not cleared by a central counterparty, which provide additional protection in the event that one of the two counterparties is not able to meet its commitments over the life of the contract. Banco BPM Group uses the SIMM method, whose calculation is mostly risk-sensitive, and is based on aggregate sensitivities by risk and product category.

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	-	84,000
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Other	-	-
Total 31/12/2021	**-**	**84,000**
Total 31/12/2020	**47,000**	**-**
2. Protection sold		
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Other	-	-
Total 31/12/2021	**-**	**-**
Total 31/12/2020	**-**	**-**

B.2 Trading credit derivatives: gross positive and negative fair value - breakdown by products

Derivative types	Total 31/12/2021	Total 31/12/2020
1. Positive fair value		
a) Credit default products	139	311
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Other	-	-
Total	**139**	**311**
2. Negative fair value		
a) Credit default products	2,151	1,105
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Other	-	-
Total	**2,151**	**1,105**

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	52,000	32,000	-	-
– positive fair value	72	67	-	-
– negative fair value	1,706	445	-	-
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	Total
1 Protection sold		-	-	-	-
2 Protection bought		-	84,000	-	84,000
Total	**31/12/2021**	**-**	**84,000**	**-**	**84,000**
Total	**31/12/2020**	**-**	**47,000**	**-**	**47,000**

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 interest held by Banca Aletti in the subsidiary Banca Aletti & C. (Suisse) S.A., in which the book value is expressed in a currency other than euro (Swiss francs). In the separate financial statements, the hedge directly refers to the interest recorded in Banca Aletti's financial statements, while at the consolidated financial statement level, following on from a process of consolidation, the hedge regards the assets and liabilities of the aforementioned subsidiary.

D. Hedging instruments

The main sources of ineffectiveness that could change the hedging relationship during the period of validity are as follows:

- misalignment of the derivative and the hedged underlying recorded on initial designation or subsequently generated, as in the case of 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 31/12/2021				Total 31/12/2020			
	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	**15,909,028**	**13,421,874**	**2,100,000**	**-**	**18,758,867**	**10,680,235**	**2,100,000**	**-**
a) Options	-	205,000	-	-	-	206,002	-	-
b) Swaps	15,909,028	10,373,833	2,100,000	-	18,758,867	7,974,158	2,100,000	-
c) Forwards	-	2,843,041	-	-	-	2,500,075	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity instruments and share indices	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	**-**	**-**	**28,659**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	28,659	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**15,909,028**	**13,421,874**	**2,128,659**	**-**	**18,758,867**	**10,680,235**	**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 31/12/2021				Total 31/12/2020			
	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	91,581	104,390	6,858	-	122,738	67,256	7,746	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	15,756	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**91,581**	**120,146**	**6,858**	**-**	**122,738**	**67,256**	**7,746**	**-**
Negative Fair Value								
a) Options	-	33	-	-	-	269	-	-
b) Interest rate swaps	171,765	146,606	-	-	318,539	344,436	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	19	1,131	-	-	45,173	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**171,765**	**146,658**	**1,131**	**-**	**318,539**	**389,878**	**-**	**-**

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	6,858	-	-
- 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	28,659	-	-
- positive fair value	X	-	-	-
- negative fair value	X	1,131	-	-
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	15,909,028	10,663,544	2,758,330	-
- positive fair value	91,581	97,378	22,768	-
- negative fair value	171,765	103,900	42,759	-
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	5,598,154	14,114,208	11,718,540	31,430,902
A.2 Financial derivatives on equity instruments and share indices	-	-	-	-
A.3 Financial derivatives on currencies and gold	28,659	-	-	28,659
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2021	**5,626,813**	**14,114,208**	**11,718,540**	**31,459,561**
Total 31/12/2020	**6,915,845**	**15,436,364**	**9,186,892**	**31,539,101**

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:	**6,333,213**	**-**	**(57,689)**	**-**	**-**	**-**
1.1 Debt securities and interest rates	6,333,213	-	(57,689)	-	-	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:	**9,993,965**	**-**	**1,982**	**-**	**-**	**2,875**
1.1 Debt securities and interest rates	9,993,965	-	1,982	-	-	X
1.2 Equity instruments and share indices	-	-	-	-	-	X
1.3 Currencies and gold	-	-	-	-	-	X
1.4 Loans	-	-	-	-	-	X
1.5 Other	-	-	-	-	-	X
Total 31/12/2021	**16,327,178**	**-**	**(55,707)**	**-**	**-**	**2,875**
Total 31/12/2020	**16,899,958**	**-**	**380,685**	**-**	**-**	**47,279**
B. Liabilities						
1. Financial liabilities at amortised cost - hedging of:	**1,538,986**	**-**	**(6,694)**	**-**	**-**	**(47,812)**
1.1 Debt securities and interest rates	1,538,986	-	(6,694)	-	-	X
1.2 Currencies and gold	-	-	-	-	-	X
1.3 Other	-	-	-	-	-	X
Total 31/12/2021	**1,538,986**	**-**	**(6,694)**	**-**	**-**	**(47,812)**
Total 31/12/2020	**3,699,591**	**-**	**8,629**	**-**	**-**	**122,009**

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	**-**	**16,416**	**-**
1.1 Debt securities and interest rates	-	16,416	-
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) 31/12/2021	**-**	**(16,416)**	**-**
Total (A) 31/12/2020	**-**	**(4,287)**	**-**
B. Foreign investment hedges	**X**	**(603)**	**-**
Total (A+B) 31/12/2021	**-**	**(17,019)**	**-**
Total (A+B) 31/12/2020	**-**	**(4,088)**	**-**

E. EFFECTS OF HEDGING TRANSACTIONS ON SHAREHOLDERS' EQUITY

E.1 Reconciliation of shareholders' equity components

	Cash flow hedging reserve					Foreign investment hedging reserve				
	Debt securities and interest rates	Equity instruments and share indices	Currencies and gold	Loans	Other	Debt securities and interest rates	Equity instruments and share indices	Currencies and gold	Loans	Other
Opening balance	**(4,287)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Fair value changes (effective portion)	(18,119)	-	-	-	-	-	-	-	-	-
Reclassifications to income statement	-	-	-	-	-	-	-	-	-	-
of which: future transactions no longer expected	-	-	-	-	-	X	X	X	X	X
Other changes	5,990	-	-	-	-	-	-	-	-	-
of which: transfers at the initial book value of hedged instruments	-	-	-	-	-	X	X	X	X	X
Closing balance	**(16,416)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

The table relating to Hedging instruments (non-designated items) is omitted as the category is not present for the Group.

F. Disclosure envisaged by IFRS 7 relating to the reform of benchmark rates

Information on risks and related hedging policies - derivative instruments and hedging policies

Hedge accounting

Paragraph 24H of standard IFRS 7, introduced by Regulation no. 34 of 15 January 2020, requires a specific disclosure on the uncertainties resulting from the reform of benchmark rates relating to the calculation of interest rates on hedges and the notional value of the hedging instruments potentially impacted by the reform of benchmark rates to be provided. In this regard, note that during the year, all contracts indexed to EONIA interest rates (Euro OverNight Index Average), including those designated in hedge accounting relationships stipulated with the central counterparty London Clearing House (LCH).

The notional value of the remaining hedging contracts potentially impacted amounted to 1,710 million USD (equal to 1,509.8 million euro) and refers to hedging derivatives index-linked to the "3-month USD LIBOR (London Interbank Offered Rate)".
Specifically, these are interest rate swaps designated as specific fair value hedges of government bonds classified in the portfolio "Financial assets at amortised cost" for a nominal value of 1,700 million USD (1,501 million euro) and in the "Financial assets measured at fair value through other comprehensive income" portfolio for a nominal value of 10 million USD (8.8 million euro).
For further details on the disclosure related to the reform in 2021, with the introduction of the disclosure obligation envisaged by stage 2 of the IBOR Reform pursuant to standard IFRS 7, paragraphs 24I and 24J, refer to the paragraph entitled "Interest Rate Benchmark Reform ("IBOR Reform")", reported in "Section 5 - Other Aspects" in Part "A - Accounting Policies" of these Notes.

1.3.3 Other information on derivatives (trading and hedging)

A. FINANCIAL AND CREDIT DERIVATIVES

A.1 OTC financial and credit derivatives: net fair value by counterparty

	Central counterparties	Banks	Other financial companies	Other entities
A. Financial derivatives				
1) Debt securities and interest rates				
- notional value	52,683,349	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	153,480	-	-	-
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 expansionary 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, IT systems, measurement tools and reporting. The results of the risk profile adequacy assessment and the overall self-assessment are reported to the Corporate Bodies and submitted for the attention of the Supervisory Authority.
Liquidity governance is centralised within the Parent Company.
Liquidity risk monitoring and control is conducted on a daily (short-term liquidity) and a monthly basis (structural liquidity); its objective is to monitor the evolution of the risk profile by verifying its adequacy with respect to the Risk Appetite Framework and the operating limits envisaged. Stress tests are conducted on a monthly basis, in order to test the Group's ability to withstand unfavourable scenarios and the estimates of the liquidity that can be generated with the countermeasures (so-called action plan, an integral part of the Liquidity Contingency Plan) that can be activated when a stress scenario occurs, are updated.
More specifically, the Group uses a monitoring system that includes short-term liquidity indicators (with a time horizon from intra-day to twelve months) and long-term ones (beyond twelve months). To this end, both regulatory metrics (LCR, NSFR, ALMM) and metrics processed internally, which include the use of estimation models of behavioural and/or optional parameters, are adopted.
In 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. The methods were also regularly maintained and updated (e.g. the behavioural models for on-demand deposits) and from June 2021, the quarterly reporting of the NSFR indicator to the Supervisory Authority began, which, from said date, is a regulatory requirement for banks with a minimum of 100% (in compliance with Regulation 2019/876 of the European Union (CRR-II).

QUANTITATIVE INFORMATION

1. Distribution of financial assets and liabilities by residual duration of the contracts. Currency of denomination: Euro

Items/Time bands	On demand	From over 1 day to 7 days	From over 7 days to 15 days	From over 15 days to 1 month	From over 1 month to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	Over 5 years	Unlimited duration
On-balance sheet assets	**19,469,772**	**2,234,353**	**529,976**	**1,247,847**	**3,221,808**	**6,417,086**	**10,654,253**	**53,437,586**	**43,203,715**	**10,170,721**
A.1 Government securities	79,977	-	-	-	54	1,302,028	2,555,995	8,086,034	10,110,278	-
A.2 Other debt securities	38,199	767	-	41,461	56,223	95,034	401,861	2,471,632	4,020,462	209
A.3 UCIT units	969,092	-	-	-	-	-	-	-	-	-
A.4 Loans	18,382,504	2,233,586	529,976	1,206,386	3,165,531	5,020,024	7,696,397	42,879,920	29,072,975	10,170,512
- Banks	534,477	63,420	328,929	58,551	22,416	249,920	137,410	483,242	-	10,062,467
- Customers	17,848,027	2,170,166	201,047	1,147,835	3,143,115	4,770,104	7,558,987	42,396,678	29,072,975	108,045
On-balance sheet liabilities	**106,964,015**	**9,863,885**	**21,559**	**316,556**	**2,051,234**	**1,073,314**	**2,527,515**	**49,504,656**	**2,792,743**	**104,900**
B.1 Deposits and current accounts	103,629,041	19,609	20,831	42,876	145,678	250,221	278,066	108,241	-	-
- Banks	361,935	-	-	-	-	13,532	6,523	-	-	-
- Customers	103,267,106	19,609	20,831	42,876	145,678	236,689	271,543	108,241	-	-
B.2 Debt securities	125,246	166	728	7,648	1,862,372	638,789	2,043,984	9,751,730	2,113,888	104,900
B.3 Other liabilities	3,209,728	9,844,110	-	266,032	43,184	184,304	205,465	39,644,685	678,855	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	49	636,335	497,171	1,686,393	5,543,583	5,269,684	3,734,748	122,519	88,330	-
- Short positions	78,457	501,660	385,415	1,830,613	4,010,853	3,616,524	3,939,002	2,018,393	812,194	-
C.2 Financial derivatives without exchange of capital										
- Long positions	1,504,121	-	304	1,747	19,810	8,266	39,750	-	-	-
- Short positions	1,567,774	70	607	2,631	7,952	10,689	22,222	-	-	-
C.3 Deposits and loans to be received										
- Long positions	15,075,539	-	-	-	-	-	-	-	-	-
- Short positions	15,075,539	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	594,776	-	-	-	-	-	-	-	-	-
- Short positions	594,776	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	94,793	119	32	1,829	7,277	7,530	20,585	210,453	83,793	-
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	139	-	-	-	-	-	-	-	-	-
- Short positions	2,151	-	-	-	-	-	-	-	-	-

2. Distribution of financial assets and liabilities by residual duration of the contracts. Currency of denomination: other currencies

Items/Time bands	On demand	From over 1 day to 7 days	From over 7 days to 15 days	From over 15 days to 1 month	From over 1 month to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	Over 5 years	Unlimited duration
On-balance sheet assets	**276,125**	**66,010**	**83,518**	**443,637**	**188,084**	**91,589**	**45,212**	**1,723,731**	**2,069,461**	**1,293**
A.1 Government securities	18,082	-	-	251,633	-	1,766	23	1,256,843	1,863,267	-
A.2 Other debt securities	2,024	-	-	-	-	4,545	-	164,614	45,916	-
A.3 UCIT units	122,472	-	-	-	-	-	-	-	-	-
A.4 Loans	133,547	66,010	83,518	192,004	188,084	85,278	45,189	302,274	160,278	1,293
- Banks	22,705	54,218	59,338	31,167	601	764%	1,966	-	-	-
- Customers	110,842	11,792	24,180	160,837	187,483	84,514	43,223	302,274	160,278	1,293
On-balance sheet liabilities	**881,370**	**624,954**	**1,063,694**	**1,839,645**	**367,603**	**213,810**	**3,472**	**-**	**-**	**-**
B.1 Deposits and current accounts	874,954	507,090	105,029	35,324	3,582	143,763	3,472	-	-	-
- Banks	59,766	507,090	105,029	35,324	3,546	9,728	2,655	-	-	-
- Customers	815,188	-	-	-	36	134,035	817	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	6,416	117,864	958,665	1,804,321	364,021	70,047	-	-	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	494	778,379	412,811	1,882,582	4,387,267	3,753,873	4,016,594	25,398	5,866	-
- Short positions	51	919,395	529,507	1,675,935	4,628,911	4,228,660	3,346,212	20,708	5,866	-
C.2 Financial derivatives without exchange of capital										
- Long positions	70,136	407	2,414	1,033	3,324	9,867	20,261	-	-	-
- Short positions	55,495	-	-	31	389	483	2,690	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	-	-	-	-	51,940	934	17,697	-	-	-
- Short positions	-	70,571	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	6,582	-	-	-	172	17,058	4,294	150	2,649	-
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 2021 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	December 2012	BPL Mortgages 5	Performing residential mortgage loans
ProFamily SPV S.r.l.	Banco BPM (former ProFamily)	February 2021	ProFamily	Consumer credit

Transactions closed during the year

Securitisation of mortgages, landed mortgages, agricultural loans and other loans granted to small and medium-sized enterprises – BPL Mortgages 7 (June 2014)

In June 2021, with the signing of the relative contracts, the closure of the securitisation transaction performed by the SPE BPL Mortgages S.r.l. and finalised in June 2014 ("BPL Mortgages 7") took place. More specifically, on 21 June 2021, Banco BPM repurchased the entire residual portfolio of mortgage loans underlying said transaction and, on 28 June 2021, an extraordinary payment date took place during which the SPE closed the transaction and made the early repayment of the securities still outstanding and entirely subscribed by Banco BPM. With the signing of the Termination Agreement, the contracts signed and accounts opened within the context of the transaction were closed.

