BANCO BPM GROUP

Consolidated interim financial report

as at 30 June 2022

Consolidated interim financial report as at 30 June 2022

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

Banco BPM S.p.A.

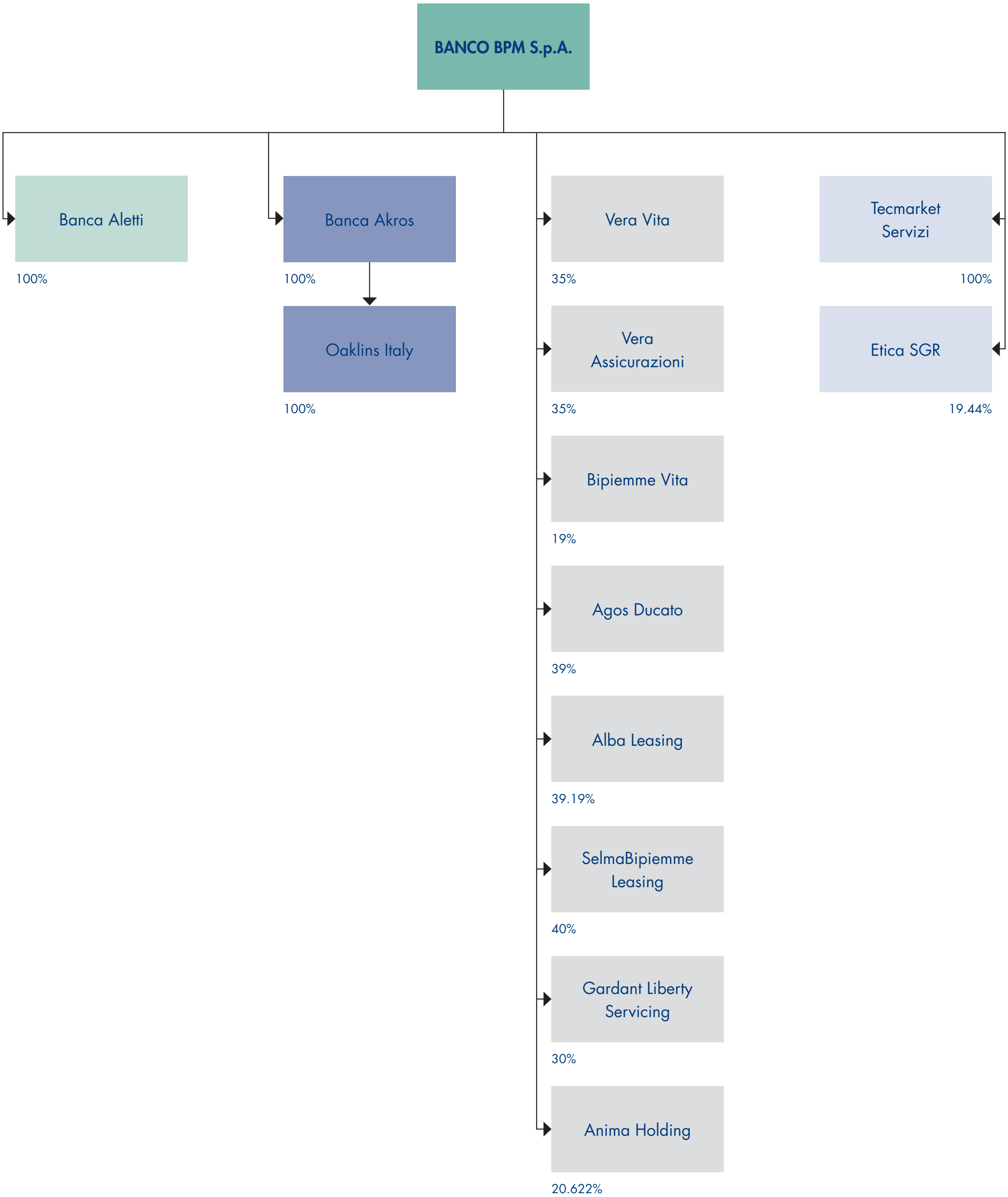
Registered office: Piazza F. Meda, 4 - 20121 Milan, Italy
Administrative headquarters: Piazza Nogara, 2 - 37121 Verona, Italy
Fully paid up share capital as at 30 June 2022: € 7,100,000,000.00
Tax Code and Milan Companies' Register Enrolment No.: 09722490969
A company representing Banco BPM VAT Group, VAT no. 10537050964
Member of the Interbank Deposit Guarantee Fund and the National Guarantee Fund
Parent Company of Banco BPM Banking Group
Enrolled in the Bank of Italy Register of Banks and the Register of Banking Groups

OFFICERS, DIRECTORS AND INDEPENDENT AUDITORS AS AT 30 JUNE 2022

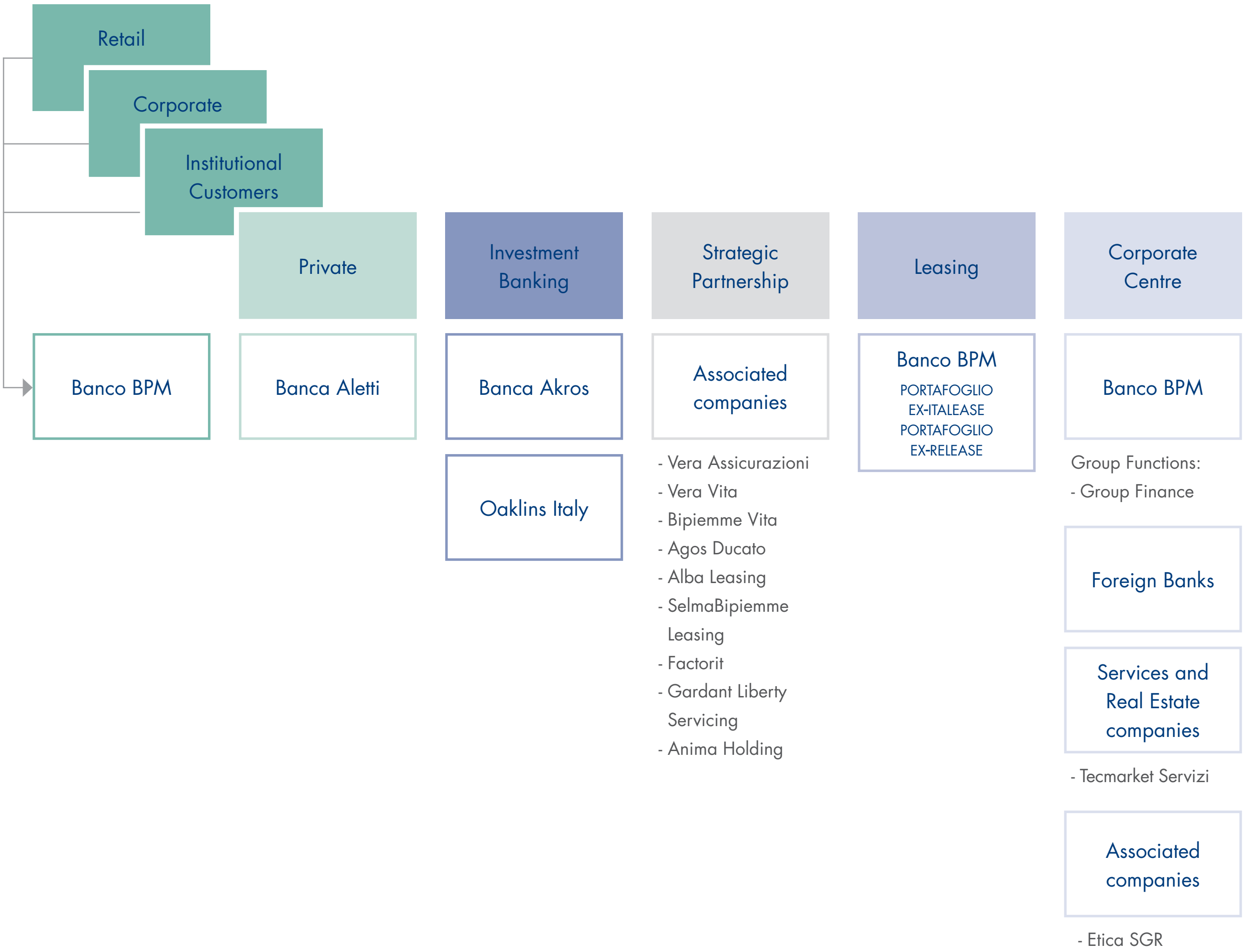
	Board of Directors
Chairman	Massimo Tononi
Deputy Chairman	Mauro Paoloni
Chief Executive Officer	Giuseppe Castagna
Directors	Mario Anolli
	Maurizio Comoli
	Nadine Farida Faruque
	Carlo Frascarolo
	Alberto Manenti
	Marina Mantelli
	Giulio Pedrollo
	Eugenio Rossetti
	Manuela Soffientini
	Luigia Tauro
	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
Co-General Manager	Domenico De Angelis
Co-General Manager	Salvatore Poloni
	Manager responsible for preparing the Company's financial reports
	Gianpietro Val
	Independent Auditors
	PricewaterhouseCoopers S.p.A.

CONTENTS

GROUP STRUCTURE: MAIN COMPANIES



GROUP STRUCTURE: BUSINESS LINES



GROUP TERRITORIAL NETWORK

N° BRANCHES

NORTH	1,152
CENTRE	218
SOUTH AND ISLANDS	135
TOTAL	1,505

Banco BPM Group Branches in Italy	Number
Banco BPM	1,452
Banca Aletti	52
Banca Akros	1
Total	**1,505**

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 tables below provide the income statement and balance sheet highlights of the Group, calculated based on the reclassified financial statements. The underlying calculations for these are illustrated in the "Results" section of this Report. Some economic and equity ratios are also provided, based on accounting data, corresponding to those used by the Company Management to analyse performance and consistent with the most widespread practices in the banking sector.
The alternative performance measures (APM) provided in this report were identified by the 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.[1]

In this regard, it should also be noted that for each APM, evidence of the calculation methodology has been provided and the figures used can be inferred, when not specified otherwise, from the information contained in the following tables and/or in the reclassified financial statements provided in the "Results" section of this Report, where the reclassification rules adopted, which have not changed since last year, are also described.