Existing and significant self-securitisation transactions during 2021

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 Securities are used by Banco BPM as collateral for Eurosystem monetary policy transactions.
As part of this transaction, the Originator Banks, now Banco BPM, took on the role of Servicer, managing the collection of receivables; Banco BPM also has the role of Interim Account Bank and Transaction Bank.

Loans portfolio

Bank	Value 31/12/2021	Value 31/12/2020
Banco BPM	2,633,424	2,993,003

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

Issue characteristics

Class	Type	Issue value	Value 31/12/2021	Interest rate	Maturity	Rating Moody's/DBRS (*)
A1	Senior	2,440,400	471,287	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	409,184	1-month Euribor + 0.25%	October 2058	Aa3/AH
A3	Senior	1,504,300	914,578	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**	**2,257,484**			

(1) Unlisted Junior Securities.
(*) Rating as at 31 December 2021.

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.

Consumer credit securitisation – ProFamily SPV (February 2021)

On 16 December 2020, ProFamily S.p.A., now Banco BPM, sold a portfolio of performing consumer loans to the SPE ProFamily SPV S.r.l. for 958.5 million. On 24 February 2021, the SPE issued two classes of Securities: (i) Class A (Senior Notes), rated, listed on the ExtraMOT PRO segment of Borsa Italiana and (ii) Class J (Junior Notes), unrated and unlisted. Both classes of securities are subscribed in full by the Originator ProFamily S.p.A., now Banco BPM; the Senior securities are used by Banco BPM for monetary policy transactions with the Eurosystem. During the revolving period, the SPE purchased a further four portfolios of performing consumer loans from ProFamily.
As part of the transaction, the Originator ProFamily, now Banco BPM, acted as Servicer to manage the collection of the loans.

Loans portfolio

Bank	Value 31/12/2021	Value 31/12/2020
Banco BPM (former ProFamily S.p.A.)	783,955	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 mortgage loan instalments.

Issue characteristics

Class	Type	Issue value	Value 31/12/2021	Interest rate	Maturity	Rating DBRS/Fitch (*)
A	Senior	860,000	677,441	1% per annum	December 2040	AH/A+
J	Junior (1)	100,932	100,932	5% per annum	December 2040	unrated
Total		**960,932**	**778,373**			

(1) Unlisted Junior Securities.
(*) Rating as at 31 December 2021.

Significant events during 2021 - Rating

On 21 December 2021, Fitch upgraded the rating of Senior securities from "A-" to "A+".

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, RAF indicator profile, capital absorption and risk management policies implemented and/or planned) and an operational reporting system, for the purposes of adequate risk management in the relevant areas.

Impacts resulting from the Covid-19 pandemic

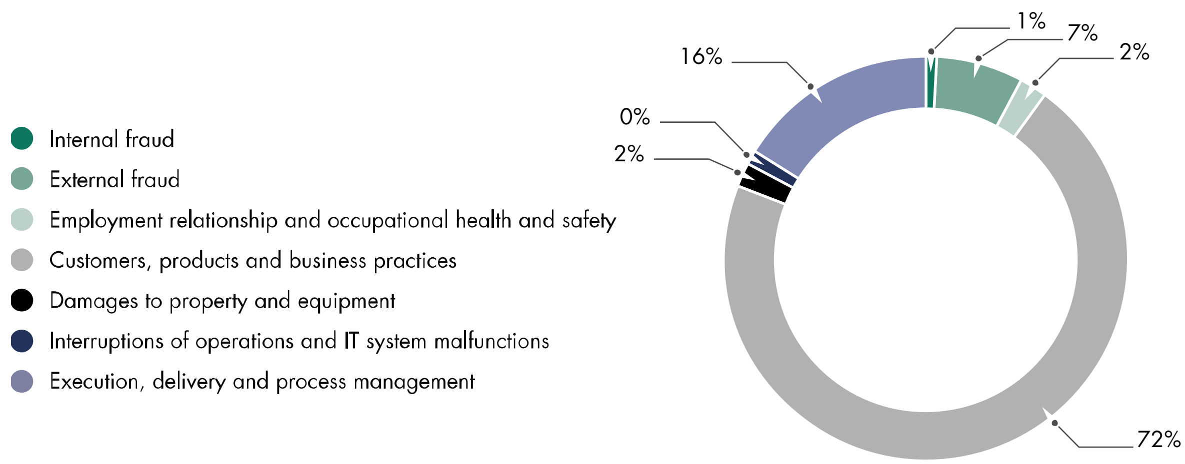
Banco BPM Group proactively managed the Covid-19 health emergency, with a view, first and foremost, to safeguarding the health of all of the people involved in its business activities (employees, customers, suppliers etc.), as well as guaranteeing adequate business continuity, in accordance with the 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 "Cumulated yearly OpLoss / MINTER (%)" was defined in the Risk Appetite Framework, which represents the percentage of Operating Income absorbed by operating losses recognised in the last 12 months (providing a summary measurement of the monitoring and management of operational risk by the Group), with a relative limit, which in 2021, was always observed, therefore the indicator in question was always considered adequate.
Again as regards Operational/Conduct Risk, the managerial indicator "Cyber Risk Outlook" was included in the Risk Appetite Framework, providing a holistic and forward-looking vision of Cyber operational risks through a summary judgement (formulated by weighting the judgements assigned in single areas), with the relative limit, which in 2021 was also respected, and always considered adequate.

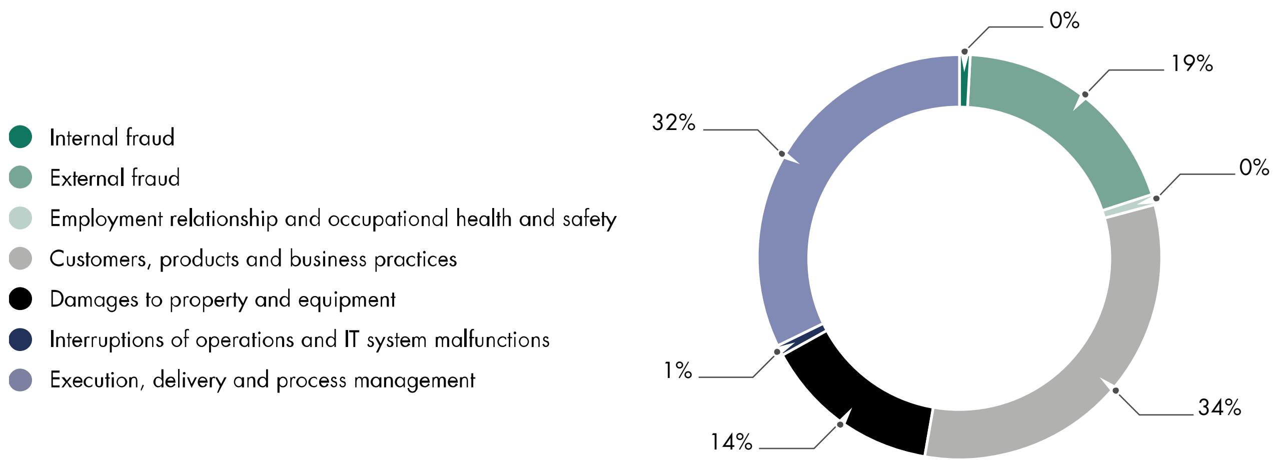
QUANTITATIVE INFORMATION

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 2012 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), erroneous application of conditions to customers 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 Pillar II risks through annual audits of measurement metrics. In particular, the stability, robustness and uncertainty of the model, the consistency of the calculation dataset, through independent repeat tests and checks during the Loss Data Collection and Risk Self Assessment campaign, compliance with current regulatory requirements and best-practices are continuously verified. On the basis of the checks conducted, the Internal Validation unit addresses specific suggestions to the competent departments and monitors the solution in order to ensure the high standards of quality and reliability in risk management are maintained.
Moreover, during the ICAAP process, the stress scenarios and methods applied to the entire scope of the Group are verified.

Section 3 - Risks to insurance companies

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 check the adequacy of the regulatory capital requirement vis-à-vis real estate risk on a quarterly basis.

PART F – INFORMATION ON CONSOLIDATED SHAREHOLDERS' EQUITY

Section 1 - Consolidated shareholders' equity

A. QUALITATIVE INFORMATION

The Group's shareholders' equity consists of the sum of the balances of the following balance sheet liability items:

- Shareholder's equity net of repurchased own shares
- Share premium reserve
- Reserves
- Valuation reserves
- Equity instruments
- Own shares
- Profit (loss) for the year.

B. QUANTITATIVE INFORMATION

Consolidated shareholders' equity as at 31 December 2021 amounted to 13,096.0 million (of which 13,094.9 million for the Group and 1.1 million for non-controlling interests), showing a net increase of 868.9 million compared to the 12,227.1 million recorded for consolidated shareholders' equity as at 31 December 2020 (of which 12,225.2 million for the Group and 1.9 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	7,100,008	-	15,022	(14,294)	7,100,736
2. Share premium reserve	-	-	4	(4)	-
3. Reserves	3,989,125	-	9,040	2,341	4,000,506
4. Equity instruments	1,092,832	-	-	-	1,092,832
5. (Own shares)	(8,159)	-	-	-	(8,159)
6. Valuation reserves:	341,360	-	(347)	347	341,360
- Equity instruments designated at fair value through other comprehensive income	21,017	-	-	-	21,017
- Hedges of equity instruments designated at fair value through other comprehensive income	-	-	-	-	-
- Financial assets (other than equity instruments) measured at fair value through other comprehensive income	45,519	-	-	-	45,519
- Property, plant and equipment	375,335	-	-	-	375,335
- Intangible assets	-	-	-	-	-
- Foreign investment hedges	(603)	-	-	-	(603)
- Cash flow hedges	(16,416)	-	-	-	(16,416)
- Hedging instruments (non-designated items)	-	-	-	-	-
- Exchange rate differences	13,998	-	-	-	13,998
- 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)	(5,609)	-	-	-	(5,609)
- Actuarial gains/(losses) on defined benefit pension plans	(100,346)	-	(347)	-	(100,693)
- Share of valuation reserves related to interests in associates and joint ventures carried at equity	6,151	-	-	347	6,498
- Special revaluation laws	2,314	-	-	-	2,314
7. Profit (loss) for the year (+/-) attributable to the Group and non-controlling interests	570,604	-	8,942	(10,762)	568,784
Total	**13,085,770**	**-**	**32,661**	**(22,372)**	**13,096,059**

One of the changes in consolidated shareholders' equity regards the increase of the valuation reserve relating to property, plant and equipment of 128.4 million, 121.2 million of which refers to the effect of the tax realignment of property used in operations as illustrated in the "Other significant aspects relating to Group accounting policies" section in "Part A.1 - Accounting policies" of these Notes.

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	75,460	(29,941)	-	-	-	-	-	-	75,460	(29,941)
2. Equity instruments	50,900	(29,883)	-	-	-	-	-	-	50,900	(29,883)
3. Loans	-	-	-	-	-	-	-	-	-	-
Total 31/12/2021	**126,360**	**(59,824)**	**-**	**-**	**-**	**-**	**-**	**-**	**126,360**	**(59,824)**
Total 31/12/2020	**157,557**	**(18,298)**	**-**	**-**	**-**	**-**	**-**	**-**	**157,557**	**(18,298)**

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	**132,263**	**6,996**	**-**
2. Positive changes	**9,235**	**33,078**	**-**
2.1 Fair value increases	8,200	32,173	-
2.2 Credit impairment losses	989	X	-
2.3 Reclassification to income statement of negative reserves from disposal	46	X	-
2.4 Transfers to other shareholders' equity components (equity instruments)	-	901	-
2.5 Other changes	-	4	-
3. Negative changes	**(95,979)**	**(19,057)**	**-**
3.1 Fair value decreases	(54,245)	(17,585)	-
3.2 Credit recoveries	(730)	-	-
3.3 Reclassification to income statement of positive reserves: from disposal	(41,004)	X	-
3.4 Transfers to other shareholders' equity components (equity instruments)	-	(1,472)	-
3.5 Other changes	-	-	-
4. Closing balance	**45,519**	**21,017**	**-**

B.4 Valuation reserves for defined benefit plans: annual changes

	31/12/2021
1. Opening balance	**(95,176)**
2. Positive changes	**9,417**
2.1 Gains from changes in financial assumptions	4,455
2.2 Other actuarial gains	1,283
2.3 Other changes	3,679
3. Negative changes	**(14,934)**
3.1 Losses from changes in financial assumptions	(10,323)
3.2 Other actuarial losses	(3,030)
3.3 Other changes	(1,581)
4. Closing balance	**(100,693)**

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

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

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

The consideration for the overall purchase of the shares of the investee was 3.8 million, of which 0.3 million represent the estimated earn-out envisaged in the contract.