(millions of euro)	**I half 2022**	**I half 2021**	**% Change**
Income statement figures			
Financial margin	1,130.2	1,117.3	1.2%
Net fee and commission income	966.9	950.1	1.8%
Operating income	2,305.6	2,323.5	(0.8%)
Operating expenses	(1,256.7)	(1,275.5)	(1.5%)
Profit (loss) from operations	1,048.9	1,048.0	0.1%
Profit (loss) before tax from continuing operations	687.6	525.8	30.8%
Profit (loss) after tax from continuing operations	456.5	392.5	16.3%
Parent Company's profit (loss) for the period	383.9	361.3	6.3%

(millions of euro)	**30/06/2022**	**31/12/2021**	**% Change**
Balance sheet figures			
Total assets	208,662.0	200,489.2	4.1%
Loans to customers (net)	110,808.4	109,383.4	1.3%
Financial assets and hedging derivatives	40,963.6	36,326.4	12.8%
Group shareholders' equity	12,808.3	13,095.0	(2.2%)
Customers' financial assets			
Direct funding	123,906.7	120,213.0	3.1%
Direct funding without repurchase agreements with certificates	*126,358.3*	*123,168.0*	*2.6%*
Indirect funding	93,577.0	102,187.9	(8.4%)
Indirect funding without protected capital certificates	*90,535.8*	*99,067.3*	*(8.6%)*
- Asset management	59,865.5	65,347.9	(8.4%)
- Mutual funds and SICAVs	40,480.9	45,762.8	(11.5%)
- Securities and fund management	3,725.6	4,135.1	(9.9%)
- Insurance policies	15,659.0	15,449.9	1.4%
- Administered assets	33,711.5	36,840.1	(8.5%)
- Administered assets without protected capital certificates	*30,670.3*	*33,719.4*	*(9.0%)*

[1] Please note that, 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.

	30/06/2022	31/12/2021	Abs. Change
Information on the organisation			
Average number of employees and other staff (*)	19,332	19,949	(617)
Number of bank branches	1,505	1,508	(3)

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

Financial and economic ratios and other Group figures

	30/06/2022	31/12/2021
Profitability ratios (%)		
Financial margin / Operating income	49.02%	50.40%
Net fee and commission income / Operating income	41.94%	42.37%
Operating expenses / Operating income	54.51%	55.77%
Operational productivity figures (thousands of euro)		
Loans to customers (net) per employee (4)	5,731.8	5,483.1
Annualised operating income per employee (euro) (1) (**)	238.5	226.1
Annualised operating expenses per employee (euro) (1) (**)	130.0	126.1
Credit risk ratios (%)		
Net bad loans / Loans to customers (net)	0.69%	0.83%
Net unlikely to pay / Loans to customers (net)	1.84%	2.11%
Net bad loans / Shareholders' equity	6.00%	6.92%
Texas ratio (2)	24.40%	27.16%
Other ratios		
Financial assets and hedging derivatives / Total assets	19.63%	18.12%
Total derivatives / Total assets	2.20%	1.06%
- trading derivatives / total assets	1.72%	1.00%
- hedging derivatives / total assets	0.48%	0.06%
Net trading derivatives (3) / Total assets	(0.01%)	(0.02%)
Loan to deposit ratio (net loans/direct funding)	89.43%	90.99%
Regulatory capitalisation and liquidity ratios		
Common equity tier 1 ratio (CET1 capital ratio) (4)	14.03%	14.68%
Tier 1 capital ratio (4)	16.23%	16.52%
Total capital ratio (4)	19.82%	19.59%
Liquidity Coverage Ratio (LCR)	208%	209%
Leverage ratio	4.70%	5.92%
Banco BPM stock		
Number of outstanding shares	1,515,182,126	1,515,182,126
Official closing prices of the stock		
- Final	2.716	2.640
- Maximum	3.630	3.040
- Minimum	2.317	1.781
- Average	2.920	2.542

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

(1) 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.

(2) Calculated as the ratio between the net value of non-performing loans and the tangible shareholders' equity of the Group, determined by excluding intangible assets from the book value of shareholders' equity, net of the related tax charge.

(3) 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".

(4) The capital ratios as at 30 June 2022 were calculated by including the interim profit at the end of the first half of 2022 net of the portion that is expected to be distributed as a dividend based on the specific applicable legislation. It should be noted that the transitional provisions established by articles 473 bis and 468 of EU Regulation no. 575/2013 (CRR) have been applied.

Interim report on operations

ECONOMIC SCENARIO

The international scenario

In the first half of the year, the Russia-Ukraine conflict disrupted the economic recovery that was uplifting the world emerging from the pandemic. The hostilities required significant humanitarian intervention and triggered an energy crisis in Europe, also contributing, to an appreciable extent, to an increase in the international prices of food and raw materials. This has therefore exacerbated those inflationary pressures already accentuated by the negative impact of the pandemic on global supply chains. The main forecasting institutes therefore revised their growth estimates for 2022: the OECD has corrected the global growth estimates for 2022 to +3.0% (from the previous +4.5%), and to levels below 3% for advanced economies. Previously, the International Monetary Fund had already raised inflation rates: +5.7% (from +3.9%) for advanced economies, driven primarily by sharp increases in energy and food prices. International trade, on the other hand, is expected to grow by 11.2% (Source: OECD). The revised estimates primarily hit developing countries that import raw materials, which are more fragile in the face of rising energy and food prices. A certain unevenness continues to persist among advanced economies as well.

Specifically, in the first quarter the US economy showed some underlying weakness: -1.6% annualised quarterly GDP (+6.9% in Q4 2021), mainly reflecting the highly negative contribution of net foreign demand, which subtracted 3.3 p.p. (in annualised terms) from the GDP trend. Personal consumption (PCE) grew, but slowed compared to previous periods (+1.8% vs +2.5% in the previous quarter). Investments in private stocks decreased slightly, with a negative contribution to GDP of 0.4%. Fixed investments recorded a significant increase overall (+7.4%), but with an uneven trend among the components: non-residential investments grew brilliantly (+10.0%), while residential investments almost stagnated (+0.4%). The 4.8% increase in personal incomes was partially offset by the decline in social benefits for families, with the expiration or tapering of several federal programs.

According to the preliminary estimate recently released by the US Bureau of Economic Analysis, the second quarter confirmed the above-mentioned underlying weakness: in the period in question, GDP decreased at an annual rate of -0.9% in real terms. The decline reflects the negative contribution (-2.0%) of investments in private stocks, residential fixed investments (-0.7%), federal government spending (-0.2%), state and local government spending (-0.13%) and non-residential fixed investments (-0.1%), which were partially offset by the increase in exports (+1.9%) and personal consumption expenses (PCE): +0.7%. Imports, which are subtracted in the calculation of GDP, made a negative contribution of -0.5%. In light of persistent inflation and the Federal Reserve's more aggressive stance, real GDP growth in 2022 is expected to be below 1.7% yoy. In the labour market, total non-farm employment increased by 372,000 in June 2022, and the unemployment rate remained unchanged at 3.6%. Consumer prices in May rose by 8.6% yoy (+1.0% qoq), confirming the ongoing vigorous inflationary trend. The largest contribution came from items relating to housing (rent), gasoline and food.

The Japanese economy, which has not yet returned to pre-pandemic levels, contracted less than initially expected (-1.0%) in the first quarter of 2022: -0.5% annualised between January and March (-0.1% on quarterly basis), thanks to the resilience of private consumption during the pandemic resurgence. This consumption increased by 0.1% qoq, but more in the price component than in volume. With regard to the second quarter, persistent supply chain disruptions weighed down on both growth and exports. Industrial production fell -7.2% in May, especially for vehicles (third consecutive month of decline), as production blocks in China halted supplies of auto parts to car manufacturers. To cushion the impact of inflation on consumers, the Kishida government approved a 2.7 trillion yen ($21 billion) fiscal spending program, including gasoline subsidies and cash distributions to low-income households, while the Bank of Japan kept the cost of lending to businesses and households at a minimum. The first available estimates indicate GDP growth of +1.3% from April to June, after the lifting of Covid-19 restrictions on 21 March. However, outlooks for the whole of 2022 are uncertain due to global inflation, the Russia-Ukraine war and Chinese port blocks linked to the resurgence of Covid-19. Because of commodity prices, in April consumer price inflation exceeded the BOJ target for the first time in 7 years: in May, consumer prices increased by 2.4% (+2.4% in April as well), the core component (excluding fresh food) by 0.8% and the non-core component (excluding food and energy) by 0.2%.

China's economic growth in the half-year period hit a two-year low. GDP in the first quarter grew faster than expected, despite the impact of the blocks caused by Covid-19 in some parts of the country: +4.8% yoy, thanks to the contribution of investments in fixed assets, +9.3% yoy. Specifically, investments in the manufacturing sector increased by +15.6% yoy and those in infrastructure by +8.5%. However, the slowdown came in the second quarter: yoy GDP growth was just +0.4%. The blocks on economic activity caused by Covid and the collapsing real estate market pushed the government's annual target (around +5.5%) further out of reach. Overall, GDP growth in

the first half was only 2.5%, by far China's weakest GDP growth in the modern era. Unemployment in China's 31 largest cities fell from pre-pandemic highs to 5.8% in June, but that for the 16-24 age category increased further to 19.3%. Consumer prices rose 2.5% yoy in June, stable compared to May, thanks to the effective control of Covid-19 and a sufficient supply of consumer goods. Food prices even fell 1.6% on a monthly basis, widening the 1.3% decline recorded in May. However, the price of pork, a staple food in China, increased by 2.9% in June compared to the previous month. Producer prices, on the other hand, rose by 6.1% yoy, also in June.
Amongst the newly industrialised and emerging economies, progress was generally recorded for commodity producing countries, while commodity importing countries suffered most. Focusing on the main ones, in Brazil expanded access to Covid-19 vaccines and government aid to the poorest segments of the population supported demand. Economic growth (GDP) reached +1.7% yoy (+1.0% qoq) in the first quarter, which was higher than expected albeit limited by inflation and high interest rates. Inflation rose to 12.1% in April, a 26-year high. With respect to the rest of the year, the two above-mentioned factors are weakening growth, forecast at 2% for 2022, while the measures approved in Congress to reduce taxes on key goods, such as fuel and energy, should control inflation estimated at 7.2%. The Indian economy is estimated to grow by 14-15% in the first quarter of 2022, while 2022 GDP growth of 7.1-7.6% is expected, also thanks to its role as a neutral transit country for Russian goods sanctioned by the West. In the first quarter the Russian economy slowed its growth to +3.5% yoy (from 5.5% in the fourth quarter of 2021). The slowdown came from the industrial sectors (production -3.0% in March) while mining activity remained lively (+7.8% in March). In 2022, however, the contraction of the Russian economy could be much less severe than the current forecast (-7.8%): the decline is now expected in the range from -4% to -6%, according to the Central Bank of Russia, thanks to the resilience of domestic demand. After peaking at 17.8% in April, inflation fell to 15.9% in June. The rapid action of the Central Bank of Russia, which "doubled" the reference rates to 20% on 28 February, appears to have quickly quashed inflationary pressures linked to the war and the depreciation of the rouble following the invasion.

The economy in Europe and Italy

The Eurozone economy, heavily dependent on Russian gas supplies, suffered heavily during the first half of the year from the shock deriving from the Russia-Ukraine conflict. After the sharp economic slowdown in the fourth quarter of 2021 following the emergence of the Omicron variant of the virus, the lower number of hospitalisations, the easing of restrictive measures and the progressive adaptation to them by the population, gave us hope for a new phase of coexistence with the virus and, therefore, a progressive phasing out of risks for the economy. The eruption of the conflict in Ukraine, however, abruptly dashed hopes of a return to normal. Before the war began, Europe was already facing severe supply chain disruptions, many linked to the pandemic, as shortages of raw materials, slow delivery times and growing labour shortages limited production. The outbreak of the conflict in February, and the subsequent adoption of the initial sanctions on foreign trade with Russia, led to a new series of supply chain bottlenecks (especially as regards energy) and a rapid deterioration of economic outlooks, with heavy repercussions on the prices of global commodities, which rose to their highest levels in a decade, and with high volatility. Despite these new difficulties and the acceleration of inflation, Euro Area first quarter GDP increased by 0.6% compared to the previous quarter (+0.3% in the fourth quarter of 2021) and by +5.4% compared to the same period in 2021. However, this figure reflects, to a considerable extent, the consistent performance of Ireland (+10% qoq), which contributed 40 bps to area growth. In any event, all of the main economies showed modest progress, except for France, where there was a decline (-0.2% on the previous quarter). The weakest component turned out to be household spending, which decreased by 0.7% qoq, although it remained on the rise in comparison with the same period of the previous year (+7.5%). Consumption was affected by the context of uncertainty linked to the conflict, but also by the restrictions that remained in force in some countries in the initial months of the year. Furthermore, the initial effects of the reduction in real wages deriving from the increase in consumer prices also had a negative impact. Fixed investments stagnated (+0.1%) during the quarter, with those in capital goods down and those in construction on the rise. The major boost to growth came from net foreign demand (0.4 p.p.) and inventory build-up (0.6 p.p.). Imports decreased (-0.6%) and exports increased (+0.45 p.p.), with the services component growing and the goods component down.
The unemployment rate hit an all-time low of 6.6% in May (less than 11 million unemployed) and the number of people employed in the first quarter of 2022 was well above pre-pandemic levels. However, the climate of confidence of households and businesses deteriorated in the spring months, reflecting the continuation of the conflict in Ukraine and the persistence of very high inflation. The inflation rate in particular continued to grow throughout the period and reached 8.6% yoy in June from +5.0% at the beginning of the year (+1.9% in June 2021), and producer prices rose by 36.3% in May compared to the same period of the previous year, setting new records since the

creation of the euro in 1999. It is not just the higher energy costs: core inflation (inflation excluding energy and food) in June was +3.7%, compared to an annual average of 1.1% over the last decade. Wage dynamics remain much more moderate, with negative effects on disposable income in real terms.
In the second quarter, the expansion of EU sanctions against Russia further exacerbated supply constraints and negatively impacted energy prices. The blockade of Chinese ports, triggered by new Covid-19 lockdowns, exacerbated the shortage of production inputs. The weakening of the euro against the dollar has also increased inflationary pressures, making imports more expensive, especially those of fossil fuels that are priced in US dollars. However, the most recent economic indicators suggest that the phase of moderate expansion may continue in the second quarter, albeit with difficulty, thanks above all to exports, favoured by the weaker euro.
Preliminary estimates indicate GDP growth of 0.7% for the second quarter, while prospects for the second half of the year are negative, given the absence of signs of price moderation and the growing risk of Russian energy supply quotas in the autumn.

The economic trend in Italy in the first half of the year was naturally affected by the difficult context mentioned above. The acquired GDP growth in the first quarter of 2022 is equal to 2.6%. The aggregate grew by 0.1% compared to the previous quarter and by 6.2% yoy, catching up with the values posted in the final quarter of 2019. This albeit modest increase has surprised more than one forecaster. Indeed, the year began with a sharp decline in industrial production, followed by a significant deterioration in consumer confidence at the start of military operations in Ukraine, resulting in the assumption that there would be a quarterly decline in GDP. Preliminary Istat estimates confirmed this expectation. However, excellent investment trends have proven the forecasts wrong. Household consumption expenditure, in fact, decreased by 0.8% on a quarterly basis, while remaining up by 7.1% on an annual basis, held back by the climate of uncertainty and the effects of rising energy prices. Purchases of goods remained in line with pre-pandemic levels, but spending on services is still more than 9 p.p. lower. Investments, on the other hand, were not only growing briskly (+3.9% qoq), but also accelerating compared to the previous period (+3.1%), thus providing a contribution to GDP growth of 0.8 p.p. The component of capital investments increased by 4.3% during the quarter (+11.4% on an annual basis), despite the decline in PMIs, on the back of still robust order books accumulated in the previous months. The construction sector continued to expand at a very significant pace (+5.5% on the previous quarter and +18.0% on an annual basis), still driven by state incentives. The liveliness of this investment sector has also helped to support the activity of the supply chains linked to construction. Exports grew during the period and accelerated significantly (+3.5% qoq, +0.20% in the fourth quarter of 2021). Imports, however, were even more dynamic, increasing by 4.3% over the previous quarter. By virtue of these trends, the contribution of foreign demand was negative by 0.2 p.p.
The labour market showed further signs of improvement in the initial months of the year. The total number of employees increased in May by 0.5% compared to the end of 2021 and the unemployment rate fell from 8.8% to 8.1%. Hours worked recorded a strong increase. The growth in contractual wages, on the other hand, was moderate (+0.7% in the first four months of the year over the corresponding period) and well below price trends. Inflation, measured in harmonised terms, reached 8.0% in June, a level not observed for over 35 years. Excluding the prices of energy (+48% on an annual basis in June) and food, the price trend is more limited, although it continues to accelerate (+3.8%). Given the even more significant increase in producer prices, there is concern that the current trend in consumer prices is not destined to shrink so quickly, casting shadows on the outlook for consumption, particularly for the autumn months.
In the second quarter, household consumption is expected to have increased moderately, thanks in particular to the rise in spending on tourism and recreational services. The almost complete lifting of the restrictions linked to the Covid-19 emergency from the spring months onwards and favourable weather conditions likely drove this expenditure component, as shown by many indicators of various kinds. Investment activity, on the other hand, is said to be slowing down, albeit remaining at significant growth rates, by virtue of the continuing climate of uncertainty due to the consequences of the conflict in Ukraine, particularly on energy supplies. The propensity to save remained high.

In the second quarter, the preliminary ISTAT estimate points to relatively brilliant GDP growth of +1.0% compared to the previous quarter (+4.6% yoy). The estimated figure would correspond, at the end of the second quarter, to an acquired change in 2022 GDP of 3.4%. Over the year as a whole, the increase in GDP could therefore be in the order of 3.5%. Indeed, the economy is expected to stagnate substantially in the second half of the year. Inflationary tensions and concerns about the availability of energy supplies from Russia, however, are requiring the adoption of a certain degree of caution.
With regard to public accounts, the first half of the year largely confirmed the improvement trend under way since 2021. The state sector borrowing requirement in the first half of the year amounted to 41.7 billion, just under half of

the deficit of the same period last year, despite the launch by the Governments of substantial measures to counter the effects of the increase in energy prices, which lead to an increase in net debt of 10.5 billion. This result was achieved partly thanks to the second instalment of the subsidies received in April by our country under the Next Generation EU programme. A large part of the contribution also derives from a particularly significant increase in tax revenues and contributions in the early months of the year, as well as the reduction of government initiatives to deal with the Covid-19 emergency. First quarter data also indicate an improvement in the net debt of Public Administrations in relation to GDP, equal to -9.0%, from -12.8% in the same quarter of 2021. The debt/GDP ratio, on the other hand, worsened in the first three months of the year, going from 150.8% at the end of 2021 to 152.6%.

Monetary policy and the financial markets

In the face of the inflationary flare-up that hit Western economies, central banks responded with increasingly restrictive messages in their “forward guidance” and, especially in the United States, with measures to raise the cost of money and reduce their assets.
The Federal Reserve has in fact accelerated its monetary policy normalisation process. The reference interest rate has been hiked three consecutive times since March, bringing the target range from 0.00%-0.25% at the beginning of the year to 1.50%-1.75% at the end of the first half. In parallel, the Fed announced a plan to reduce its balance sheet starting in June, by stopping the reinvestment of maturing securities for a maximum of 47.5 billion per month until September, when the amount will increase to 95 billion.
At its June meeting, the Governing Council of the ECB announced its intention to stop net purchases under the Asset Purchase Programme (APP) starting in July and a rise in official rates that materialised with an increase in reference rates by 50 bps at the July meeting. According to announcements, a second hike will be added as early as September. Furthermore, following the increase in the spreads of several sovereign bonds, including in particular that between the BTP and the Bund, the ECB reiterated its intention of countering the risks for the functioning of the monetary transmission mechanism. To achieve this, it decided to flexibly reinvest - between asset classes, between countries and over time - maturing bonds in the Emergency Pandemic Programme (PEPP) and announced a new tool to combat market fragmentation, which was later illustrated at the July meeting.
Financial market performance was very heavily impacted by all of the negative factors mentioned above, from the rise in interest rates to the explosion of inflation. The performance of almost all the main equities and bonds in the first half of the year was negative, within a context of high volatility. In the United States, the S&P 500 stock index recorded the worst performance in the first half of the year since 1970, with a decline of 20.6%, while the Nasdaq composite fell by almost 30%. European equity markets were no exception; the Italian market, in particular, saw the Ftse Mib index drop by 22.1%. At sector level, the greatest declines affected “growth” stocks and in particular those in the technology sector which had benefited from exceptional gains between 2020 and the first half of 2021. The “value” sectors held up better and some, particularly in the United States the oil and energy sector, ended the period with rising valuations. The banking sector was one of the most penalised both in the US and in Europe; in Italy, the sector index fell during the period by 24.6%.
The general rise in rates following the measures taken by central banks to combat inflation caused an equally significant upheaval on the bond markets as well. The rise in yields was generalised across all of the main sectors and led to a very considerable drop in prices.
The yield of the 10-year t-bond basically doubled, going from 1.51% at the end of 2021 to 3.06% at the end of the half-year, after reaching even higher values. A similar movement has also been seen in the Eurozone, albeit starting from a different initial situation. The yield of the ten-year German Bund increased in the same period from a negative value of 0.18% to a positive value of 1.37%, while that of the 10-year BTP increased from 1.17% to 3.26%, with a peak of more than 4%. The BTP-Bund spread rose from 134 bps at the beginning of the year to 193 bps at the end of June, peaking above 240 bps just before the ECB’s announcement of the new anti-fragmentation tool.
Corporate bonds and in particular high yield bonds, of course, also experienced a significant widening of spreads with respect to risk-free assets.