Pursuant to IFRS 3, the acquiring entity must allocate the cost of the combination to the assets acquired and liabilities assumed, including contingent ones, which are measured at fair value ("Purchase Price Allocation" - "PPA"); any unallocated positive/negative difference represents the goodwill to be recognised in the statement of financial position or the "bargain purchase" to be credited to the income statement as profit realised with the acquisition, respectively.

In the case in question, the assets and liabilities set forth in the accounting statement at the acquisition date primarily consist of items of insignificant amounts and for which at the date on which this report was drafted there is no evidence of a fair value different from the value represented in the accounting statement.

At the time of the final PPA, during the fourth quarter of the year, no specific intangibles were identified (not recognised in the financial statements of Oaklins) relating to the transaction whose characteristics warranted separate recognition.

Therefore, the net fair value of the assets and liabilities acquired is equal to the book value of shareholders' equity set forth in the statement at the acquisition date, i.e. 74 thousand euro, as shown in the statement below:

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

In conclusion, with reference to the business combination in question, as set forth in detail in the table below, the difference between the cost of the combination (3,832 thousand euro) and the fair value of the assets acquired and the liabilities assumed (determined, as set forth above, as 74 thousand euro), is a positive 3,758 thousand euro. This difference is recognised as Goodwill under "Intangible assets" and is attributed to the "Banca Akros" CGU.

(in thousands of euro)		
Book value of Oaklins shareholders' equity as at 10/05/2021	**74**	A
Total fair value difference	-	B
Fair value of assets and liabilities subject to acquisition	74	C=A+B
Consideration transferred	3,832	D
Goodwill	**3,758**	**E=C-D**

In accordance with the provisions of Bank of Italy Circular no. 262, the table below includes data relating to the entity subject to the combination (data in thousands of euro):

Company name	Transaction date	(1)	(2)	(3)	(4)
Oaklins Italy S.r.l.	10/05/2021	3,832	100%	3,076	78

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

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

As highlighted in the section dedicated to significant events of the year of the Report on operations, on 19 July 2021 the incorporation of ProFamily S.p.A. into the Parent Company Banco BPM was finalised.

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

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, contained in Part A of these Notes, following the end of 2021, the following mergers by incorporation of wholly controlled companies into the Parent Company were finalised:

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

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

These transactions do not fall under the scope of IFRS 3 and, in accordance with the Provisions of Circular 262/2005 of the Bank of Italy, they are generally reported in this section. In the absence of a relevant accounting standard, transactions "under common control" are recognised using the principle of continuity in accounting values. Specifically, the values used are those found in the Group's consolidated financial statements as of the date the assets were transferred.
These transactions 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, 149 assignments were entrusted to 119 people (including 26 executives).

(thousands of euro)	2021
Total gross compensation	**16,759**
of which:	
Non-executive directors and Statutory auditors	4,576
Non-employee executive directors	3,006
Employees	9,177
Short-term benefits (e.g. car, lodging, accident insurance policy, medical assistance) (*)	**145**
Post-employment benefits (e.g. pension fund, supplementary pension scheme) (*)	**213**
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 7 "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 2021 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	-	8,700	-	-	181	8,881	0.20%
Financial assets measured at fair value through other comprehensive income	-	9,978	-	-	-	9,978	0.09%
Loans to customers	-	3,053,190	-	9,525	85,515	3,148,230	2.94%
Other assets	-	6,065	-	-	-	6,065	0.01%
Due to customers	-	596,001	-	12,311	50,029	658,341	0.61%
Debt securities in issue	-	-	-	387	2,113	2,500	0.02%
Financial liabilities held for trading	-	-	-	-	24	24	0.00%
Financial liabilities designated at fair value	-	-	-	20	-	20	0.00%
Other liabilities	-	7,713	-	256	6	7,975	0.16%
Guarantees given and commitments	-	580,730	-	2,508	72,593	655,831	1.18%

(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	-	17,125		54	2,624	19,803	0.98%
Net fee and commission income	-	590,763	-	20	366	591,149	31.10%
Administrative expenses/recoveries of expenses	-	1,450	-	(13,491)	(377)	(12,418)	0.45%
Other costs/revenues	-	894	-	-	-	894	0.14%

(1) Authorised parties who possess a shareholding greater than 10% of the share capital.

Other related party transactions

The table below discloses other transactions (supplies of goods and services and transactions on real estate) entered into with the related parties shown in the table above under "Administrative expenses/recoveries of expenses", in correspondence with "executives with strategic responsibilities" and "other related parties".

	Purchases and sales of goods and services	Rental income	Rental expense
a) Directors	-	-	-
b) Executives with strategic responsibilities	-	-	-
c) Close family members of the parties in letters a) and b)	-	-	-
d) Subsidiary, associated company or subject to significant influence by the parties in letters a) and b)	700	211	-

Other information

In regard to paragraph 8 of Art. 5 "Disclosures to the public on related party transactions" of the CONSOB Regulation containing provisions for related-party transactions (adopted by CONSOB with resolution no. 17221 of 12 March 2010 as amended), the following paragraphs illustrate the most important transactions conducted in 2021, as well as those that are less important yet particularly significant.

Issuing of certificates by Banco BPM for 2021 and 2022, to be placed through the Parent Company and Banca Aletti & C. S.p.A. Network: review of the roles of the companies involved in the product governance and structuring process.
Framework resolution for 2021 and 2022, regarding the fee and commission flow relating to the outsourcing to Banca Akros S.p.A. of the structuring of the certificates that will be issued by Banco BPM and the management, by Banca Akros S.p.A., of the full hedging of the financial risks resulting from the issue of the certificates by Banco BPM.
Framework resolution for 2021 and 2022 regarding the fee and commission flow for issues and placements of Banco BPM certificates through the Network of the Parent Company and of Banca Aletti & C. S.p.A.

On 14-15 December 2020, the Board of Directors resolved to: (i) approve the issues of certificates by Banco BPM for a maximum total amount of up to 1,110 million for the period of January-December 2021 (of which 1,000 million distributed by the Network of Banco BPM and 110 million distributed by the network of Banca Aletti) and to proceed with the placement of said certificates, through the Network of the Parent Company and that of Banca Aletti, recognising in favour of Banca Aletti, 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, in the form of a framework resolution, for the structuring of the certificates and the management of the relative financial hedging, a total amount of up to 11.1 million (of which, 10 million for the certificates issued and distributed by Banco BPM and 1.1 million for the certificates issued by Banco BPM and distributed by the Network of Banca Aletti) set as an average commission of 1%.
Please note that for the January-December 2021 period, Banco BPM certificates were issued for a total of 11.1 million, which generated for placement activities for Banca Aletti commissions of 133 thousand euro; moreover, please note that for the same period of time, fees and commissions were paid to Banca Akros for the structuring of certificates and the management of the relative financial hedging by Banco BPM for 7.2 million and by Banca Aletti for 142 thousand euro.
On 14 December 2021, the Board of Directors resolved to: (i) approve the issues of certificates by Banco BPM for a maximum total amount of up to 1,100 million for the period of January-December 2022 (of which 1,000 million to be distributed through the Network of Banco BPM and 100 million to be distributed through the network of Banca Aletti) and to proceed with the placement, through the Network of the Parent Company and that of Banca Aletti, of said certificates, recognising in favour of Banca Aletti, for the period of January-December 2022, for the placement activities, in the form of a framework resolution, a total amount of up to 1.750 million, set as a 1.75% commission; (ii) to approve for said activities in the same period a fee and commission flow in favour of Banca Akros, in the form of a framework resolution, for the structuring of the certificates and the management of the relative financial hedging, a total amount of up to 11 million (of which, 10 million for the certificates issued and distributed by Banco BPM and 1 million for the certificates issued by Banco BPM and distributed by the Network of Banca Aletti) set as an average commission of 1%.

Framework resolution for the fee and commission flows in 2021 and 2022 relating to the placement and management of the asset portfolios of Banca Aletti & C. S.p.A. by Banco BPM S.p.A.

The Board of Directors, in its meeting of 14-15 December 2020, approved, with reference to the placement and management of Banca Aletti's Asset Management activities, by Banco BPM, the opening of Banca Aletti's Private catalogue lines to Banco BPM's retail customers, with the payment for 2021 of a fee and commission flow, in the form of a framework agreement, to the Parent Company for the service rendered of up to 420 thousand euro. For 2021, Banca Aletti paid fees and commissions of 347 thousand euro to Banco BPM.
On 7 September 2021, the Board of Directors resolved a new agreement for the placement of Banca Aletti's Asset Portfolios by the Parent Company Banco BPM, which envisages the opportunity to subscribe, also for Banco BPM customers, lines of investment reserved to Private customers and the increase, from 50% to 65%, of the retrocession percentage of the running fees paid to Banco BPM by Banca Aletti, which resulted, for the period of mid-September-December 2021, in a fee and commission flow of 131 thousand euro.
Subsequently, on 14 December 2021, the Board of Directors approved with regard to the management of Banca Aletti's asset portfolios held by the Retail customers of Banco BPM, a fee and commission flow, in the form of a framework resolution, of a total of 450 thousand euro for 2022 and, specifically, for the period January-December 2022.

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 for which Banco BPM estimated to pay for 2021, and specifically for the period of January-December 2021, a total 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 for which Banca Aletti estimates to pay for 2021, and specifically for the period of January-December 2021, a total 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 and relating to the investment accounts that have been/or will be finalised by Banca Aletti itself with its customers. Please note that for the January-December 2021 period, the flow of fees and commissions recognised by Banco BPM S.p.A. was 11.5 million, while that recognised by Banca Aletti amounted to 2.2 million.
Subsequently, on 14 December 2021, the Board of Directors approved: (i) the renewal of the Framework Resolution relating to the performance of trading activities by Banca Akros for which Banco BPM estimates to pay for 2022, and specifically for the period of January-December 2022, a total fee and commission flow of 14 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 for which Banca Aletti estimates to pay for 2022, and specifically for the period of January-December 2022, 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 and relating to the investment accounts that have been/or will be finalised by Banca Aletti itself with its customers.

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

At its meeting on 8-9 February 2021, the Board of Directors approved the issue by Banco BPM, during the year 2021, of bonds for a total of 150 million, to be reserved for subscription by Banca Akros in order to be able to manage the liquidity ensuing from the placement of certificates. Please note that for the January - December 2021 period, bonds totalling 103.2 million were issued.

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

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

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

At its meeting held on 8-9 February 2021, the Board of Directors approved, pursuant to Art. 2501-ter of the Italian Civil Code, the plan for the merger by incorporation of Bipielle Real Estate into Banco BPM, with the simplified procedure pursuant to Art. 2505 of the Italian Civil Code.
The purpose of the incorporation of Bipielle Real Estate, a real estate company, whose assets are primarily used for business purposes, is to concentrate the overall ownership of the real estate assets directly in the Parent Company, which also controls the complex of organisational structures responsible for managing said real estate.
Following the issue on 15 April 2021 of the ECB's authorisation pursuant to Art. 57 of Italian Legislative Decree no. 385/1993, further phases of the corporate merger process continued, most recently with the signing of the merger deed on 20 December 2021, registered with the competent companies' register on 21 December 2021.
The merger became legally effective pursuant to Art. 2504-bis of the Italian Civil Code on 1 January 2022; starting from the merger's effective date, the merging company Banco BPM took over all legal relations, rights and obligations of the merged company. The operations of the merged company were recognised in the financial statements of the incorporating company from 1 January 2022.

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

At its meeting on 23 March 2021, the Board of Directors approved the early closure of the following two securitisation transactions: (i) BPL Mortgages 7 carried out with the SPE BPL Mortgages S.r.l. in June 2014, concerning a portfolio of performing mortgages, landed mortgages and unsecured loans or loans backed by other collateral and personal guarantees, disbursed to small and medium sized enterprises and originated by the former Banco Popolare Soc. Coop. and by the former BPM S.p.A, both now Banco BPM S.p.A.; (ii) BP Mortgages 1, carried out with the SPE BP Mortgages S.r.l. in March 2007 concerning a portfolio of performing residential mortgages and landed mortgages disbursed to private parties and originated by the former Banco Popolare di Verona e Novara Scarl, now Banco BPM S.p.A..
With reference to the "BPL Mortgages 7", transaction, on 21 June 2021, by signing the retrocession agreement, Banco BPM repurchased the entire residual portfolio of mortgages underlying the transaction and, on the extraordinary payment date of 28 June 2021, BPL Mortgages S.r.l. closed the transaction and proceeded with the early repayment of the notes still outstanding and entirely subscribed by Banco BPM.
With regard to the "BP Mortgages 1", transaction, on 29 June 2021, by signing the retrocession agreement, Banco BPM repurchased the entire residual portfolio of mortgages underlying the transaction and, on the interest payment date in July 2021, BP Mortgages S.r.l. closed the transaction and proceeded with the early repayment of the notes still outstanding.

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

At the meeting of 25 May 2021, the Board of Directors decided to approve: (i) Banco BPM's assignment to the SPE BPM Covered Bond S.r.l. of the New BPM CB1 Portfolio of eligible assets comprised of residential mortgages, including disbursements to employees of the Group, and commercial mortgage loans, for an amount of around 600 million; (ii) Banco BPM's assignment to the SPE BPM Covered Bond 2 S.r.l. of the New BPM CB2 Portfolio of eligible assets comprised exclusively of residential mortgages, excluding disbursements to employees of the Group, for an amount of around 2.7 billion; (iii) the granting of a credit limit of up to 16 billion to be used by both Counterparties; (iv) the review (with a new maturity of 30 June 2061) with remodulation of the credit lines available at Banco BPM for BPM Covered Bond and BPM Covered Bond 2; (v) the repurchase by Banco BPM of three portfolios of bad mortgage loans as part of the CB programmes for the maximum amounts specified.
In execution of such resolutions, on 30 June 2021, by signing the related contracts, Banco BPM sold (i) a new portfolio of residential mortgage loans, including disbursements to employees of the Group, and commercial mortgage loans, for a total residual debt equal to around 503 million to the SPE BPM Covered Bond and (ii) a new portfolio of eligible residential mortgage loans, excluding disbursements to employees of the Group, for a total residual debt equal to around 2.5 billion to the SPE BPM Covered Bond 2. Furthermore, also on 30 June 2021, by signing the related contracts, Banco BPM repurchased "*en bloc*" the positions present in all three Banco BPM Covered Bank Bond issue programmes which, as at 31 May 2021, were classified as bad loans.