Domestic banking activity

Despite the climate of uncertainty deriving from the economic situation outlined in the previous paragraphs, lending to businesses and households continued to grow in the first half of 2022 as well. Indeed, the analysis of the dynamics of bank loans published in June 2022 by the ABI shows a year-on-year increase in loans to residents in

Italy (thus also including Public Administrations) of +2.1%; the households and financial companies sector (calculated by including securitised loans and corrected for changes due to exchange rate fluctuations, value adjustments and reclassifications) contributes the most significant portion, with a volume of 1,349 billion (+3.3% compared to June 2021).

The dynamics of total direct funding (deposits from resident customers and bonds), which in terms of volumes in June 2022 was up by 2.4% on an annual basis, owes its positive thrust to the deposits component which grew by 3.3% on an annual basis, with volumes that settled at 1,840.7 billion; the change in bonds (excluding bonds issued by banks) was instead in the other direction, marking -5.2% (with volumes equal to 199.5 billion in June 2022).

In terms of the remuneration of deposits, the interest rate paid to customers in June 2022 came to an average of 0.44%. Taking into account that the level of interest rates on loan transactions remains at an average of 2.18%, the result is a gap between the average rate on loans and the average rate on deposits of 174 basis points, which remains unchanged compared to June 2021.

In June 2022, the mark-up (calculated as the difference between the average interest rate on loans and the 3-month Euribor rate) stood at 242 bps, down compared to the previous year (274 bps in June 2021), while the mark-down (calculated as the difference between the 3-month Euribor rate and the interest rate on total funding) increased by 32 bps, from -100 bps in June 2021 to -68 bps in June 2022.

In terms of credit quality, the gradual lifting in 2022 of support measures for households and businesses and the start of payments for loans that had benefited from the public guarantee and the pre-amortisation scheme should lead to an increase in non-performing loans, which however will continue to be offset by market disposals and the careful management of positions in the initial non-performing stages. In May 2022, bad loans were still down in relation to the May figures of the previous year (-1.7 billion), equal to -9.4%; the ratio between net bad loans and total loans moved in the same direction, reaching 0.93% (against 1.04% in May 2021). The NPL ratio of the banking sector up to the first half of 2022 therefore confirmed the downward trend, although a reversal of the trend is expected in the second half of the year.

In May 2022, the assets of Italian and foreign open-end funds remained substantially stable compared to the previous year (-0.1%), amounting to 1,189 billion, with a strong imbalance towards foreign funds, which account for 79.7% of the total, compared to those governed by Italian law which amount to 20.3% of managed assets.

With regard to the composition of assets by fund type, in the last year the share of equity funds recorded a jump of 2 percentage points (having risen from 27.8% to 29.8%), that of balanced funds of one percentage point (from 12.4% to 13.6%), to the detriment of the bond funds component (which instead fell from 36.3% to 33.4%), and flexible ones (down from 19.9% to 19.3%). The share of hedge funds remained unchanged at 0.2%.

SIGNIFICANT EVENTS DURING THE PERIOD

In the first half of 2022, the fragile recovery from the international emergency due to the Coronavirus epidemic was strongly impacted by the conflict in Ukraine which, since the end of February, has generated harsh repercussions on the international economic system and on companies' operations.

In this context, which continues to be characterised by strong elements of uncertainty on the global and Italian economy, the Group's operations focused on the areas of intervention described below.

Derisking activities

In the first half of the year, the Group continued the derisking process through the implementation of a significant transaction for the large-scale disposal of non-performing positions ("Argo Transaction"), concerning a bad and unlikely to pay loan portfolio for a total gross exposure of approximately 700 million. The operation, approved in April, was finalised in the form of a securitisation, in which 95% of the Junior and Mezzanine Notes issued by the special purpose entity were subscribed by subsidiaries of Elliott funds.

In addition, as part of the change in the NPL management strategy approved by the Board of Directors in July, it was decided to identify a new potential portfolio to be sold, with an increase in the sale target over the term of the plan to over 500 million, with a clear benefit in terms of reducing the stock of gross non-performing loans and improving credit quality indicators.

The impact deriving from the increase in the sale targets of non-performing loans following the change in the NPL management strategy, for a total of 112.7 million was recognised in the income statement in the first half of the year.

Other events in the period

Important funding operations completed

During the first half, the Group carried out important capital management operations: in January 2022, an issue of Subordinated Tier 2 instruments was launched for an amount of 400 million, with 10-year maturity, targeted to institutional investors, which is part of the Group's Euro Medium Term Notes Programme.
The security pays a fixed coupon of 3.375% for the first 5 years; the investors who participated in the transaction are mainly asset managers and banks, mostly foreign.

In addition, the Group's first issue of Green Covered Bonds was carried out, targeted to institutional investors, for an amount of 750 million and 5-year maturity.
The bond, issued under the Green, Social and Sustainability Bond Framework as part of the Covered Bond programme, aims to refinance a selected portfolio of green residential mortgages disbursed to private customers for the purchase of highly energy efficient homes.
The stock, listed on the Luxembourg Stock Exchange, has a yield equal to the reference mid-swap rate +23 basis points, a fixed-rate coupon of 0.75% and maturity on 15 March 2027.

Lastly, in April, the issue of a perpetual Additional Tier 1 instrument was concluded for an amount of 300 million, reserved to institutional investors, which makes it possible to achieve the Group's Additional Tier 1 capital target, further strengthening its equity position.
The securities, issued at par, may be called by the issuer from 12 April 2027 and subsequently every 6 months; the fixed six-monthly coupon, non-cumulative, was set at 7% and the payment of the same is fully discretionary and subject to certain limitations.
The investors that participated in the transaction are fund managers, banks and insurance companies, mostly foreign.

Streamlining of the Group's corporate and organisational structure

The process of rationalising the portfolio of investments undertaken by the Group in the last few years includes the assignment to Banca Popolare di Sondrio S.p.A., on 15 March, of the interest held in Factorit S.p.A., previously measured with the equity method, equal to 39.5% of share capital. The transaction, completed for a consideration of 75 million, an amount corresponding to the book value of the investment in the financial statements as at 31 December 2021, did not entail the recognition of any impact on the income statement for the first half of 2022.

Moreover, during the half-year the mergers by incorporation into the Parent Company of Bipielle Real Estate S.p.A. and Release S.p.A. (already wholly-owned by Banco BPM) were finalised. In particular, as of 1 January 2022, the incorporation of Bipielle Real Estate into the Parent Company took effect, while the merger by incorporation of Release into Banco BPM S.p.A. became effective as of 21 February 2022. These operations took effect for accounting and tax purposes on 1 January 2022.
These transactions, which were carried out according to the simplified forms established for wholly-owned companies, pursue the objective of concentrating the management of leasing activity as well as real estate assets directly in the Parent Company, which also includes the complex of organisational structures responsible for asset management.

Finally, it should be noted that, in February, the liquidation procedure of the subsidiary BP Trading Immobiliare S.r.l. was completed after it was struck off from the competent Companies' Register.

Call option exercised on 81% of the share capital of Bipiemme Vita

Moreover, on 12 April, the Board of Directors of Banco BPM resolved to exercise the option for the purchase from the partner Covéa Coopération SA of 81% of the share capital of Bipiemme Vita S.p.A., an insurance company operating in the life sector, in which Banco BPM already holds a 19% interest. In turn, Bipiemme Vita holds the entire share capital of Bipiemme Assicurazioni S.p.A., operating in the non-life sector.

The current operational and organisational structure of Bipiemme Vita and Bipiemme Assicurazioni, operating independently of the current parent company, will enable the Banco BPM Group to develop the insurance business "in-house".

As specified in the section dedicated to events after the end of the half-year in the Explanatory notes, after obtaining the legal authorisations from the competent authorities, on 22 July 2022 Banco BPM completed its acquisition from Covéa Coopérations SA of 81% of the share capital of Bipiemme Vita S.p.A., for a sum of 309.4 million.

The transaction makes it possible to integrate the insurance business into the Banco BPM Group in advance of the date of 31 December 2023 set forth in the Strategic Plan.

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

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.

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), keeping the Pillar 2 Requirement unchanged at 2.25%. As a result of that decision, the minimum requirements that Banco BPM is required to meet for 2022, both at the phased-in and fully-phased levels, are as follows:

- 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 30 June 2022 far exceeds said prudential requirements, both with reference to the effective ratios calculated in accordance with the phased-in criteria in force for 2022, and considering the capital ratios calculated on the basis of the criteria in place when fully-phased.

Climate Risk Stress Test 2022

During the first half of 2022, the Group was engaged in carrying out the Climate Risk Stress Test 2022, performed by the ECB on the entire European banking sector. This test, the first on climate issues, represents a "learning exercise" for both banks and the Regulator, and aims to collect qualitative and quantitative information from banks, to assess the sector's degree of preparation in the management of climate risk and gather best practices to address it. The aggregated results for the year were published by the ECB on 8 July 2022.
Please refer to part E of the Explanatory Notes of this Interim Financial Report for more details on the methods for managing and mitigating climate and environmental risks.

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

During the first half of 2022, new claims were limited both in number and in total additional relief (equal to approximately 2.2 million). As at 30 June 2022, due to settlements reached by negotiation or final rulings, claims and disputes for total relief figure of roughly 627 million were settled against claims that on the same date amounted to a total of around 717 million.

For information, reference should be made to section "Liability provisions – Items 90 and 100" contained in "Part B – Information on the consolidated balance sheet" of these Explanatory Notes.

Inspections and proceedings of the Supervisory Authorities

During its standard business activities, the Group is subject to inspections conducted by the Supervisory Authorities. More specifically, as regards the Single Supervisory Mechanism, the Group is subject to the prudential supervision of the European Central Bank (ECB); with regard to specific matters, supervision is the direct responsibility of the Bank of Italy and CONSOB.
Supervisory activities entail making ordinary and recurring inspections at the offices of the Parent Company ("on/off-site inspection"), accompanied by "remote" inspections, conducted through structured and continuous exchanges of information, as opposed to specific requests for documentation and in-depth examination of particular areas.
In 2020, 2021 and 2022, the Group received numerous inspections, which regarded the following areas: 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, 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 as well as the information acquired during the entire process were duly considered within 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.

Inspections by the ECB

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 off-site inspection phase began on 14 February 2022 and continued in the second quarter of 2022;
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 - 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 letter a);
f) 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;
g) as regards "Credit Risk" (PD; LGD; CCF) with regard to the "Corporate - Other" and "SME" portfolios: the on-site phase started on 17 September 2018 and ended on 16 November 2018. Banco BPM received the Final Decision on 7 October 2020, indicating the binding supervisory measures and recommendations; on 5 November 2020, Banco BPM sent the corrective action plan, which is currently under way; the recommendations, which are currently at an advanced stage of completion, will be closed with the application to amend internal models referred to in letter a);
h) 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 letter e) above.

Inspections by the Bank of Italy

a) on the subject of combating money laundering in the Private Banking sector of Banca Aletti, particularly with reference to the services offered to customers with significant assets. The on-site phase began on 28 February 2022 and ended on 13 April 2022;
b) 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, from 22 November 2021 continued on-site at several Bank branches and was completed on 21 January 2022. On 27 June 2022 Banco BPM received the outcome of the inspection which highlighted anomalies that pertain to issues relevant to customer protection and require corrective actions, some of which involve compensation;
c) 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.

Inspections by CONSOB

a) 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; on 30 March 2022, CONSOB notified the Bank of a monetary administrative fine of 70 thousand euro;
b) 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 actions to the Authority, a significant portion of which has already been implemented.

RESULTS

Reclassified accounting statements

Reclassified consolidated balance sheet

(thousands of euro)	30/06/2022	31/12/2021	Change	
Cash and cash equivalents	33,109,414	29,153,316	3,956,098	13.6%
Loans at AC	120,539,934	121,261,260	(721,326)	(0.6%)
- Loans to banks	9,731,570	11,877,878	(2,146,308)	(18.1%)
- Loans to customers (*)	110,808,364	109,383,382	1,424,982	1.3%
Other financial assets and hedging derivatives	40,963,574	36,326,393	4,637,181	12.8%
- At FV through Profit and Loss	8,485,836	6,464,186	2,021,650	31.3%
- At FV through OCI	10,594,239	10,675,079	(80,840)	(0.8%)
- At AC	21,883,499	19,187,128	2,696,371	14.1%
Interests in associates and joint ventures	1,537,747	1,794,116	(256,369)	(14.3%)
Property, plant and equipment	3,192,497	3,278,245	(85,748)	(2.6%)
Intangible assets	1,202,985	1,213,722	(10,737)	(0.9%)
Tax assets	4,581,900	4,540,229	41,671	0.9%
Non-current assets and disposal groups held for sale	102,802	229,971	(127,169)	(55.3%)
Other asset items	3,431,149	2,691,964	739,185	27.5%
Total assets	**208,662,002**	**200,489,216**	**8,172,786**	**4.1%**
Direct funding	123,906,715	120,213,016	3,693,699	3.1%
- Due to customers	110,705,095	107,120,893	3,584,202	3.3%
- Securities and financial liabilities designated at FV	13,201,620	13,092,123	109,497	0.8%
Due to banks	46,223,641	45,685,032	538,609	1.2%
Lease payables	679,052	673,872	5,180	0.8%
Other financial liabilities designated at fair value	17,248,286	15,755,319	1,492,967	9.5%
Liability provisions	1,021,380	1,196,946	(175,566)	(14.7%)
Tax liabilities	287,370	302,816	(15,446)	(5.1%)
Other liability items	6,485,827	3,566,156	2,919,671	81.9%
Total liabilities	**195,852,271**	**187,393,157**	**8,459,114**	**4.5%**
Non-controlling interests	1,402	1,108	294	26.5%
Group shareholders' equity	12,808,329	13,094,951	(286,622)	(2.2%)
Consolidated shareholders' equity	**12,809,731**	**13,096,059**	**(286,328)**	**(2.2%)**
Total liabilities and shareholders' equity	**208,662,002**	**200,489,216**	**8,172,786**	**4.1%**

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

Reclassified consolidated income statement

(thousands of euro)	I half 2022	I half 2021	Change
Net interest income	1,039,133	1,019,196	2.0%
Gains (losses) on interests in associates and joint ventures carried at equity	91,114	98,079	(7.1%)
Financial margin	**1,130,247**	**1,117,275**	**1.2%**
Net fee and commission income	966,863	950,074	1.8%
Other net operating income	31,693	39,918	(20.6%)
Net financial result	176,796	216,260	(18.2%)
Other operating income	**1,175,352**	**1,206,252**	**(2.6%)**
Operating income	**2,305,599**	**2,323,527**	**(0.8%)**
Personnel expenses	(813,204)	(844,039)	(3.7%)
Other administrative expenses	(318,203)	(308,033)	3.3%
Net value adjustments to property, plant and equipment and intangible assets	(125,297)	(123,453)	1.5%
Operating expenses	**(1,256,704)**	**(1,275,525)**	**(1.5%)**
Profit (loss) from operations	**1,048,895**	**1,048,002**	**0.1%**
Net adjustments to loans to customers	(303,681)	(472,578)	(35.7%)
Fair value gains (losses) on property, plant and equipment	(40,845)	(36,889)	10.7%
Net adjustments to securities and other financial assets	(5,540)	528	
Net provisions for risks and charges	(12,734)	(12,805)	(0.6%)
Gains (losses) on interests in associates and joint ventures and other investments	1,466	(437)	
Profit (loss) before tax from continuing operations	**687,561**	**525,821**	**30.8%**
Taxation charge related to profit or loss from continuing operations	(231,019)	(133,326)	73.3%
Profit (loss) after tax from continuing operations	**456,542**	**392,495**	**16.3%**
Charges related to the banking system, net of taxes	(74,567)	(78,553)	(5.1%)
Impact of the realignment of tax values to book values	-	79,220	(100.0%)
Goodwill impairment	(8,132)	-	
Change in own credit risk on Certificates issued by the Group, net of taxes	25,654	(11,920)	
Purchase Price Allocation net of taxes (*)	(15,663)	(20,037)	(21.8%)
Profit (loss) for the period attributable to non-controlling interests	109	112	(2.7%)
Parent Company's profit (loss) for the period	**383,943**	**361,317**	**6.3%**

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

Reclassified consolidated income statement – Quarterly changes

Reclassified income statement items ***(thousands of euro)***	**2022**		**2021**			
	Q2	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Net interest income	527,591	511,542	506,005	516,427	522,367	496,829
Gains (losses) on interests in associates and joint ventures carried at equity	41,472	49,642	87,066	46,795	56,535	41,544
Financial margin	**569,063**	**561,184**	**593,071**	**563,222**	**578,902**	**538,373**
Net fee and commission income	486,771	480,092	485,821	475,308	478,679	471,395
Other net operating income	15,028	16,665	9,066	26,296	21,747	18,171
Net financial result	48,863	127,933	(1,443)	35,878	116,533	99,727
Other operating income	**550,662**	**624,690**	**493,444**	**537,482**	**616,959**	**589,293**
Operating income	**1,119,725**	**1,185,874**	**1,086,515**	**1,100,704**	**1,195,861**	**1,127,666**
Personnel expenses	(405,342)	(407,862)	(413,937)	(409,823)	(417,135)	(426,904)
Other administrative expenses	(162,650)	(155,553)	(149,106)	(144,012)	(153,903)	(154,130)
Net value adjustments to property, plant and equipment and intangible assets	(64,059)	(61,238)	(61,610)	(61,762)	(60,603)	(62,850)
Operating expenses	**(632,051)**	**(624,653)**	**(624,653)**	**(615,597)**	**(631,641)**	**(643,884)**
Profit (loss) from operations	**487,674**	**561,221**	**461,862**	**485,107**	**564,220**	**483,782**
Net adjustments to loans to customers	(152,553)	(151,128)	(213,978)	(200,643)	(255,513)	(217,065)
Fair value gains (losses) on property, plant and equipment	(39,609)	(1,236)	(96,927)	(7,817)	(36,964)	75
Net adjustments to securities and other financial assets	(2,346)	(3,194)	(1,098)	242	939	(411)
Net provisions for risks and charges	(4,608)	(8,126)	2,255	(15,489)	(5,615)	(7,190)
Gains (losses) on interests in associates and joint ventures and other investments	(60)	1,526	(18,726)	395	(393)	(44)
Profit (loss) before tax from continuing operations	**288,498**	**399,063**	**133,388**	**261,795**	**266,674**	**259,147**
Taxation charge related to profit or loss from continuing operations	(92,599)	(138,420)	(37,228)	(83,274)	(50,628)	(82,698)
Profit (loss) after tax from continuing operations	**195,899**	**260,643**	**96,160**	**178,521**	**216,046**	**176,449**
Charges related to the banking system, net of taxes	-	(74,567)	(4,792)	(61,650)	(19,309)	(59,244)
Impact of the realignment of tax values to book values	-	-	2,489	-	79,220	-
Goodwill impairment	(8,132)	-	-	-	-	-
Change in own credit risk on Certificates issued by the Group, net of taxes	25,478	176	12,320	3,954	(5,105)	(6,815)
Purchase Price Allocation net of taxes (*)	(7,173)	(8,490)	(9,251)	(10,172)	(9,705)	(10,332)
Profit (loss) for the period attributable to non-controlling interests	66	43	144	28	78	34
Parent Company's profit (loss) for the period	**206,138**	**177,805**	**97,070**	**110,681**	**261,225**	**100,092**

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

Note on methodology

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

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

More specifically, in order to prepare the consolidated balance sheet, the asset items have been reclassified as follows:

- the aggregate "Loans at amortised cost" is represented by item 40 "Financial assets at amortised cost" with the exclusion of debt securities, included in "Other financial assets and hedging derivatives". In addition, the sub-item "Loans to customers" includes the amount of senior securities deriving from the sale of non-performing loans;
- the aggregate "Other financial assets and hedging derivatives" consists of items 20, 30 and 50, with the exception of senior securities deriving from the sale of non-performing loans, included in loans to customers; it also includes the amount of debt securities at amortised cost mentioned above;

- the aggregate "Other asset items" consists of the residual items 60 "Fair value change of financial assets in macro fair value hedge portfolios (+/-)" and 130 "Other assets".

The main balance sheet liability items were instead subject to the following reclassifications:

- the aggregate "Direct funding" is made up of items 10.b) "Financial liabilities at amortised cost: due to customers", with the exclusion of lease payables due to customers (shown in the item of the same name in the reclassified balance sheet), 10.c) "Financial liabilities at amortised cost: debt securities in issue" and 30 "Financial liabilities designated at fair value", net of capital protected certificates, included in the aggregate "Other financial liabilities designated at fair value";
- the item "Due to banks" refers to item 10.a) "Financial liabilities at amortised cost: due to banks", with the exception of lease payables due to banks (shown in the item of the same name in the reclassified balance sheet);
- the item "Lease payables" includes the liabilities at amortised cost to banks and customers relating to leasing transactions, as previously described;
- the aggregate "Other financial liabilities designated at fair value" includes items 20. "Financial liabilities held for trading", increased by the amount of the capital protected certificates as described above, and 40. "Hedging derivatives";
- the aggregate "Liability provisions" includes items 90. "Provisions for employee severance pay" and 100. "Provisions for risks and charges";
- the aggregate "Other liability items" consists of the residual items 50 "Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)" and 80 "Other liabilities";
- the aggregate "Group shareholders' equity" is represented by items 120. "Valuation reserves", 140. "Equity instruments", 150. "Reserves", 170. "Share capital", 180. "Own shares (-)" and 200. "Profit (loss) for the period".