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

At its meeting held on 15 June 2021, the Board of Directors approved in favour of Alba Leasing: (i) an increase in the lending ceiling for direct risks from 1,055 million to 1,100 million, of which 100 million temporary maturing on 31 December 2021; (ii) an increase in the total credit lines from 969.7 million to 1,077.2 million, of which 100 million temporary maturing on 31 December 2021, alongside indirect risks for 2.2 million and evidence risks for 15 million.

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

At its meeting held on 20 July 2021, the Board of Directors approved, pursuant to Art. 2501-ter of the Italian Civil Code, the plan for the merger by incorporation of Release into Banco BPM, with the simplified procedure pursuant to Art. 2505 of the Italian Civil Code.
The transaction in question is consistent with the initiatives to rationalise the corporate and operating structure of Banco BPM Group and meets the needs of structure simplification and rationalisation, optimisation and development of personnel and reduction of costs, including corporate costs.
Following the issue of the authorising provision of the ECB on 13 October 2021, pursuant to Art. 57 of Italian Legislative Decree no. 385/1993, the next stages of the corporate merger process took place, through the approval, on 23 November 2021, of the merger plan by the Board of Directors of Banco BPM (pursuant to Art. 2505, second paragraph, of the Italian civil code and of Art. 24.2.3 of the Articles of Association) and by Release's Shareholders' Meeting. The merger was finalised on 21 February 2022, with accounting and tax effect from 1 January 2022.

BPL Mortgages S.r.l.: Proposed structuring of a new securitisation transaction of loans disbursed to SMEs

On 14 December 2021, the Board of Directors resolved to structure a new securitisation transaction with the SPE BPL Mortgages, called BPL 8: more specifically, it approved (i) the sale by Banco BPM to BPL Mortgages of a portfolio of performing mortgage, landed and unsecured loans or loans backed by other collateral and personal guarantees, disbursed to small and medium sized enterprises and originated by Banco BPM, with a residual principal debt of around 2.5 billion, (ii) the subscription of Senior securities, Mezzanine securities and Junior securities issued by BPL Mortgages to fund the purchase of the above-mentioned loans, (iii) financing, if necessary, BPL Mortgages with a subordinated loan to establish a cash reserve as part of the transaction, (iv) to sign all of the contractual documentation useful and/or necessary and/or appropriate relating to or in any event associated with the performance by Banco BPM of said functions and to the performance of the aforementioned transactions.

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, Part I, Title IV, Chapter 2 "Remuneration and incentive policies and practices"), of Art. 123-ter of Italian Legislative Decree 58/1998 (Consolidated Finance Law or CFL) as amended and of Art. 84-quater of CONSOB resolution no. 11971/1999 as amended (Issuers' Regulation).
The remuneration policy ("Policy") provides important managerial leverage, with a view to attracting, motivating and retaining management and staff, and to guiding them towards an approach to limit the risk exposure of the intermediary (including legal and reputational risks), as well as to protect and retain customers, in a spirit of correct conduct and management of conflicts of interest. It also contributes to pursuing sustainable development, which entails creating long-term value for shareholders, while taking the interests of all stakeholders that are important to the Group.

The 2021 Policy defines the guidelines for Group Staff remuneration and incentive systems, for the pursuit of long-term strategies, objectives and results, in accordance with the general framework of governance and risk management policies, while complying with levels of liquidity and capitalisation. With regards to ESG aspects (Environmental, Social, Governance), the 2021 Policy continues in the direction taken in 2020, by further strengthening the correlation between the variable remuneration of management and strategic action relating to environmental issues, aspects regarding health and safety and human resource management, with regard to which an inclusive and gender neutral corporate culture are becoming increasingly important. Banco BPM's remuneration policy for staff is gender neutral.
In accordance with the 2021 Policy, the remuneration of Group employees includes a variable component (incentive) linked to the annual incentive system (Short Term Incentive Plan). The receipt of an incentive is subject to the contextual verification that the predefined access conditions (gateways) have been met, comprised of indicators of capital adequacy and adequacy of liquidity and profitability. Following verification of the gateways, but prior to any disbursements, the amount of economic resources actually available is determined based on the income statement results achieved (financial adjustment factor) as well as qualitative indicators of a non-financial nature (non-financial adjustment factor). In both cases, conditions are included and monitored, in line with the Group Risk Appetite Framework.
The incentive for identified staff[1] established in 2021, is paid over a period of six or four years, and is divided into an up-front portion and five or three annual deferred portions, conditional to the fulfilment of future conditions.

The up-front portion, regardless of beneficiary, amounts to:
- 60% of the incentive awarded, if it is less than 430 thousand euro;
- 40% of the incentive awarded, if it is equal to or more than 430 thousand euro.

The figure of 430 thousand euro represents for the Group the level of variable remuneration of a particularly high amount, determined in keeping with the criterion established by the Bank of Italy Supervisory Regulations[2].
50% of the up-front portion of the incentive is awarded in Banco BPM ordinary shares.
The deferred portions consist of:
- five annual portions of the same amount deferred in the five-year period following the year in which the up-front portion vests, 55% in Banco BPM ordinary shares, for the senior identified staff[1], regardless of the

[1] Parties whose professional activity has or may have a significant impact on the Group's risk profile.
[2] See Part One, Heading IV, Chapter 2, Section III, Paragraph 2: "Particularly high variable remuneration amount means the lower of: i) 25 per cent of the total average remuneration of the Italian high earners, resulting from the most recent report published by the EBA; ii) 10 times the total average remuneration of the bank's employees".

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

In line with national banking system practices and in keeping with the spirit of the provisions in force at the time of approval of the 2021 Policy[2], 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 top identified staff[3] (including top management) and personnel actually affected[4] by a ratio of variable to fixed remuneration of more than 100%, to whom, therefore, the regulations regarding the deferral and allocation of shares continue to apply in full.

With a view to pursuing results that create long-term value for shareholders, taking the interests of all stakeholders important to the Bank into account, the Group has activated a Long Term Incentive (LTI) Plan related to performance achieved in the 2021-2023 three year period.
In addition to the Chief Executive Officer and executives with strategic responsibilities of the Parent Company (excluding managers of functions with control tasks), the scope of the beneficiaries of the LTI plan includes around 60 positions relating to the Group's identified staff (excluding those belonging to functions with control tasks), selected on the basis of the level of the position and the impact on the business.
The incentive correlated with the LTI plan (LTI incentive) is fully assigned in Banco BPM ordinary shares and is proportional to the level of achievement of the conditions and performance objectives.
For all beneficiaries, the shares recognised at the end of the three-year performance period are attributed over a period of six or four years, broken down into an up-front portion of 40% and five (for senior identified staff) or three (for the other plan participants) annual deferred portions, conditional to the fulfilment of future conditions.

For both the 2021 Short Term Incentive and 2021-2023 Long Term Incentive Plans, for vested shares (up-front and deferred), a one-year retention period (selling restriction) is established, which starts from the time of their vesting; the transfer of ownership to the beneficiary takes place at the end of this period.
Both the up-front portions and the deferred portions are subject to malus and claw-back mechanisms, as set forth in the Policy.

In addition to the compensation plan based on Banco BPM S.p.A. shares relating to the 2021 Short Term Incentive Plan and the 2021-2023 Long Term Incentive Plan, the Ordinary Shareholders' Meeting of Banco BPM held on 15 April 2021 approved:
- the 2021 remuneration policy – Section I of the Policy-on-remuneration report and payouts awarded of Banco BPM Banking Group's staff – 2021;
- the report on payouts awarded - Section II of the Policy-on-remuneration report and payouts awarded of Banco BPM Banking Group's staff – 2021 (advisory vote);
- the criteria for calculating any amounts to be granted in the event of early termination of employment or early departure from office of all personnel, including therein the limits set on said amounts;
- the request for authorisation to purchase and dispose of own shares in service of the Banco BPM S.p.A. share-based payment plans.

For further information refer to the content of the following documents: 2021 Policy-on-remuneration report and payouts awarded (Section I and Section II) and Information Document on the Banco BPM Share-based compensation plan - 2021 Short Term Incentive Plan and Information Document on the Banco BPM Share-based compensation plan -

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[1] Senior identified staff refers to the CEO, General Manager (where appointed), Joint General Managers and senior operational and executive managers of the Parent Company, first-line managers of the Parent Company not included amongst the internal control functions reporting directly to the CEO or the Board of Directors, the CEO of Banca Aletti and of Banca Akros.
[2] On 24 November 2021, the Bank of Italy issued the 37th update of Circular no. 285/2013, which expressly envisaged the option of disbursing the incentive in cash and in a lump sum if the annual variable remuneration does not exceed 50 thousand euro and simultaneously does not represent over one third of total annual remuneration.
[3] Top identified staff refers to the CEO, General Manager (where appointed), Joint General Managers and Managers in the first line of management of the Parent Company, the CEO, General Manager, Joint General Manager and Deputy General Manager (where present) of Banca Aletti, Banca Akros and ProFamily (the latter merged by incorporation into Banco BPM with statutory effects from 19 July 2021).
[4] Ex ante.

2021-2022-2023 Long Term Incentive Plan, available on the website www.gruppo.bancobpm.it (Corporate Governance - Remuneration Policies section).

1.2 Share-based compensation plans of previous years

On 9 March 2021, the Banco BPM Board of Directors acknowledged the vesting in the year 2021 of the equity component of the deferred short and long-term incentives referring to the share-based compensation plans currently valid and approved on the basis of previous shareholders' resolutions.

In relation to the equity components attributable to years preceding the founding of Banco BPM Group, the number of ordinary shares of the former Banca Popolare di Milano awarded was converted into Banco BPM shares, by virtue of the merger with the former Banco Popolare, based on the value established for the share swap of 1 Banco BPM share for every 6.386 shares of the former Banca Popolare di Milano.

For more details on the procedures and the terms for the allocation of the shares under the above-illustrated Plans, please refer to the respective information documents drawn up in accordance with Art. 84-*bis* of the Issuers' Regulation, deposited at the registered office, at Borsa Italiana S.p.A. and also available to the general public on Banco BPM S.p.A.'s website at www.gruppo.bancobpm.it (from 2017: Corporate Governance — Remuneration Policy section; for previous years: Corporate Governance — Shareholders' Meetings — Pre-Merger Shareholders' Meeting section).

1.3 Amounts for early termination of employment

In compliance with regulations in force over time, the Parent Company has the unilateral right to agree, subject to the conditions and in accordance with the methods defined in the Policy, possible amounts for the early termination of employment (for identified staff, golden parachutes), which may be awarded up to the maximum extent of twenty-four months of fixed remuneration (excluding indemnity for lack of notice, determined by legislative provision) and up to the maximum limit of 2.4 million (employee gross amount).

The recognition of the amounts for early termination of the employment relationship is subordinate to the positive verification of the conditions, related to the previous financial year, of capital adequacy and liquidity; it is also determined considering any element deemed relevant and in any case:

- the positive results achieved over time;
- the circumstances that led to the termination, taking into account the interests of the company also in order to avoid an error of judgement;
- the tasks performed and/or positions held in the course of the employment relationship, also in the sense of risks assumed by the subject;
- the duration of the employment relationship and of the job;
- savings as a result of early termination of employment.

Payment thereof occurs according to the same methods provided for by the Short Term Incentive Plan, defined in the remuneration policy in force on the date of termination, with reference to the last position for which payment of the amount was assessed, without prejudice to specific conditions envisaged by the Bank of Italy Supervisory Regulations.
The amounts for early termination of the employment relationship, both for identified staff and the remaining personnel, shall only be disbursed in the absence of fraudulent conduct or gross negligence committed by the person who has terminated his/her employment. In the case of directly appointed personnel, the Parent Company's Board of Directors ascertains whether significant misconduct is present; for remaining employees, this assessment is made by the Chief Executive Officer of the Parent Company. If misconduct is determined, the portions that have not yet been paid are cancelled (malus) and any previously paid ones must be returned (clawback). The assessment takes into account a five year period starting from the time of their vesting.

The remuneration components for the identified staff described above, which establish the payment based on shares of Banco BPM, are "equity-settled" plans in accordance with the provisions in IFRS 2. These share-based payments are recorded in the income statement under the item "Personnel expenses" as a balancing entry to an increase in the "Reserves" of consolidated shareholders' equity and the Parent Company's shareholders' equity.
Subsidiaries, on the other hand, in their separate financial statements, record the cost for the period in the income statement item "Personnel expenses" as a balancing entry of an increase in the balance sheet liability item "Provisions

for risks and charges", in that the incentive plans for identified staff establish payment based on the shares of the Parent Company, which will be settled by the individual subsidiaries and, therefore, are considered cash-settled transactions.

B. QUANTITATIVE INFORMATION

1. Annual changes

The balance of the "stock of shares" at 1 January 2021, entirely held by the Parent Company Banco BPM, consisted of 6,125,659 ordinary shares of Banco BPM.
During 2021, in implementation of the remuneration policy, a total of 2,556,148 ordinary shares of Banco BPM S.p.A. were delivered to 90 beneficiaries.
As a result of the above transactions, the balance of the "stock of shares" as at 31 December 2021 was 3,569,511 ordinary shares of Banco BPM, entirely held by the Parent Company.

2. Other information

With reference to the resolution passed by the Banco BPM Board of Directors on 9 March 2021 with regard to the share-based compensation plan approved by the Ordinary Shareholders' Meeting in 2020, a total of 798,168 shares were granted to 52 beneficiaries, of which (i) 440,186 relating to the up-front portion accrued and (ii) 357,982 relating to the deferred portions, as appropriate, in the three or five years after 2021, the accrual of which remains subject to positive verification of future consolidated conditions as well as the absence of misconduct. Note that the Parent Company awarded its beneficiaries 699,004 shares, of which 381,286 shares relating to the vested up-front portion and 317,718 shares relating to the deferred portions as indicated above.

The same resolution also determined the vesting of deferred shares relating to previous years (2015, 2016, 2017, 2018, 2019 and LTI 2017-2019) for a total of 932,078 Banco BPM shares to 86 beneficiaries, of which 787,793 shares vested in favour of Banco BPM beneficiaries.

2.1 Economic impact in 2021

With regard to Share-based Incentive Systems for identified staff, in 2021 the Group allocated 7.8 million, the largest amounts of which regard 3.4 million allocated to the 2021 short-term incentive plan and 4 million to the 2021-2023 long-term incentive plan.
With regard to said Incentive Systems, note that the Parent Company allocated 7.1 million, of which 2.9 million for the short-term incentive plan and 3.6 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 2021, the operating segments taken as a reference to provide the disclosure in question are as follows:

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

The identification of Leases as an operating segment lies in the need to provide separate evidence of a run-off activity, attributable to the management of previous lease transactions of the former Banca Italease (today incorporated into Banco BPM) and the subsidiary Release[1].
It should also be noted that the Investment Banking operating segment also encompasses the contribution of the subsidiary Oaklins Italy S.r.l., acquired by Banca Akros in May 2021.

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 2021, compared with the corresponding figures for the previous year, as published in the 2020 Annual Report.

[1] Incorporated into the Parent Company on 21 February 2022, with accounting and tax effect from 1 January 2022.

Segment results - income statement figures

2021	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Net interest income	2,041,628	1,041,503	472,599	51,219	(2,557)	53,830	(4,919)	22,228	407,725
Gains (losses) on interests in associates and joint ventures carried at equity	231,940	-	-	-	-	-	229,608	-	2,332
Financial margin	**2,273,568**	**1,041,503**	**472,599**	**51,219**	**(2,557)**	**53,830**	**224,689**	**22,228**	**410,057**
Net fee and commission income	1,911,203	1,475,885	243,007	42,585	100,394	43,424	-	(362)	6,270
Other net operating income	75,280	5,167	61	3,504	5	1,126	-	(15,985)	81,402
Net financial result	250,695	4,010	22,373	(420)	(283)	13,414	-	-	211,601
Other operating income	**2,237,178**	**1,485,062**	**265,441**	**45,669**	**100,116**	**57,964**	**-**	**(16,347)**	**299,273**
Operating income	**4,510,746**	**2,526,565**	**738,040**	**96,888**	**97,559**	**111,794**	**224,689**	**5,881**	**709,330**
Personnel expenses	(1,667,799)	(1,069,629)	(76,023)	(12,972)	(55,953)	(33,528)	(1,935)	(5,975)	(411,784)
Other administrative expenses	(601,151)	(722,089)	(118,711)	(28,186)	(15,909)	(58,038)	(521)	(24,762)	367,065
Net value adjustments to property, plant and equipment and intangible assets	(246,825)	(110,248)	(4,629)	(749)	(3,423)	(356)	(190)	(1,080)	(126,150)
Operating expenses	**(2,515,775)**	**(1,901,966)**	**(199,363)**	**(41,907)**	**(75,285)**	**(91,922)**	**(2,646)**	**(31,817)**	**(170,869)**
Profit (loss) from operations	**1,994,971**	**624,599**	**538,677**	**54,981**	**22,274**	**19,872**	**222,043**	**(25,936)**	**538,461**
Net adjustments to loans to customers	(887,199)	(438,667)	(390,234)	(8,054)	(265)	(55)	-	(39,892)	(10,032)
Fair value gains (losses) on property, plant and equipment	(141,633)	-	-	-	-	-	-	(99,858)	(41,775)
Net adjustments to securities and other financial assets	(328)	-	-	-	-	17	-	-	(345)
Net provisions for risks and charges	(26,039)	(14,978)	(5,242)	(149)	(204)	490	-	739	(6,695)
Gains (losses) on interests in associates and joint ventures and other investments	(18,768)	-	-	-	-	-	(18,673)	85	(180)
Profit (loss) before tax from continuing operations	**921,004**	**170,954**	**143,201**	**46,778**	**21,805**	**20,324**	**203,370**	**(164,862)**	**479,434**
Taxation charge related to profit or loss from continuing operations	(253,828)	(61,690)	(48,316)	(15,439)	(7,327)	(5,834)	2,487	38,209	(155,918)
Profit (loss) after tax from continuing operations	**667,176**	**109,264**	**94,885**	**31,339**	**14,478**	**14,490**	**205,857**	**(126,653)**	**323,516**
Charges related to the banking system, net of taxes	(144,995)	(92,946)	(11,159)	(10,726)	(772)	(3,836)	-	-	(25,556)
Impact of the realignment of tax values to book values	81,709	29,967	1,850	842	242	-	-	-	48,808
Change in own credit risk on Certificates issued by the Group, net of taxes	4,354	-	-	-	-	-	-	-	4,354
Purchase Price Allocation net of taxes (*)	(39,460)	(28,107)	167	(38)	(2,680)	-	-	671	(9,473)
Profit (loss) for the year attributable to non-controlling interests	284	-	-	-	-	-	-	-	284
Parent Company's profit (loss) for the year	**569,068**	**18,178**	**85,743**	**21,417**	**11,268**	**10,654**	**205,857**	**(125,982)**	**341,933**

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**

The following tables show the details of fee and commission income of 2021 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.

2021 Service type/Amounts	**Group**	**Retail**	**Corporate**	**Institutional**	**Private**	**Investment Banking**	**Strategic Partnerships**	**Leases**	**Corporate Centre**
SAVINGS PRODUCTS	**779,857**	**660,149**	**1,095**	**5,516**	**102,564**	**-**	**-**	**-**	**10,533**
of which:									
Indirect upfront - Network	*281,186*	*270,981*	*87*	*1,447*	*8,671*	-	-	-	-
Administered	8,588	8,398	30	40	120	-	-	-	-
Portfolio management and funds	232,919	224,510	56	1,260	7,093	-	-	-	-
Life	39,679	38,073	1	147	1,458	-	-	-	-
Indirect running - Network	*474,967*	*389,168*	*1,008*	*4,069*	*93,893*	-	-	-	*(13,171)*
Administered	48,549	52,751	256	1,483	7,230	-	-	-	(13,171)
Portfolio management and funds	381,540	298,551	702	2,390	79,897	-	-	-	-
Life	44,878	37,866	50	196	6,766	-	-	-	-
Indirect non-Commercial Network	*23,704*	-	-	-	-	-	-	-	*23,704*
Investment Banking	**70,295**	**-**	**-**	**-**	**-**	70,295	**-**	**-**	-
Insurance protection	**49,512**	49,242	20	36	75	-	-	-	139
Other fees and commissions	**1,129,445**	**832,686**	**255,811**	**38,708**	**1,645**	**-**	**-**	**9**	**586**
Fee and commission income	**2,029,109**	**1,542,077**	**256,926**	**44,260**	**104,284**	**70,295**	**-**	**9**	**11,258**
Fee and commission expense	**(117,906)**	**(66,192)**	**(13,919)**	**(1,675)**	**(3,890)**	**(26,871)**	**-**	**(371)**	**(4,988)**
Net fee and commission income	**1,911,203**	**1,475,885**	**243,007**	**42,585**	**100,394**	**43,424**	**-**	**(362)**	**6,270**

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)**

The following tables provide the details of the item "Other fees and commissions" for 2021 and for the previous year, broken down by the type of service provided:

Other fees and commissions 2021	Group	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Keeping and management of current accounts, Credit Availability Fee (CDC)	**508,842**	**438,145**	**56,806**	**12,631**	**1,140**	**-**	**-**	**-**	**120**
of which:									
Credit Availability Fee (CDC)	*248,409*	201,803	42,321	3,965	269	-	-	-	*51*
Keeping and management of current accounts	*260,433*	236,342	14,485	8,666	871	-	-	-	*69*
Commission on loans (including consumer credit) and unsecured loans Italy	**218,406**	**70,531**	**133,407**	**8,599**	**76**	**-**	**-**	**-**	**5,793**
of which:									
Commission on loans	*132,607*	17,855	107,243	7,143	7	-	-	-	*359*
Commission on unsecured loans	*43,647*	17,970	26,164	1,453	58	-	-	-	*(1,998)*
Consumer Credit	*42,152*	34,706	-	3	11	-	-	-	*7,432*
Abroad (including unsecured loans)	**77,805**	31,552	40,905	507	193	**-**	**-**	**-**	**4,648**
Collection and payment services, e-money	**322,506**	**294,734**	**24,923**	**17,202**	**1,321**	**-**	**-**	**-**	**(15,674)**
of which:									
Collection and payment services	*167,853*	134,717	18,640	12,163	684	-	-	-	*1,649*
E-money	*154,653*	160,017	6,283	5,039	637	-	-	-	*(17,323)*
Other services	**1,886**	**(2,276)**	**(230)**	**(231)**	**(1,085)**	**-**	**-**	**9**	**5,699**
of which:									
Commercial refunds	*(5,108)*	(3,056)	(493)	(236)	(1,085)	-	-	-	*(238)*
Other	*6,994*	780	263	5	-	-	-	*9*	*5,937*
Total other fees and commissions	**1,129,445**	**832,686**	**255,811**	**38,708**	**1,645**	**-**	**-**	**9**	**586**

Other fees and commissions 2020	**Group**	**Retail**	**Corporate**	**Institutional**	**Private**	**Investment Banking**	**Strategic Partnerships**	**Leases**	**Corporate Centre**
Keeping and management of current accounts, Credit Availability Fee (CDC)	**466,001**	**399,419**	**55,235**	**10,525**	**1,120**				**(298)**
of which:									
Credit Availability Fee (CDC)	*264,865*	*214,557*	*45,897*	*4,023*	*299*				*89*
Keeping and management of current accounts	*201,136*	*184,862*	*9,338*	*6,502*	*821*				*(387)*
Commission on loans (including consumer credit) and unsecured loans Italy	**190,339**	**63,499**	**107,747**	**7,848**	**89**				**11,156**
of which:									
Commission on loans	*110,200*	*19,640*	*83,700*	*6,522*	*(5)*				*343*
Commission on unsecured loans	*43,645*	*17,092*	*24,047*	*1,323*	*83*				*1,100*
Consumer Credit	*36,494*	*26,767*		*3*	*11*				*9,713*
Abroad (including unsecured loans)	**60,100**	**23,330**	**30,907**	**607**	**155**				**5,101**
Collection and payment services, e-money	**296,511**	**263,083**	**25,269**	**16,046**	**1,026**				**(8,913)**
of which:									
Collection and payment services	*160,109*	*126,143*	*19,219*	*12,204*	*551*				*1,992*
E-money	*136,402*	*136,940*	*6,050*	*3,842*	*475*				*(10,905)*
Other services	**6,390**	**491**	**93**	**4**	**5**			**11**	**5,786**
Total other fees and commissions	**1,019,341**	**749,822**	**219,251**	**35,030**	**2,395**	**-**	**-**	**11**	**12,832**

Segment results - balance sheet figures

31/12/2021	**Total**	**Retail**	**Corporate**	**Institutional**	**Private**	**Investment Banking**	**Strategic Partnerships**	**Leases**	**Corporate Centre**
Loans to customers:	127,674,398	61,625,508	30,171,846	6,488,818	428,751	1,963,699	-	1,367,926	25,627,850
• loans to customers	107,085,822	61,625,508	29,936,846	6,488,818	428,751	1,963,699	-	1,367,926	5,274,274
• debt securities	20,588,576	-	235,000	-	-	-	-	-	20,353,576

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

31/12/2021	**Total**	**Retail**	**Corporate**	**Institutional**	**Private**	**Investment Banking**	**Strategic Partnerships**	**Leases**	**Corporate Centre**
Direct funding	120,213,016	81,426,305	10,125,501	10,915,228	2,771,365	956,547	-	4,507	14,013,563

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

31/12/2021	**Total**	**Retail**	**Corporate**	**Institutional**	**Private**	**Investment Banking**	**Strategic Partnerships**	**Leases**	**Corporate Centre**
Interests in associates and joint ventures	1,794,116	-	-	-	-	-	1,775,259	-	18,857

31/12/2020	**Total**	**Retail**	**Corporate**	**Institutional**	**Private**	**Investment Banking**	**Strategic Partnerships**	**Leases**	**Corporate Centre**
Interests in associates and joint ventures	1,664,772	-	-	-	-	-	1,647,043	-	17,729

Note that most of the activities and operating income are achieved in Italy, confirming the deep roots throughout the country, considered to be the main area of action of the Group. The weight of activities and operating income achieved abroad is significantly lower than the threshold of 5%.

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 does not have any significant commitments in place for lease contracts that will start in 2022.

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

- the information on assets granted through operating leases is contained in Part B, Assets – Section 9, at the bottom of Table 9.4 "Property, plant and equipment held for investment purposes: breakdown of assets at fair value through profit and loss", with the related specifics provided at the bottom of that table;
- the information on interest income on loans for leases is contained in Part C – Section 1 – Table 1.1 "Interest and similar income: breakdown";
- the information on income from operating leases is contained in Part C – Section 16, Table 16.2 "Other operating income: breakdown".