Finally, as regards the reclassified income statement, the following main reclassifications were made:

- 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 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" is included 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, as, with an operating outlook, they are not deemed expressive of actual profitability of the Group;
- 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 impact of exercising the option to realign the tax values to the book values of the Group's real estate for business use, recognised under "Taxation charge related to profit or loss from continuing operations" was re-attributed to a customised item of the reclassified income statement named "Impact of the realignment of tax values to book values".

The annexes to the consolidated condensed interim financial statements provide the statements of reconciliation between the reclassified financial statements and those prepared on the basis of Circular no. 262.

Non-recurring components of the reclassified consolidated income statement

With Communication no. DEM/6064293 of 28 July 2006, CONSOB asked companies issuing financial instruments listed on Italian regulated markets to provide information on the impact of non-recurring events or operations.
It is noted that the general criterion adopted by the Group requires that the following be classified as non-recurring:

- the results of the sale transactions of all the fixed assets (interests in associates and joint ventures, property, plant and equipment excluding the financial assets in the Hold to Collect ("HtC") portfolio, which can be sold in compliance with the materiality and frequency thresholds set out in IFRS 9);
- gains and losses on non-current assets and asset disposal groups held for sale;
- adjustments/recoveries on receivables (both due to valuation and actual losses) deriving from a change in the NPE Strategy approved during the year by the Board of Directors consisting of an amendment in the objectives and/or type of receivables subject to assignment with respect to those set forth previously;
- the income statement items of significant amounts connected with streamlining, restructuring, etc. (e.g. expenses for use of the redundancy fund, early retirement incentives, merger/integration expenses);
- income statement items of a significant amount which are not destined to recur frequently (e.g. penalties, impairments of property, plant and equipment, goodwill and other intangible assets, extraordinary debits/credits by Resolution Funds and the Interbank Deposit Protection Fund, effects associated with legislative changes, exceptional results, etc.);
- the economic impacts deriving from the fair value measurement of properties and other property, plant and equipment (artworks);
- tax effects connected with the income statement impacts set out in the previous points.

Conversely, the following are usually considered to be recurring:

- income statement effects deriving from the sale or measurement of all financial assets (other than loans), including those in the HtC portfolio and financial liabilities;
- save for exceptional cases, the income statement impacts deriving from valuation aspects (credit impairment losses and 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, it should be noted that in the first half of 2022 the following non-recurring items were recognised:

- the items "Net financial result" and "Net adjustments to loans to customers" include the impacts, respectively equal to 4.7 million and 112.7 million, deriving from the increase in the sale targets of non-performing loans following the amendment of the NPL management strategy approved by the Parent Company's Board of Directors. In particular, it should be noted that the impact recorded in the item "Net financial result" refers to non-performing credit exposures which are mandatorily measured at fair value;
- "Fair value gains (losses) on property, plant and equipment" includes net value adjustments of -40.8 million, deriving from the fair value measurement of owned properties;

- the item "Gains (losses) on interests in associates and joint ventures and other investments" includes the positive impact of +1.5 million, deriving from the sale of property, plant and equipment;
- the item "Goodwill impairment" shows the impact of the impairment test which led to the recognition of value adjustments of 8.1 million on the goodwill allocated to the Bancassurance CGU;
- the "Taxation charge related to profit or loss from continuing operations" includes the tax impacts of the aforementioned non-recurring items amounting to +51.9 million.

Overall, the impact of non-recurring items on the net result for the first half of 2022 was negative and equal to -113.0 million.

In the first half of 2021, restated for the sake of uniformity of comparison, the following non-recurring items had been classified:

- "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" included write-downs due to impairment of fixed assets for a total of 1.3 million;
- the item "Net adjustments to loans to customers" included the amount relating to losses connected to the sales of loans finalised as part of the project "Rockets" as a result of the change in the strategy for the management of non-performing loans decided upon in the half-year. The negative economic impact deemed non-recurring amounted to 94.0 million;
- "Fair value gains (losses) on property, plant and equipment" included net value adjustments of 36.9 million;
- the item "Gains (losses) on disposal of interests in associates and joint ventures and other investments", non-recurring by nature, showed net losses of 0.4 million;
- the "Taxation charge related to profit or loss from continuing operations" included the tax impacts of the aforementioned non-recurring items amounting to 37.7 million;
- "Charges related to the banking system, net of taxes" included 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" included the income of 79.2 million euro, resulting from the exercise of the right of realignment of the tax values of the Group's operating properties to book values.

On the whole, also taking account of the effects attributable to non-controlling interests (+0.3 million), non-recurring items relating to the first six months of 2021 had a negative impact on the profit (loss) for the period amounting to 20.7 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 Explanatory Notes, which highlight trends in equity items.

The main balance sheet and income statement items as at 30 June 2022 are illustrated below.

Consolidated balance sheet figures

Loan brokering activities

Direct funding

(thousands of euro)	30/06/2022	% impact	31/12/2021	% impact	Abs. Change	% Change
Current accounts and deposits	**107,415,287**	**86.7%**	**105,028,846**	**87.4%**	**2,386,441**	**2.3%**
- current accounts and demand deposits	106,711,157	86.1%	104,038,158	86.5%	2,672,999	2.6%
- fixed-term deposits and other restricted current accounts	704,130	0.6%	990,688	0.8%	(286,558)	(28.9%)
Securities	**13,201,620**	**10.7%**	**13,092,123**	**10.9%**	**109,497**	**0.8%**
- bonds and liabilities at fair value	13,189,403	10.6%	13,071,312	10.9%	118,091	0.9%
- certificates of deposit and other securities	12,217	0.0%	20,811	0.0%	(8,594)	(41.3%)
Repurchase agreements	**1,057,753**	**0.9%**	**627,845**	**0.5%**	**429,908**	**68.5%**
Loans and other payables	**2,232,055**	**1.8%**	**1,464,202**	**1.2%**	**767,853**	**52.4%**
Direct funding	**123,906,715**	**100.0%**	**120,213,016**	**100.0%**	**3,693,699**	**3.1%**
Direct funding without repurchase agreements	**122,848,962**		**119,585,171**		**3,263,791**	**2.7%**
Other funding (Protected capital certificates)	**3,509,347**		**3,582,874**		**(73,527)**	**(2.1%)**
Total direct funding without repurchase agreements with certificates	**126,358,309**		**123,168,045**		**3,190,264**	**2.6%**

Direct funding[1] as at 30 June 2022 amounted to 126.4 billion, up by 2.6% compared to 31 December 2021 and by 3.1% compared to 30 June 2021.
More specifically, over the half, there was an increase of 2.7 billion in the segment represented by the current accounts and demand deposits of the commercial network (+2.6%). Regarding bonds issued, the stock as at 30 June valued 13.2 billion, slightly increasing (+0.8%) compared to the same account as at 31 December 2021.
On an annual basis, demand deposits increased by 3.7 billion (+3.6%), while the stock of securities issued was substantially stable (-0.5%).
Funding guaranteed by the stock of certificates with unconditional capital protection as at 30 June 2022 was 3.5 billion, compared to 3.6 billion as at 31 December 2021 (3.6 billion as at 30 June 2021).

Indirect funding

(thousands of euro)	30/06/2022	% impact	31/12/2021	% impact	Abs. Change	% Change
Managed assets	**59,865,514**	**64.0%**	**65,347,877**	**63.9%**	**(5,482,363)**	**(8.4%)**
mutual funds and SICAVs	40,480,949	43.3%	45,762,839	44.8%	(5,281,890)	(11.5%)
securities and fund management	3,725,596	4.0%	4,135,099	4.0%	(409,503)	(9.9%)
insurance policies	15,658,969	16.7%	15,449,939	15.1%	209,030	1.4%
Administered assets	**33,711,517**	**36.0%**	**36,840,066**	**36.1%**	**(3,128,548)**	**(8.5%)**
Total indirect funding	**93,577,031**	**100.0%**	**102,187,943**	**100.0%**	**(8,610,911)**	**(8.4%)**
Underlying funding for protected capital certificates	3,041,223		3,120,665		(79,442)	(2.5%)
Total indirect funding without certificates	**90,535,808**		**99,067,278**		**(8,531,469)**	**(8.6%)**

Indirect funding, net of protected capital certificates[2], was equal to 90.5 billion, down 6.1% on an annual basis. Also compared to 31 December 2021, the aggregate decreased by 8.6%. That trend is exclusively attributable to the decrease in prices of financial assets: excluding the price effect, the volumes of indirect funding record growth of 2.6% on an annual basis, and 1.9% compared to the end of 2021.
The negative trend on the markets reflected on both the component of managed assets, which amounted to 59.9 billion, down compared to the figure of 65.3 billion as at 31 December 2021, and on administered assets, net of the underlying funding for protected capital certificates, which stood at 30.7 billion, with a decrease of 3.0 billion (-9.0%) compared to the end of 2021.

[1] For the sake of consistency with the criteria used to represent operating results, the aggregate of direct funding is represented by the sum of term and demand deposits and current accounts, bonds issued, certificates of deposit and other securities, loans and other payables, and protected capital certificates. Repurchase agreements are not included.
[2] For consistency with the criteria for the representation of operating results, the aggregate of indirect funding is represented net of the underlying funding for protected capital certificates.

Loans to customers

(thousands of euro)	30/06/2022	% impact	31/12/2021	% impact	Abs. Change	% Change
Mortgage loans	81,432,585	73.5%	79,285,841	72.5%	2,146,744	2.7%
Current accounts	9,845,220	8.9%	8,542,637	7.8%	1,302,583	15.2%
Repurchase agreements	2,338,551	2.1%	3,658,922	3.3%	(1,320,371)	(36.1%)
Finance leases	1,097,767	1.0%	1,222,730	1.1%	(124,963)	(10.2%)
Credit cards, personal loans and salary-backed loans	1,124,554	1.0%	1,350,550	1.2%	(225,996)	(16.7%)
Other transactions	12,822,059	11.6%	13,025,142	11.9%	(203,083)	(1.6%)
Senior securities from sales of non-performing loans	2,147,628	1.9%	2,297,560	2.1%	(149,932)	(6.5%)
Total net loans to customers	**110,808,364**	**100.0%**	**109,383,382**	**100.0%**	**1,424,982**	**1.3%**

Net loans to customers[1] amounted to 110.8 billion as at 30 June 2022, an increase of 1.4 billion compared to the figure as at 31 December 2021; the increase is entirely attributable to performing exposures (+1.7%), with a volume of new loans to households and businesses equal to 13.7 billion in the half, while non-performing exposures decreased by 12.2% on the end of 2021. On an annual basis, loans recorded an increase of 1.4 billion (+1.3%), deriving from a 2.3 billion increase in performing exposures (+2.2%) and a 0.9 billion decrease in non-performing loans (-23.0%).