2. Finance leases

2.1 Classification of payments to be received by time band and reconciliation with loans for leases posted under assets

Time bands	Total 31/12/2021 Lease payments to be received	Total 31/12/2020 Lease payments to be received
Up to 1 year	448,402	351,883
From over 1 year to 2 years	150,384	429,165
From over 2 years to 3 years	150,998	260,118
From over 3 years to 4 years	99,806	139,593
From over 4 years to 5 years	94,950	87,617
Over 5 years	364,456	336,604
Total lease payments to be received	**1,308,996**	**1,604,980**
Reconciliation with loans		
Financial profits not accrued (-)	(85,600)	(100,071)
Residual non-guaranteed value (-)	-	-
Loans for leases	**1,223,396**	**1,504,909**

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 31/12/2021 Lease payments to be received	Total 31/12/2020 Lease payments to be received
Up to 1 year	33,331	22,027
From over 1 year to 2 years	22,517	18,518
From over 2 years to 3 years	19,147	12,770
From over 3 years to 4 years	14,224	8,566
From over 4 years to 5 years	13,395	6,096
Over 5 years	54,939	22,099
Total	**157,553**	**90,076**

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 2021, 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 2021 *(figures in euro)***
Banco BPM	Aid for personnel training (*)	FBA (Bank and Insurance Fund)	4,347,000
Banco BPM	Aid for personnel training (*)	ANPAL (National Agency for Active Labour Policies)	414,718
Terme Ioniche Società Agricola S.r.l.	Agricultural aid (***)	Disbursed by the European Union through ARCEA (Agency of the Region of Calabria for Agricultural Aid), as the paying body	177,227
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	291,134

(*) Aid for personnel training requested in 2018 and paid in March 2021.
(**) Aid for personnel training requested and paid in May 2021.
(***) 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 2021, 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 2021.

2. The assessment of the adequacy and the verification of the effective application of the administrative and accounting procedures for the formation of the consolidated financial statements of Banco BPM S.p.A. as at 31 December 2021 were based on an internal model set in place by Banco BPM S.p.A., developed on the basis of the "Internal Control – Integrated Framework (COSO)" and, for the IT component, the "Control Objectives for IT and related Technology (COBIT)", which represent the 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 2021:
    a) were drawn up in compliance with the applicable international accounting standards recognised in the European Community as per EC Regulation no. 1606/2002 of the European Parliament and 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.

Milan, 1 March 2022

Signed by	Signed by
Giuseppe Castagna	Gianpietro Val
Chief Executive Officer	Manager responsible for preparing the Company's financial reports

Independent Auditors' Report on the consolidated financial statements

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of Banco BPM SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Banco BPM Group (hereinafter the "Group"), which comprise the balance sheet as of 31 December 2021, 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 2021 and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of Banco BPM SpA (hereinafter the "Bank") pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon and we do not provide a separate opinion on these matters.

Key audit matters	*Auditing procedures performed in response to key audit matters*

Valuation of performing loans to customers measured at amortised cost

Notes to the consolidated financial statements:
Part A - Accounting policies
Part B – Information on the consolidated balance sheet – Assets, Sections 4 and 12
Part C – Information on the consolidated income statement, Section 8
Part E – Information on risks and related hedging policies

Performing loans to customers (Stage 1 and Stage 2) as of 31 December 2021 amount to Euro 103,678 million and represent the most relevant part of the financial statements line item 40 b) *"Financial assets at amortised cost – Loans to customers"* which totals Euro 127,674 million corresponding to 64 per cent of total assets. Net impairment losses booked in the year for these loans, amount to Euro 4.7 million and represent directors' best estimate in order to determine expected credit losses at the reporting date on the basis of the applicable reporting standards.

Valuation processes and methods adopted are characterized by a high degree of professional judgement and require the estimation of several variables. The use of significant assumptions is particularly relevant to measure the significant increase in credit risk ("*SICR*"), to allocate loan portfolios to the different risk stages ("*Staging*") and to determine assumptions and inputs to models used for the expected credit loss ("*ECL*") calculation.

In the current year, the above processes were affected by some methodological changes, compared to previous year. Specifically, in addition to the recurring process of updating the input data and of refining of risk parameters (including the adoption of the new regulatory definition of default), the Group also introduced a number of methodological changes, as well as "*post model adjustments/management overlays*" in order to properly take into account the evolution of the macroeconomic context induced

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, among the others, the macroeconomic scenario induced by the Covid-19 pandemic.

To address this key audit matter we performed the following relevant procedures, with the support of the experts of the PwC network as needed:

- assessment of the adequacy of the IT environment and testing of the operating effectiveness of the applicable key controls over the systems and software applications used by the Bank for the valuation of loans to customers;
- understanding and evaluation of the design of key controls related to the monitoring, classification and impairment valuation of loans to customers and testing of their operating effectiveness;
- critical assessment of control activities carried out during the year by internal control functions, of the related outcomes and of remedial actions undertaken;
- check, on a sample basis, of the reasonable classification of these loans as performing (Stage 1 and Stage 2) on the basis of the available information about debtor's status and of other supporting evidences, including external information and paying special attention to debtors who have benefited from payments moratoria;

Key audit matters	*Auditing procedures performed in response to key audit matters*
by the Covid-19 pandemic (including the increased risk for debtors who have benefited from support measures), any improvement area that emerged from the analyses carried out internally, as well as to consider certain valuation elements that are not adequately captured by models in use. Considering the significance of the amount, the high complexity of estimation processes and the high degree of professional judgement, as well as the process of fine-tuning and refinement of criteria and models adopted, we considered valuation of performing loans as a key audit matter.	• understanding and assessment of the appropriateness of policies, procedures and models used for determining *SICR*, *Staging* and *ECL*. Special attention was paid to methodological changes introduced during the year to criteria and models, as well as to criteria applied for determining *"post model adjustments/management overlays"* applied; • understanding and review of the methods used to define the key estimation parameters for models used to determine the ECL and assessment of the updates and refinements introduced during the year. In particular, we assessed the reasonableness of expected macroeconomic scenarios assumed, also by checking their consistency with external sources. Furthermore, for off-balance sheet exposures, we performed specific procedures aimed at verifying the appropriate application of credit conversion factors; • assessment of the correct application of the defined criteria, of the completeness and accuracy of the data used for the *ECL* calculation, as well as of any processing performed outside the IT systems; • assessment of the reasonableness of loans valuation through independent estimates; • comparative and trend analysis on the volumes of loans to customers and on related coverage ratios, also by comparing data of previous years and information related to the main comparable operators; • review of sensitivity analyses of ECL to the macroeconomic scenarios that condition risk parameters of the models used, also taking into consideration subsequent events, including those attributable to the war between Russia and Ukraine;

Key audit matters	*Auditing procedures performed in response to key audit matters*
	• 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.
Valuation of non-performing loans to customers (unlikely-to-pay and bad loans) measured at amortised cost *Notes to the consolidated financial statements:* *Part A - Accounting policies* *Part B – Information on the consolidated balance sheet – Assets, Sections 4 and 12* *Part C – Information on the consolidated income statement, Section 8* *Part E – Information on risks and related hedging policies* Non-Performing loans to customers (Stage 3) as of 31 December 2021 amount to Euro 3,063 million. Net impairment losses booked in the year for these loans, amount to Euro 625.9 million and represent directors' best estimate in order to determine expected credit losses for these loans at the reporting date on the basis of the applicable reporting standards. Valuation processes and methods applied, both on an individual and on a statistical basis, are characterized by a high degree of professional judgement and require the estimation of several variables. The use of significant assumptions is particularly relevant for the assessment of future cash flows, recovery time and for determining the recoverable amount of any collaterals. In particular, where Group's strategy foresees the recovery through disposal of portfolios, the valuation is performed with a multiple scenarios approach reflecting the cash flows arising from internal work-out activities as well as those expected from the disposal on the market.	In performing our audit procedures, we considered internal controls relevant to the financial reporting process. To address this key audit matter we performed the following relevant procedures: • assessment of the adequacy of the IT environment and testing of the operating effectiveness of the applicable key controls over the systems and software applications used for the valuation of loans to customers; • understanding and evaluation of the design of key controls related to the monitoring, classification and impairment valuation of loans to customers and testing of their operating effectiveness; • understanding and assessment of the appropriateness of policies, procedures and models used for determining the *ECL*; • assessment of the correct application of the defined criteria as well as of the completeness and accuracy of the data used in the *ECL* calculation; • check, on a sample basis, of the reasonable classification of these loans among the different regulatory categories also on the basis of the available information about debtor's status and of other supporting evidences, including external information;

Key audit matters	*Auditing procedures performed in response to key audit matters*
Considering the significance of the non-performing loans amount, the complexity of the valuation process and the high subjectivity of the assumptions and hypotheses required to determine the relevant variables, we considered the valuation of non-performing loans as a key audit matter.	• assessment of the reasonableness of the methodology adopted to define possible alternative recovery scenarios (disposal or work-out scenarios), of their consistency with disposal targets defined by the directors and of the probabilities defined, as well as evaluation of the correct calculation of the *ECL* on the basis of the probability weighted average of future cash flows expected from internal work-out and disposal scenarios. • with specific reference to the work-out scenario, for each category required by the applicable financial and regulatory reporting framework, check, for a sample of loans assessed on an individual basis, of the reasonableness of assumptions used to determine future cash flows from work-out activity, collaterals valuation and recovery time. For non-performing loans assessed on a statistical basis, check of the correct determination of the key parameters used in the model as well as completeness and accuracy of related key data inputs; • comparative and trend analysis on the volumes of loans to customers and on related coverage ratios, performed also by comparing data of previous years and information related to main comparable operators; • analysis of subsequent events occurring after the reference date of financial statements; • 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.

Key audit matters	*Auditing procedures performed in response to key audit matters*
Valuation of financial instruments held for trading not listed in active markets and measured at fair value on a recurring basis	
Notes to the consolidated financial statements: Part A – Accounting policies Part B – Information on the consolidated balance sheet – Assets, Section 2, Liabilities, Section 2 Part C – Information on the consolidated income statement, section 4	In performing our audit procedures, we considered internal 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:
Financial instruments held for trading and not listed in active markets whose fair values were determined using models with data and parameters both directly observable and not directly observable in the market (instruments with fair value levels 2 and 3 of the fair value hierarchy, respectively) represent assets for a total of Euro 2,020 million and liabilities of Euro 13,747 million, corresponding respectively to about 1 per cent of total assets and 6.9 per cent of total liabilities. The financial instruments carrying amounts, which represent directors' best estimate of the fair value of the instruments at the reporting date determined in accordance with the applicable reporting standards, are 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.	• assessment of the adequacy of the IT environment and testing of the operational effectiveness of key controls over the systems and software applications used for the valuation of financial instruments; • understanding and evaluation of the design of controls relevant to the identification, measurement and monitoring of the risk related to valuation, recognition and measurement of financial instruments, as well as the operational effectiveness of those controls; • understanding and critical assessment of the policies adopted to determine the fair value of financial instruments; • review of the valuation techniques and models used as well as of the criteria applied to determine significant assumptions and data inputs, and verification of their consistency with the market practice and financial sector literature; • specific substantive procedures on the related accounting balances, including independent fair values 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);

Key audit matters	*Auditing procedures performed in response to key audit matters*
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.	• check of the completeness and adequacy of disclosures closely related to this key matter also considering requirements of the applicable financial reporting standards.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern.
In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate the parent company Banco BPM SpA or to cease operations or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- we identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- we obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- we evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

- we concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- we evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- we obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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 on compliance with the provisions of Commission Delegated Regulation (EU) 2019/815

The directors of Banco BPM SpA are responsible for the application of the provisions of Commission Delegated Regulation (EU) 2019/815 concerning regulatory technical standards on the specification of a single electronic reporting format (ESEF - European Single Electronic Format) (hereinafter, the "Commission Delegated Regulation") to the consolidated financial statements, to be included in the annual report.

We have performed the procedures specified in auditing standard (SA Italia) No. 700B in order to express an opinion on the compliance of the consolidated financial statements with the provisions of the Commission Delegated Regulation.

In our opinion, the consolidated financial statements have been prepared in XHTML format and have been marked up, in all significant respects, in compliance with the provisions of the Commission Delegated Regulation.

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 2021, 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 2021 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 2021 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, 16 March 2022

PricewaterhouseCoopers SpA

Signed by

Pierfrancesco Anglani
(Partner)

As disclosed by the Directors, the accompanying consolidated financial statements of Banco BPM SpA constitute a non-official version which is not compliant with the provisions of the Commission Delegated Regulation (EU) 2019/815. This independent auditor's report has been translated into the English language solely for the convenience of international readers. Accordingly, only the original text in Italian language is authoritative.

Attachments

List of IAS/IFRS endorsed by the European Commission as at 31 December 2021

Accounting standards		Endorsement Regulation	
			amendments
IAS 1	Presentation of Financial Statements	1126/2008	1274/2008; 53/2009; 70/2009; 494/2009; 243/2010; 149/2011; 475/2012; 1254/2012; 1255/2012; 301/2013; 2113/2015; 2406/2015; 1905/2016; 2067/2016; 1986/2017; 2075/2019; 2104/2019; 2036/2021 (**)
IAS 2	Inventories	1126/2008	70/2009; 1255/2012; 1905/2016; 2067/2016; 1986/2017
IAS 7	Statement of Cash Flows	1126/2008	1260/2008; 1274/2008; 70/2009; 494/2009; 243/2010; 1254/2012; 1174/2013; 1986/2017; 1990/2017; 2036/2021 (**)
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	1126/2008	1274/2008; 70/2009; 1255/2012; 2067/2016; 2075/2019; 2104/2019
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; 1080/2021 (**); 2036/2021 (**)
IAS 19	Employee Benefits	1126/2008	1274/2008; 70/2009; 475/2012; 1255/2012; 29/2015; 2343/2015; 402/2019; 2036/2021 (**)
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance	1126/2008	1274/2008; 70/2009; 475/2012; 1255/2012; 2067/2016
IAS 21	The Effects of Changes in Foreign Exchange Rates	1126/2008	1274/2008; 69/2009; 494/2009; 149/2011; 475/2012; 1254/2012; 1255/2012; 2067/2016; 1986/2017
IAS 23	Borrowing Costs	1126/2008	1260/2008; 70/2009; 2113/2015; 2067/2016; 1986/2017; 412/2019
IAS 24	Related Party Disclosures	1126/2008	1274/2008, 632/2010; 475/2012; 1254/2012; 1174/2013; 28/2015
IAS 26	Accounting and Reporting by Retirement Benefit Plans	1126/2008	
IAS 27	Separate Financial Statements	1126/2008	1274/2008; 69/2009; 70/2009; 494/2009; 1254/2012; 1174/2013; 2441/2015
IAS 28	Investments in Associates and Joint Ventures	1126/2008	1274/2008; 70/2009, 494/2009, 495/2009; 1254/2012; 1255/2012; 2441/2015; 1703/2016; 2067/2016; 182/2018; 237/2019; 2036/2021 (**)
IAS 29	Financial Reporting in Hyperinflationary Economies	1126/2008	1274/2008; 70/2009
IAS 32	Financial Instruments: Presentation	1126/2008	1274/2008; 53/2009; 70/2009, 494/2009; 495/2009; 1293/2009; 149/2011; 475/2012; 1254/2012; 1255/2012; 1256/2012; 301/2013; 1174/2013; 1905/2016; 2067/2016; 1986/2017; 2036/2021 (**)
IAS 33	Earnings per Share	1126/2008	1274/2008; 494/2009; 495/2009; 475/2012; 1254/2012; 1255/2012; 2067/2016
IAS 34	Interim Financial Reporting	1126/2008	1274/2008; 70/2009; 495/2009; 149/2011; 475/2012; 1255/2012; 301/2013; 1174/2013; 2343/2015; 2406/2015; 1905/2016; 2075/2019; 2104/2019
IAS 36	Impairment of Assets	1126/2008	1274/2008; 69/2009; 70/2009; 495/2009; 243/2010; 1254/2012; 1255/2012; 1374/2013; 2113/2015; 1905/2016; 2067/2016; 2036/2021 (**)
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	1126/2008	1274/2008; 495/2009; 28/2015; 1905/2016; 2067/2016; 1986/2017; 2075/2019; 2104/2019; 1080/2021 (**); 2036/2021 (**)
IAS 38	Intangible Assets	1126/2008	1260/2008; 1274/2008; 70/2009; 495/2009; 243/2010; 1254/2012; 1255/2012; 28/2015; 2231/2015; 1905/2016; 1986/2017; 2075/2019; 2036/2021 (**)
IAS 39	Financial Instruments: Recognition and Measurement (with the exception of several provisions relating to accounting for hedging transactions) (*)	1126/2008	1274/2008; 53/2009; 70/2009; 494/2009; 495/2009; 824/2009; 839/2009; 1171/2009; 243/2010; 149/2011; 1254/2012; 1255/2012; 1174/2013; 1375/2013; 28/2015; 1905/2016; 2067/2016; 1986/2017; 34/2020; 25/2021
IAS 40	Investment Property	1126/2008	1274/2008; 70/2009; 1255/2012; 1361/2014; 2113/2015; 1905/2016; 1986/2017; 400/2018; 2036/2021 (**)
IAS 41	Agriculture	1126/2008	1274/2008; 70/2009; 1255/2012; 2113/2015; 1986/2017; 1080/2021 (**)
IFRS 1	First-time Adoption of International Financial Reporting Standards	1126/2008	1260/2008; 1274/2008; 69/2009; 70/2009; 254/2009; 494/2009; 495/2009; 1136/2009; 1164/2009; 550/2010; 574/2010; 662/2010; 149/2011; 1205/2011; 475/2012; 1254/2012; 1255/2012; 183/2013; 301/2013; 313/2013; 1174/2013; 2173/2015; 2343/2015; 2441/2015; 1905/2016; 2067/2016; 1986/2017; 182/2018; 519/2018; 1595/2018; 1080/2021 (**); 2036/2021 (**)

Accounting standards		Endorsement Regulation	amendments
IFRS 2	Share-based Payments	1126/2008	1261/2008; 495/2009; 243/2010; 244/2010; 1254/2012; 1255/2012; 28/2015; 2067/2016; 289/2018; 2075/2019
IFRS 3	Business Combinations	1126/2008	495/2009; 149/2011; 1254/2012; 1255/2012; 1174/2013; 1361/2014; 28/2015; 1905/2016; 2067/2016; 1986/2017; 412/2019; 2075/2019; 551/2020; 1080/2021 (**); 2036/2021 (**)
IFRS 4	Insurance Contracts	1126/2008	1274/2008; 494/2009; 1165/2009; 1255/2012; 1905/2016; 2067/2016; 1986/2017; 1988/2017; 2097/2020; 25/2021
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1126/2008	1274/2008; 70/2009; 494/2009; 1142/2009; 243/2010; 475/2012; 1254/2012; 1255/2012; 2343/2015; 2067/2016; 2036/2021 (**)
IFRS 6	Exploration for and Evaluation of Mineral Resources	1126/2008	2075/2019
IFRS 7	Financial Instruments: Disclosures	1126/2008	1274/2008; 53/2009; 70/2009; 495/2009; 824/2009; 1165/2009; 574/2010; 149/2011; 1205/2011; 475/2012; 1254/2012; 1255/2012; 1256/2012; 1174/2013; 2343/2015; 2406/2015; 2067/2016; 1986/2017; 34/2020; 25/2021; 2036/2021 (**)
IFRS 8	Operating Segments	1126/2008	1274/2008; 243/2010; 632/2010; 475/2012; 28/2015
IFRS 9	Financial Instruments	2067/2016	1986/2017; 498/2018; 34/2020; 25/2021; 1080/2021 (**); 2036/2021 (**)
IFRS 10	Consolidated Financial Statements	1254/2012	313/2013; 1174/2013; 1703/2016
IFRS 11	Joint Arrangements	1254/2012	313/2013; 2173/2015; 412/2019
IFRS 12	Disclosure of Interests in Other Entities	1254/2012	313/2013; 1174/2013; 1703/2016; 182/2018
IFRS 13	Fair Value Measurement	1255/2012	1361/2014; 2067/2016; 1986/2017
IFRS 15	Revenue from Contracts with Customers	1905/2016	1986/2017; 1987/2017; 2036/2021 (**)
IFRS 16	Leases	1986/2017	1434/2020; 25/2021; 1421/2021
IFRS 17	Insurance Contracts	2036/2021 (**)	

(*) 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 2022.

Interpretations		Endorsement Regulation	Amendments
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	1126/2008	1260/2008; 1274/2008; 1986/2017
IFRIC 2	Members' Shares in Co-operative Entities and Similar Instruments	1126/2008	53/2009; 1255/2012; 301/2013; 2067/2016
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1126/2008	1254/2012; 2067/2016
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	1126/2008	
IFRIC 7	Applying the Restatement Approach under IAS 29 - Financial Reporting in Hyperinflationary Economies	1126/2008	1274/2008
IFRIC 10	Interim Financial Reporting and Impairment	1126/2008	1274/2008; 2067/2016
IFRIC 12	Service Concession Arrangements	254/2009	1905/2016; 2067/2016; 1986/2017; 2075/2019
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1263/2008	1274/2008; 633/2010; 475/2012
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	460/2009	243/2010; 1254/2012; 2067/2016
IFRIC 17	Distributions of Non-Cash Assets to Owners	1142/2009	1254/2012; 1255/2012
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	662/2010	1255/2012; 2067/2016; 2075/2019
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1255/2012	2075/2019
IFRIC 21	Levies	634/2014	
IFRIC 22	Foreign Currency Transactions and Advance Consideration	519/2018	2075/2019
IFRIC 23	Uncertainty over Income Tax Treatments	1595/2018	
SIC 7	Introduction of the Euro	1126/2008	1274/2008; 494/2009
SIC 10	Government Assistance – No Specific Relation to Operating Activities	1126/2008	1274/2008
SIC 15	*Operating Leases – Incentives*	1126/2008	1274/2008
SIC 25	Income Taxes – Changes in the Tax Status of an Entity or its Shareholders	1126/2008	1274/2008
SIC 29	Service Concession Arrangements: Disclosures	1126/2008	1274/2008; 254/2009; 1986/2017
SIC 32	Intangible Assets – Web Site Costs	1126/2008	1274/2008; 1905/2016; 1986/2017; 2075/2019

Reconciliation between the items in the consolidated income statement and the reclassified consolidated income statement schedule for 2021

2021	Income statement	Reclassifications		Reclassified income statement
Net interest income				**2,041,628**
10. Interest and similar income	2,425,188	25,488	(a)	
20. Interest and similar expense	(409,048)			
Gains (losses) on interests in associates and joint ventures carried at equity				**231,940**
250. Gains (losses) of associates and joint ventures		231,940	(b)	
Financial margin				**2,273,568**
Net fee and commission income				**1,911,203**
40. Fee and commission income	2,018,601	10,508	(c)	
50. Fee and commission expense	(117,906)			
Other net operating income				**75,280**
230. Other operating expenses/income	363,082	(282,519)	(d)	
		(5,283)	(e)	
Net financial result				**250,695**
70. Dividends and similar income	53,718			
80. Net trading income	79,523	(10,508)	(c)	
		(6,504)	(f)	
90. Fair value gains/losses on hedging derivatives	(848)			
100. Gains (Losses) on disposal or repurchase	(129,080)	248,052	(g)	
110. Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss	16,342			
Other operating income				**2,237,178**
Operating income				**4,510,746**
Personnel expenses				**(1,667,799)**
190 a) Personnel expenses	(1,670,739)	(2,343)	(h)	
		5,283	(e)	
Other administrative expenses				**(601,151)**
190 b) Other administrative expenses	(1,100,834)	2,343	(h)	
		282,519	(d)	
		214,821	(i)	
Net value adjustments to property, plant and equipment and intangible assets				**(246,825)**
210. Depreciation and impairment losses on property, plant and equipment	(165,828)			
220. Amortisation and impairment losses on intangible assets	(114,457)	33,460	(a)	
230. Other operating expenses/income				
Operating expenses				**(2,515,775)**
Profit (loss) from operations				**1,994,971**
Net adjustments to loans to customers				**(887,199)**
130 a) Net credit impairment losses/recoveries relating to financial assets at amortised cost	(629,997)	(582)	(l)	
		274	(m)	
		(321)	(n)	
		(248,052)	(g)	
140. Gains (losses) from contractual modification without derecognition	(8,521)			
Fair value gains (losses) on property, plant and equipment				**(141,633)**
260. Fair value gains (losses) on property, plant and equipment and intangible assets	(141,633)			
Net adjustments to securities and other financial assets				**(328)**
130 b) Net credit impairment losses/recoveries relating to financial assets measured at fair value through other comprehensive income	(957)	582	(l)	
		(274)	(m)	
		321	(n)	
Net provisions for risks and charges				**(26,039)**
200. Net provisions for risks and charges	(26,039)	-	(l)	
Gains (losses) on interests in associates and joint ventures and other investments				**(18,768)**
250. Gains (losses) of associates and joint ventures	213,314	(231,940)	(b)	
280. Gains (losses) on disposal of investments	(142)			

2021	Income statement	Reclassifications		Reclassified income statement
Profit (loss) before tax from continuing operations				**921,004**
Taxation charge related to profit or loss from continuing operations				**(253,828)**
300. Taxation charge related to profit or loss from continuing operations	(84,955)	(69,826)	(i)	
		(19,488)	(a)	
		2,150	(f)	
		(81,709)	(o)	
Profit (loss) after tax from continuing operations		**98,392**		**667,176**
Charges related to the banking system, net of taxes		(144,995)	(i)	**(144,995)**
Impact of the realignment of tax values to book values		81,709	(o)	**81,709**
Change in own credit risk on Certificates issued by the Group, net of taxes		4,354	(f)	**4,354**
Purchase Price Allocation net of taxes		(39,460)	(a)	**(39,460)**
Profit (loss) for the year attributable to non-controlling interests				**284**
340. Profit (loss) for the year attributable to non-controlling interests	284			
Parent Company's profit (loss) for the year	**569,068**	**-**		**569,068**

The letters shown in the column "Reclassifications" are provided for easier understanding of the reclassifications made.

With regard to the above statement of reconciliation, note that:

- **"Net interest income"** is represented by the algebraic balance of interest and similar income (item 10) and interest and similar expense (item 20), net of the PPA relating to loans to customers, amounting to 25.5 million (a), classified within the reclassified income statement item "Purchase Price Allocation net of taxes";
- **"Gains (losses) on interests in associates and joint ventures carried at equity"** shows the portion of the economic results pertaining to investee companies carried at equity (included in item 250), positive overall and amounting to 231.9 million (b) and together with the "Net interest income", it represents the aggregate defined as the **"Financial margin"**;
- **"Net fee and commission income"** is represented by the algebraic balance of fee and commission income (item 40) and fee and commission expense (item 50); it also includes the reclassification of the upfront fees relating to the placement of Certificates through the Group network (10.5 million (c)) from item 80 of the official schedule "Net trading income";
- "**Other net operating income**" is represented by the financial statement item 230 "Other operating expenses/income", net of recoveries on indirect taxes, legal fees and other expenses, totalling 282.5 million (d), which for the purpose of the reclassification, are shown net of "Other administrative expenses", and of the recovery of training costs of 5.3 million (e) reclassified net of "Personnel expenses";
- the income statement item **"Net financial result"** includes "Dividends and similar income " (item 70), "Net trading income" (item 80), net of both the reclassification of the amount of upfront fees on the placement of Certificates for a total of 10.5 million (c), re-attributed to net fee and commission income, and the impact deriving from the change in own credit risk on issues of Certificates for 6.5 million (f), re-attributed to the customised item of the reclassified income statement called "Change in own credit risk on Certificates issued by the Group, net of taxes". The aggregate in question also includes the "Fair value gains/losses on hedging derivatives" (item 90), the "Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss" (item 110) and the "gains/losses on disposal or repurchase" (item 100) net of the gains/losses from the assignment of receivables not represented by debt securities, of 248.1 million (g), re-attributed to the management aggregate "Net adjustments to loans to customers";
- "**Personnel expenses**" is represented by the financial statement item "190 a) Personnel expenses" and by several charges functionally related to personnel, amounting to 2.3 million (h), recognised in the financial statements under item 190 b) "Other administrative expenses" and by the recovery of training costs of 5.3 million (e), recorded under item "230 Other operating expenses/income", as described above;
- "**Other administrative expenses**" is represented by the financial statement item 190 b), net of recoveries on indirect taxes, legal fees and other expenses, totalling 282.5 million (d), included in the item "230 Other operating expenses/income", as described above, and of several charges connected to personnel, recognised in the reclassified item "Personnel expenses" for 2.3 million (h). Ordinary and extraordinary charges totalling 214.8 million (i) introduced for banks under the single and national

resolution funds (SRF and NRF) are also excluded and are shown, net of the related tax effect, in the separate item "Charges related to the banking system, net of taxes";