Direct risks vis-à-vis customers resident in Russia and Ukraine or indirectly related to Russian or Ukrainian counterparties are insignificant: more precisely, direct exposures to Russian customers amount to 81.9 million gross (71.2 million net of provisions for impairment); exposures that instead refer to counterparties belonging to groups with direct control by Russian or Ukrainian entities present an overall authorised credit amount of 69.4 million and a utilisation of 17.9 million; commercial risks associated with the operations of the Group's main customers and linked to ongoing transactions with Russian and Ukrainian counterparties amounted to 197.1 million, of which the majority consisted of risks on unsecured loans.
Particularly with reference to the impacts on credit quality of these exposures, it should be noted that during the first half of the year, in order to ensure proper risk management, the Group undertook a series of initiatives, through contact campaigns and surveys, with respect to customers belonging to the sectors considered potentially most vulnerable to the effects of the Russia-Ukraine crisis, or most exposed to rising energy prices and raw material procurement difficulties.
The engagement campaign also made it possible to identify customers who need some type of intervention, in terms of new liquidity or restructuring, which will be able to count on the support measures being implemented by the competent bodies.

Finally, with regard to the support measures adopted by the Group with respect to customers affected by the crisis ensuing from the Covid-19 pandemic, it should be noted that as at 30 June 2022 the exposures for which payment suspension due to a moratorium is still in progress amounted to only 24 million. On the same date, the total volume of exposures that benefited from the Covid-19 moratorium measures amounted to 13.7 billion, down from 14.9 billion as at 31 December 2021, with a default rate on moratoria already expired limited to 1.19%.

For more details, see Part A - Accounting policies, paragraph "Risks, uncertainties and impacts of the Covid-19 epidemic and the Russia-Ukraine conflict" in the Explanatory Notes.

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

Credit quality

Loans to customers at amortised cost

(thousands of euro)	30/06/2022		31/12/2021		Abs. Change	% Change
	Net exposure	% impact	Net exposure	% impact		
Bad loans	768,911	0.7%	906,482	0.8%	(137,571)	(15.2%)
Unlikely to pay	2,033,820	1.8%	2,309,437	2.1%	(275,617)	(11.9%)
Non-performing past-due exposures	58,923	0.1%	44,610	0.0%	14,313	32.1%
Non-performing loans	**2,861,654**	**2.6%**	**3,260,529**	**3.0%**	**(398,875)**	**(12.2%)**
Performing loans	105,799,082	95.5%	103,825,293	94.9%	1,973,789	1.9%
Senior securities from sales of non-performing loans	2,147,628	1.9%	2,297,560	2.1%	(149,932)	(6.5%)
Performing exposures	**107,946,710**	**97.4%**	**106,122,853**	**97.0%**	**1,823,857**	**1.7%**
Total loans to customers	**110,808,364**	**100.0%**	**109,383,382**	**100.0%**	**1,424,982**	**1.3%**

(thousands of euro)	30/06/2022				31/12/2021			
	Gross exposure	Total value adjustments	Net exposure	Coverage	Gross exposure	Total value adjustments	Net exposure	Coverage
Bad loans	1,995,714	(1,226,803)	768,911	61.5%	2,190,338	(1,283,856)	906,482	58.6%
Unlikely to pay	3,404,873	(1,371,053)	2,033,820	40.3%	4,126,107	(1,816,670)	2,309,437	44.0%
Non-performing past-due exposures	83,985	(25,062)	58,923	29.8%	59,733	(15,123)	44,610	25.3%
Non-performing loans	**5,484,572**	**(2,622,918)**	**2,861,654**	**47.8%**	**6,376,178**	**(3,115,649)**	**3,260,529**	**48.9%**
of which: forborne	*2,642,406*	*(1,100,271)*	*1,542,135*	*41.6%*	*3,346,651*	*(1,524,087)*	*1,822,564*	*45.5%*
Performing loans (*)	**108,391,507**	**(444,797)**	**107,946,710**	**0.4%**	**106,577,184**	**(454,331)**	**106,122,853**	**0.4%**
of which: Stage 1	*97,165,033*	*(118,170)*	*97,046,863*	*0.1%*	*94,887,670*	*(124,343)*	***94,763,327***	*0.1%*
of which: Stage 2	*11,226,474*	*(326,627)*	*10,899,847*	*2.9%*	*11,689,514*	*(329,988)*	***11,359,526***	*2.8%*
of which: forborne	*3,083,914*	*(116,349)*	*2,967,565*	*3.8%*	*3,224,400*	*(105,711)*	*3,118,689*	*3.3%*
Total loans to customers	**113,876,079**	**(3,067,715)**	**110,808,364**	**2.7%**	**112,953,362**	**(3,569,980)**	**109,383,382**	**3.2%**

(*) Includes senior securities from sales of non-performing loans for an amount of 2,147.6 million (of which 2,150.5 million in gross exposure and 2.9 million in value adjustments).

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

Net non-performing loans (bad loans, unlikely to pay and past due and/or overdue exposures) amounted to 2.9 billion as at 30 June 2022.
An analysis of the individual items shows the following dynamics:

- net bad loans of 0.8 billion, down by 15.2% compared to 31 December 2021 and 18.8% compared to 30 June 2021;
- net unlikely to pay loans of 2.0 billion, down by 11.9% compared to the start of the year and 23.9% compared to 30 June 2021;
- net past-due exposures of 59 million (45 million as at 31 December 2021 and 96 million as at 30 June 2021).

The percentage of non-performing exposures out of total loans, gross of value adjustments came to 4.8% compared to 5.6% at the start of the year and 6.2% as at 30 June 2021.

The coverage rate for the entire impaired loans aggregate was 47.8% (48.9% as at 31 December 2021).
More specifically, as at 30 June 2022, the coverage ratio was as follows:

- bad loans 61.5% (58.6% as at 31 December 2021);
- unlikely to pay loans 40.3% (44.0% as at 31 December 2021);
- past-due exposures 29.8% (25.3% as at 31 December 2021).

The coverage ratio of performing loans came out at 0.41%, compared to 0.43% as at 31 December 2021.

Financial assets

(thousands of euro)	30/06/2022	% impact	31/12/2021	% impact	Abs. Change	% Change
Debt securities (*)	33,240,276	81.1%	30,671,735	84.4%	2,568,541	8.4%
Equity instruments	1,679,824	4.1%	1,927,416	5.3%	(247,592)	(12.8%)
UCIT units	1,142,267	2.8%	1,091,564	3.0%	50,703	4.6%
Total securities portfolio	**36,062,367**	**88.0%**	**33,690,715**	**92.7%**	**2,371,652**	**7.0%**
Derivative trading and hedging instruments	4,599,211	11.2%	2,122,530	5.8%	2,476,681	116.7%
Loans	301,996	0.7%	513,148	1.4%	(211,152)	(41.1%)
Total financial assets	**40,963,574**	**100.0%**	**36,326,393**	**100.0%**	**4,637,181**	**12.8%**

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

Financial assets were equal to 41.0 billion, up by 12.8% compared to 36.3 billion as at 31 December 2021. The increase was mainly concentrated in debt securities (+2.6 billion) and, in particular, in the segment of securities at amortised cost. As at 30 June 2022, the aggregate in question consisted of debt securities for 33.2 billion, equity instruments and UCIT units for 2.8 billion and derivative instruments for 4.6 billion.

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

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

(thousands of euro)	30/06/2022	% impact	31/12/2021	% impact	Abs. Change	% Change
Debt securities	1,066,261	12.6%	1,148,885	17.8%	(82,624)	(7.2%)
Equity instruments	1,376,101	16.2%	1,588,059	24.6%	(211,958)	(13.3%)
UCIT units	1,142,267	13.5%	1,091,564	16.9%	50,703	4.6%
Total securities portfolio	**3,584,629**	**42.2%**	**3,828,508**	**59.2%**	**(243,879)**	**(6.4%)**
Financial and credit derivatives	4,599,211	54.2%	2,122,530	32.8%	2,476,681	116.7%
Loans	301,996	3.6%	513,148	7.9%	(211,152)	(41.1%)
Overall total	**8,485,836**	**100.0%**	**6,464,186**	**100.0%**	**2,021,650**	**31.3%**

Financial assets measured at fair value through other comprehensive income

(thousands of euro)	30/06/2022	% impact	31/12/2021	% impact	Abs. Change	% Change
Debt securities	10,290,516	97.1%	10,335,722	96.8%	(45,206)	(0.4%)
Equity instruments	303,723	2.9%	339,357	3.2%	(35,634)	(10.5%)
Total	**10,594,239**	**100.0%**	**10,675,079**	**100.0%**	**(80,840)**	**(0.8%)**

Financial assets at amortised cost

(thousands of euro)	30/06/2022	% impact	31/12/2021	% impact	Abs. Change	% Change
Debt securities (*)	21,883,499	100.0%	19,187,128	100.0%	2,696,371	14.1%
Total	**21,883,499**	**100.0%**	**19,187,128**	**100.0%**	**2,696,371**	**14.1%**

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

Exposure to sovereign risk

The table below provides details of the Group's total exposure in sovereign debt securities as at 30 June 2022, broken down by country (amounts in thousands of euro):

Countries	Total debt securities
Italy	11,731,019
Spain	3,971,940
Germany	2,805,391
France	4,881,798
Austria	277,776
Ireland	19,577
Other EU countries	347,732
Total EU countries	**24,035,233**
USA	4,308,279
Chile	14,261
China	98,243
Mexico	22,243
Hong Kong	21,520
Other countries	65,058
Total other countries	**4,529,604**
Total	**28,564,837**

Exposure is mainly concentrated within the Parent Company Banco BPM, which as at 30 June held a total of 27.6 billion, of which 10.7 billion relative to Italian government bonds.

Investments in sovereign debt securities are classified at 69.6% in the portfolio of financial assets at amortised cost, 27.8% in the portfolio of financial assets measured at fair value through other comprehensive income and 2.6% in the portfolio of financial assets at fair value through profit and loss as they are held for trading.
Out of this exposure, about 84% refers to securities issued by member states of the European Union; notably about 41% by Italy.
The Group has no exposures to debt securities of Russian or Ukrainian issuers.