- "**Net value adjustments to property, plant and equipment and intangible assets**" corresponds to the accounting items 210 and 220, net of adjustments to intangibles with a finite useful life (client relationships), allocated to the reclassified income statement item "Purchase Price Allocation net of taxes", amounting to 33.5 million (a);
- the total of "**Net adjustments to loans to customers**" and "**Net adjustments to securities and other financial assets**" starts from income statement items 130 "Net credit impairment losses/recoveries" and 140 "Gains (losses) from contractual modification without derecognition". Specifically, "Net adjustments to loans to customers" include adjustments to exposures classified in the portfolio of financial assets at amortised cost - loans to customers - loans (amounting to 630.0 million), the negative result of disposals of loans, amounting to 248.1 million (g) (included in item 100), as well as gains (losses) from contractual modification without derecognition (item 140 of the income statement). Instead, this excludes net impairment losses on exposures classified in the portfolio of financial assets at amortised cost represented by debt securities, totalling 0.3 million (n), as well as net impairment losses on exposures classified in the portfolio of financial assets at amortised cost – loans to banks – loans and securities (l) and (m) totalling 0.3 million, all fully presented in the item of the reclassified income statement "Net adjustments to securities and other financial assets";
- "**Fair value gains (losses) on property, plant and equipment**" correspond to item 260 of the official income statement;
- the aggregate of "**Net adjustments to securities and other financial assets**" includes net impairment losses on exposures classified in the portfolio of financial assets at amortised cost – loans to banks - loans and securities (l) and (m) totalling 0.3 million, as well as net impairment losses on exposures classified in the portfolio of financial assets at amortised cost consisting of debt securities (included in item 130) issued by customers (n) totalling 0.3 million;
- **"Net provisions for risks and charges"** correspond to item 200 of the official income statement;
- "**Gains (losses) on interests in associates and joint ventures and other investments**" correspond to item 280 of the official income statement and to the gains (losses) on disposal of interests in associates and joint ventures and other investments carried at equity (item 250 of the official income statement), net of the portion of gains (losses) of the investees carried at equity, overall a positive 231.9 million (b) included in the reclassified aggregate "Gains (losses) on interests in associates and joint ventures carried at equity";
- "**Taxation charge related to profit or loss from continuing operations**" corresponds to item 300 of the official income statement, net of the negative tax effects relating to "banking industry charges" of 69.8 million (i), the PPA of 19.5 million (a) and the impact of the change in credit risk on Certificates issued of 2.1 million (f). The item in question is also shown net of the positive impact of 81.7 million (o) deriving from the realignment of tax values to book values of Group property used in operations, shown in a separate item of the reclassified income statement called "Impact of the realignment of tax values to book values";
- the item **"Charges related to the banking system, net of taxes"** includes ordinary and extraordinary charges for a total of 214.8 million (i) recognised in the accounts in item 190 b) of the official income statement, net of the related tax effect, amounting to 69.8 million (i);
- the item "**Impact of the realignment of tax values to book values**" shows the amount recognised in item 300 of the official income statement, positive for 81.7 million (o), deriving from the exercise of the option to realign the tax values of properties to their book values, as illustrated above;
- the item "**Change in own credit risk on Certificates issued by the Group, net of taxes**" shows the economic impact of a change in own credit risk related to the issue of Certificates, recognised in the accounts in item 80 of the official income statement for -6.5 million (f), net of the related tax effect, amounting to 2.1 million (f);
- lastly, the item "**Purchase Price Allocation net of taxes**" includes the effects of the PPA relating to loans, amounting to -25.5 million (a) and the client relationship, amounting to -33.5 million (a), net of the relative tax effects, amounting to 19.5 million (a).

Reconciliation between the items in the consolidated balance sheet and the reclassified consolidated balance sheet as at 31 December 2021

Asset items *(thousands of euro)*		31/12/2021
10.	Cash and cash equivalents	29,153,316
	Cash and cash equivalents	**29,153,316**
40. a)	Financial assets at amortised cost: loans to banks	12,773,990
	minus: debt securities due to banks at amortised cost	(896,112)
	Loans at AC: loans to banks	**11,877,878**
40. b)	Financial assets at amortised cost: loans to customers	127,674,398
	plus: senior securities from sales of non-performing loans	2,297,560
	minus: debt securities due to customers at amortised cost	(20,588,576)
	Loans at AC: loans to customers	**109,383,382**
20.	Financial assets at fair value through profit and loss	6,337,110
50.	Hedging derivatives	127,076
	Financial assets and hedging derivatives at FV through Profit and Loss	**6,464,186**
30.	Financial assets measured at fair value through other comprehensive income	10,675,079
	Financial assets at FV through OCI	**10,675,079**
	plus: debt securities due to banks and customers at amortised cost	21,484,688
	minus: senior securities from sales of non-performing loans	(2,297,560)
	Financial assets at AC	**19,187,128**
70.	Interests in associates and joint ventures	1,794,116
	Interests in associates and joint ventures	**1,794,116**
90.	Property, plant and equipment	3,278,245
	Property, plant and equipment	**3,278,245**
100.	Intangible assets	1,213,722
	Intangible assets	**1,213,722**
110.	Tax assets	4,540,229
	Tax assets	**4,540,229**
120.	Non-current assets and disposal groups held for sale	229,971
	Non-current assets and disposal groups held for sale	**229,971**
60.	Fair value change of financial assets in macro fair value hedge portfolios (+/-)	2,875
130.	Other assets	2,689,089
	Other assets	**2,691,964**
	Total assets	**200,489,216**

Liability items ***(thousands of euro)***		**31/12/2021**
10. b)	Financial liabilities at amortised cost: due to customers	107,788,219
	minus: lease payables due to customers	(667,326)
10. c)	Financial liabilities at amortised cost: debt securities in issue	13,081,349
30.	Financial liabilities designated at fair value	1,405,190
	minus: protected capital certificates	(1,394,416)
	Direct funding	**120,213,016**
10. a)	Financial liabilities at amortised cost: due to banks	45,691,578
	minus: lease payables due to banks	(6,546)
	Due to banks	**45,685,032**
	plus: lease payables due to banks	6,546
	plus: lease payables due to customers	667,326
	Lease payables	**673,872**
20.	Financial liabilities held for trading	14,132,931
	plus: protected capital certificates	1,394,416
40.	Hedging derivatives	227,972
	Other financial liabilities designated at fair value	**15,755,319**
90.	Provisions for employee severance pay	320,303
100.	Provisions for risks and charges	876,643
	Liability provisions	**1,196,946**
60.	Tax liabilities	302,816
	Tax liabilities	**302,816**
50.	Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	(47,812)
80.	Other liabilities	3,613,968
	Other liabilities	**3,566,156**
	Total liabilities	**187,393,157**
190.	Non-controlling interests (+/-)	1,108
	Non-controlling interests	**1,108**
120.	Valuation reserves	341,360
140.	Equity instruments	1,092,832
150.	Reserves	3,999,850
170.	Share capital	7,100,000
180.	Own shares (-)	(8,159)
200.	Profit (loss) for the year (+/-)	569,068
	Group shareholders' equity	**13,094,951**
	Total liabilities and shareholders' equity	**200,489,216**

Reconciliation between the reclassified consolidated balance sheet as at 31 December 2020 and the same restated for comparative purposes

Asset items (thousands of euro)	31/12/2020	Reclassifications	31/12/2020 restated
10. Cash and cash equivalents	8,858,079	552,608	9,410,687
20. Financial assets at fair value through profit and loss	9,043,525	-	9,043,525
a) financial assets held for trading	7,248,348		7,248,348
c) other financial assets mandatorily measured at fair value	1,795,177		1,795,177
30. Financial assets measured at fair value through other comprehensive income	10,710,796		10,710,796
40. Financial assets at amortised cost	141,801,931	(552,608)	141,249,323
a) loans to banks	11,974,822	(552,608)	11,422,214
b) loans to customers	129,827,109		129,827,109
50. Hedging derivatives	75,046		75,046
60. Fair value change of financial assets in macro fair value hedge portfolios (+/-)	52,288		52,288
70. Interests in associates and joint ventures	1,664,772		1,664,772
90. Property, plant and equipment	3,552,482		3,552,482
100. Intangible assets	1,218,632		1,218,632
of which: goodwill	51,100		51,100
110. Tax assets	4,704,196	-	4,704,196
a) current	236,993		236,993
b) deferred	4,467,203		4,467,203
120. Non-current assets and disposal groups held for sale	72,823		72,823
130. Other assets	1,930,612		1,930,612
Total assets	**183,685,182**	**-**	**183,685,182**

Liabilities and shareholders' equity items (in thousands of euro)	31/12/2020	Reclassifications	31/12/2020 restated
10. Financial liabilities at amortised cost	151,420,894	-	151,420,894
a) due to banks	33,944,598		33,944,598
b) due to customers	102,915,666		102,915,666
c) debt securities in issue	14,560,630		14,560,630
20. Financial liabilities held for trading	12,687,544		12,687,544
30. Financial liabilities designated at fair value	955,781		955,781
40. Hedging derivatives	585,680		585,680
50. Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	130,912		130,912
60. Tax liabilities	464,570	-	464,570
a) current	5,672		5,672
b) deferred	458,898		458,898
80. Other liabilities	3,797,227		3,797,227
90. Provisions for employee severance pay	369,498		369,498
100. Provisions for risks and charges	1,045,975	-	1,045,975
a) commitments and guarantees given	127,442		127,442
b) post-employment benefits and similar obligations	133,654		133,654
c) other provisions	784,879		784,879
120. Valuation reserves	310,412		310,412
140. Equity instruments	695,417		695,417
150. Reserves	4,112,500		4,112,500
170. Share capital	7,100,000		7,100,000
180. Own shares (-)	(14,002)		(14,002)
190. Non-controlling interests (+/-)	1,894		1,894
200. Profit (loss) for the year (+/-)	20,880		20,880
Total liabilities and shareholders' equity	**183,685,182**	**-**	**183,685,182**

Reconciliation between the reclassified consolidated balance sheet as at 31 December 2020 and the same restated for comparative purposes

(thousands of euro)	31/12/2020	Reclassifications	31/12/2020 restated
Cash and cash equivalents	8,858,079	552,608	9,410,687
Loans at AC	120,455,666	(552,608)	119,903,058
- Loans to banks	11,120,681	(552,608)	10,568,073
- Loans to customers	109,334,985		109,334,985
Other financial assets and hedging derivatives	41,175,632	-	41,175,632
- At FV through Profit and Loss	9,118,571		9,118,571
- At FV through OCI	10,710,796		10,710,796
- At AC	21,346,265		21,346,265
Interests in associates and joint ventures	1,664,772		1,664,772
Property, plant and equipment	3,552,482		3,552,482
Intangible assets	1,218,632		1,218,632
Tax assets	4,704,196		4,704,196
Non-current assets and disposal groups held for sale	72,823		72,823
Other assets	1,982,900		1,982,900
Total assets	**183,685,182**	**-**	**183,685,182**
Direct funding	116,936,669	-	116,936,669
- Due to customers	102,162,461		102,162,461
- Securities and financial liabilities designated at FV	14,774,208		14,774,208
Due to banks	33,937,523		33,937,523
Lease payables	760,280		760,280
Other financial liabilities designated at fair value	14,015,427		14,015,427
Liability provisions	1,415,473		1,415,473
Tax liabilities	464,570		464,570
Other liabilities	3,928,139		3,928,139
Total liabilities	**171,458,081**	**-**	**171,458,081**
Non-controlling interests	1,894		1,894
Group shareholders' equity	12,225,207		12,225,207
Consolidated shareholders' equity	**12,227,101**	**-**	**12,227,101**
Total liabilities and shareholders' equity	**183,685,182**	**-**	**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 of the Council (CRR), integrated with additional specific business activities.
These activities are grouped, based on criteria of prevalence, with the “business segments” which, in brief, refer to the Group's internal management structure and are referred to in the Report on Operations (section “Results by business segment”, as well as in “Part L - Segment Reporting” in the Notes to the Consolidated Annual Report as at 31 December 2021).

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	✔	✔						
	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 and marketing of banking and financial products/services and loan brokering mainly aimed at private customers and small businesses. These activities are for the most part carried out by the Parent Company's Commercial Network;
- **"Corporate"** includes management and marketing of banking and financial products/services and loan

brokering aimed at medium and large-sized companies. These activities are for the most part carried out by the Parent Company's Commercial Network;
- **"Institutional"** includes management and marketing of banking and financial products/services and loan brokering aimed at bodies and institutions (UCITs, SICAVs, insurance companies, pension funds, banking foundations). These activities are for the most part carried out by the Parent Company's Commercial Network;
- **"Private"** includes management and marketing of banking and financial products/services and loan brokering aimed at private customers with assets that, individually and/or within their business, amount to at least 1 million. These activities are carried out by Banca Aletti;
- **"Investment banking"** includes the structuring of financial products, access to regulated markets, support and development of specialised financial services. These activities are carried out by Banca Akros, and to a lesser extent, by Oaklins Italy, a subsidiary of Banca Akros;
- "**Strategic partnerships**" includes shareholdings in certain companies (Vera Assicurazioni, Vera Vita, Bipiemme Vita, Agos Ducato, Alba Leasing, SelmaBipiemme Leasing, Factorit, Gardant 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 2021, 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 3,936.5 million as at 31 December 2021 (3,634.4 million as at 31 December 2020). Please see the Consolidated Income Statement schedule for 2021.

(C) Number of FTE employees

In terms of full-time equivalent employees, the figure as at 31 December 2021 totalled 19,435, including Co.Co.Pro. (temporary contracts) and internship contracts (20,616 as at 31 December 2020).

(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 +653.7 million (-249.3 million as at 31 December 2020). Please see the Consolidated Income Statement schedule for 2021.

(E) Taxes on profit or loss

The tax on the Group's profit for 2021 corresponds to the amount shown in item 300 of the consolidated income statement, which is a negative figure of -84.9 million (+265.9 million as at 31 December 2020). Please see the Consolidated Income Statement schedule for 2021.

(F) Public grants received

During 2021, Banco BPM Group received public grants to provide personnel training courses totalling 4.8 million (73 thousand euro as at 31 December 2020).

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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