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

Financial assets at fair value through profit and loss

Status	Maturing by 2022	Maturing between 2023 and 2027	Maturing between 2028 and 2032	Maturing beyond 2032	Total fair value as at 30/06/2022	Total fair value by hierarchy		
						LEVEL 1	LEVEL 2	LEVEL 3
Italy	659,709	53,849	4,616	7,001	725,175	725,175	-	-
Spain	-	14,727	-	-	14,727	14,727	-	-
Germany	-	-	4,481	2	4,483	4,483	-	-
Other EU countries	2	1	3	1	7	7	-	-
Total	**659,711**	**68,577**	**9,100**	**7,004**	**744,392**	**744,392**	**-**	**-**

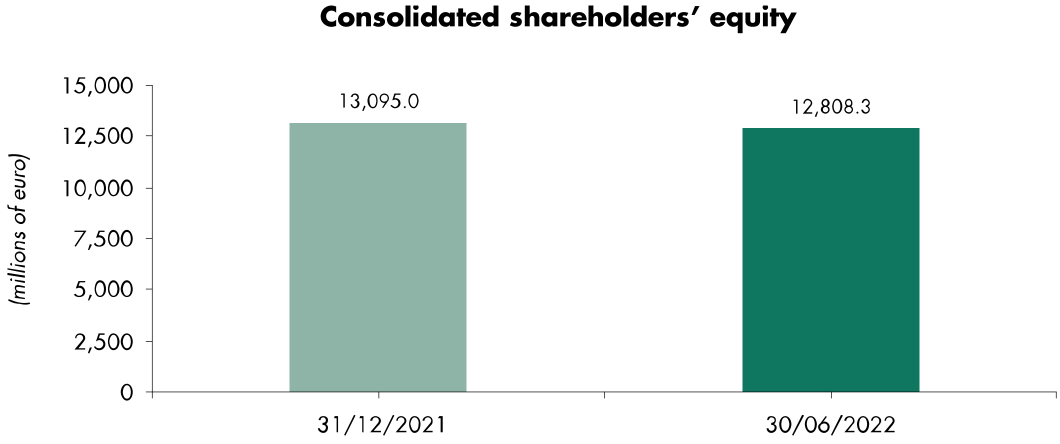
Financial assets measured at fair value through other comprehensive income

Status	Maturing by 2022	Maturing between 2023 and 2027	Maturing between 2028 and 2032	Maturing beyond 2032	Total fair value as at 30/06/2022	Net reserve at FVTOCI	Value adjustments	Total fair value by hierarchy		
								LEVEL 1	LEVEL 2	LEVEL 3
Italy	-	1,078,555	822,656	322,643	2,223,854	(52,393)	-	2,223,853	-	-
Spain	-	397,627	750,732	-	1,148,359	(58,629)	-	1,148,359	-	-
France	-	-	1,584,327	-	1,584,327	(107,693)	-	1,584,327	-	-
Germany	-	-	944,379	-	944,379	(75,899)	-	944,379	-	-
Other EU countries	-	11,309	107,488	-	118,797	(1,134)	-	118,799	-	-
Total	**-**	**1,487,491**	**4,209,582**	**322,643**	**6,019,716**	**(295,748)**	**-**	**6,019,717**	**-**	**-**

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 30/06/2022	Total fair value	Total fair value by hierarchy		
							LEVEL 1	LEVEL 2	LEVEL 3
Italy	1,535,067	6,168,491	886,765	191,668	8,781,991	8,762,050	8,762,050	-	-
Spain	-	919,875	1,888,978	-	2,808,853	2,781,527	2,781,527	-	-
France	-	503,742	2,793,729	-	3,297,471	3,255,218	3,255,218	-	-
Ireland	-	19,574	-	-	19,574	19,907	19,907	-	-
Germany	-	803,980	1,052,549	-	1,856,529	1,833,878	1,833,878		
Other EU countries	-	305,175	201,530	-	506,705	492,601	492,601	-	-
Total	**1,535,067**	**8,720,837**	**6,823,551**	**191,668**	**17,271,123**	**17,145,181**	**17,145,181**	**-**	**-**

Shareholders' equity and solvency ratios



The Group's consolidated shareholders' equity as at 30 June 2022, including valuation reserves and profit (loss) for the period, amounted to 12,808.3 million, compared to the figure at the end of 2021 of 13,095.0 million.
The change, negative by 286.7 million, derives, for -288.3 million, from the allocation of the result for 2021 approved by the Shareholders' Meeting of 7 April 2022, for -27.8 million from the payment of coupons on Additional Tier 1 instruments and, for - 16.0 million, from the purchase of own shares by the Parent Company in connection with employee incentive plans. In April the issue of a nominal 300 million in Additional Tier 1 instruments was also concluded, recognised in the financial statements for an amount of 297.3 million (equal to the consideration received less transaction costs) under item "140. Equity instruments". Finally, other negative changes were recorded for a total of -251.8 million mainly referring to the contribution of the comprehensive income recorded in the half year. The latter is negative by 252.0 million due to the net profit for the period of 383.9 million and the negative change in valuation reserves of -636.0 million, referring in particular to the valuation reserve relating to financial assets measured at fair value through other comprehensive income and that of interests in associates and joint ventures carried at equity, attributable to the strong fluctuations in prices observed in the period, a consequence of financial market tensions.
For more details, please refer to the statement of changes in consolidated shareholders' equity contained in the consolidated condensed interim financial statements.

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

(thousands of euro)	Shareholders' equity	Profit (loss) for the period
Balance as at 30/06/2022 as per the Parent Company's financial statements	**12,711,255**	**366,433**
Impact of the valuation at equity of associated companies	85,421	91,114
Cancellation of dividends received during the year by associated companies	-	(124,263)
Other consolidation adjustments	11,653	50,659
Balance as at 30/06/2022 as per the consolidated financial statements	**12,808,329**	**383,943**

Solvency ratios - reference legislation and standards to follow

With its communication of 18 November 2021, the Bank of Italy identified Banco BPM banking group as an Other Systemically Important Institution (O-SII) for the year 2022. The O-SII reserve, which for 2021 was equal to 0.19%, amounts to 0.25% starting from 1 January 2022.
On 2 February 2022, the European Central Bank (ECB) notified Banco BPM of the SREP decision for 2022, maintaining the Pillar 2 capital requirement (P2R) unchanged at 2.25%.
With its communication of 25 March 2022, the Bank of Italy has confirmed the Countercyclical Capital Buffer ratio for exposures to Italian counterparties at zero per cent also for the second quarter of 2022.

Therefore, also considering the countercyclical capital buffer established by the competent national authorities for exposures to the countries in which the Group operates, equal to 0.003%, the minimum requirements that Banco BPM is required to meet for 2022 at phase-in and fully-phased level until notified otherwise, are as follows:[1]

- CET 1 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 473 bis of Regulation EU 575/2013, which mitigates over time the impact on own funds resulting from the application of the new impairment model introduced by accounting standard IFRS 9. The above-cited transitional arrangements envisage the option of including a positive transitional component in Common Equity Tier 1 equivalent to a percentage of the increase made in provisions for expected credit losses as a result of applying IFRS 9. Said percentage share decreases over time over a timeframe of five years, running from 2018 to 2022. The percentage share applicable to the period from 1 January 2022 until 31 December 2022 stands at 25% and will decline to zero as of 1 January 2023.

From 1 January 2023 the impact from the first-time adoption of IFRS 9 will therefore 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 473 bis 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.

On 20 June 2022, Banco BPM communicated to the ECB, pursuant to art. 1 paragraph 6 of Regulation 873/2020, its intention to make use of the temporary treatment, applicable in the period from 1 January 2020 to 31 December 2022, governed by Article 468 of the EU Regulation no. 575/2013 (CRR)[2]. By virtue of this temporary derogation, it is permitted to remove from CET 1 items part of the unrealised gains and losses accumulated starting from 31 December 2019, recognised as changes in the fair value reserves of the exposures to debt instruments issued by central governments, regional governments or local authorities referred to in Article 115 (2) of the CRR and public sector entities referred to in Article 116 (4), provided that such exposures are not classified as impaired financial assets. For the period from 1 January 2022 to 31 December 2022, the portion of unrealised gains and losses that can be excluded is 40% and amounts, as at 30 June 2022, to 168.7 million net of tax effects.

The estimates of the capital ratios that the Group would have, all other conditions being the same, if it had not exercised the above options, are called, in brief, "fully phased". The capital ratios called "phased-in" instead are calculated based on the above-mentioned transitional provisions.

As at 30 June 2022[3] the phased-in Common Equity Tier 1 ratio was 14.03% (compared to 14.68% as at 31 December 2021) and was affected by the negative changes in investments in equity and debt securities measured at fair value through other comprehensive income, even if mitigated by the application of the temporary derogation provided by Article 468 of Regulation (EU) no. 575/2013 (CRR) as specified in more detail above.
The phased-in Tier 1 ratio was equal to 16.23% compared to 16.52% last 31 December, while the Total Capital ratio was equal to 19.82% compared to 19.59% as at 31 December 2021. The changes in these ratios are influenced by the issue of an Additional Tier 1 instrument in April for a nominal amount of 300 million and a Tier 2 instrument in January 2022 for a nominal 300 million.
The phased-in ratio benefits from the exercise of the option for the full application of the transitional rules introduced with the new Article 473 bis of Regulation (EU) no. 575/2013 (CRR), which dilutes over time the impact on own funds deriving from the application of the new impairment model introduced by the accounting standard IFRS 9[4]

[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 CET 1 (56.25%) and TIER1 (75%);
- a capital conservation buffer equal to 2.50%, to be entirely met by CET 1;
- the O-SII buffer equal to 0.25% to be met entirely by CET 1;
- the countercyclical capital buffer equal to 0.003% to be met entirely with CET 1.

[2] Article amended by Regulation (EU) no. 2020/873 (CRR "Quick fix").
[3] The capital ratios as at 30 June 2022 were calculated by including the economic result in progress at the end of the first half of 2022 net of the portion that is expected to be distributed as a dividend based on the specific applicable legislation.
[4] The percentage of neutralisation of negative impacts decreased from 50% in 2021 to 25% in 2022.

and, as specified previously, the exercise of the option that permits not considering in the calculation of own funds a share equal to 40% of the unrealised gains and losses accumulated as of 31 December 2019 on debt securities measured at fair value through other comprehensive income represented by exposures to debt instruments issued by central governments, regional governments or local authorities referred to in Article 115 (2) of the CRR and public sector entities referred to in Article 116 (4).

Excluding the impacts of the transitional rules, the CET1 fully-phased ratio was 12.76%, down on the figure as at 31 December 2021 (equal to 13.43%), mainly due to the decrease in fair value reserves for the securities mentioned above.
The fully-phased Tier 1 ratio was 14.96%, compared to 15.15% as at 31 December 2021. The Total Capital ratio came to 18.56%, compared to 18.22% as at last 31 December.

Liquidity position and leverage

On 1 October 2015, Delegated Regulation (EU) no. 61/2015 entered into force, which requires that banks maintain a specific level of liquidity measured with regard to a short-term time horizon (Liquidity Coverage Ratio, "LCR"). The regulation establishes a gradual phase-in [1]. As at 30 June 2022, the Banco BPM Group had a consolidated LCR equal to 208%.

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

Lastly, as regards the leverage ratio, the value as at 30 June 2022 was 4.70% calculated with the temporary definition of CET 1. The ratio calculated on the basis of the fully-phased rules is equal to 4.33%.

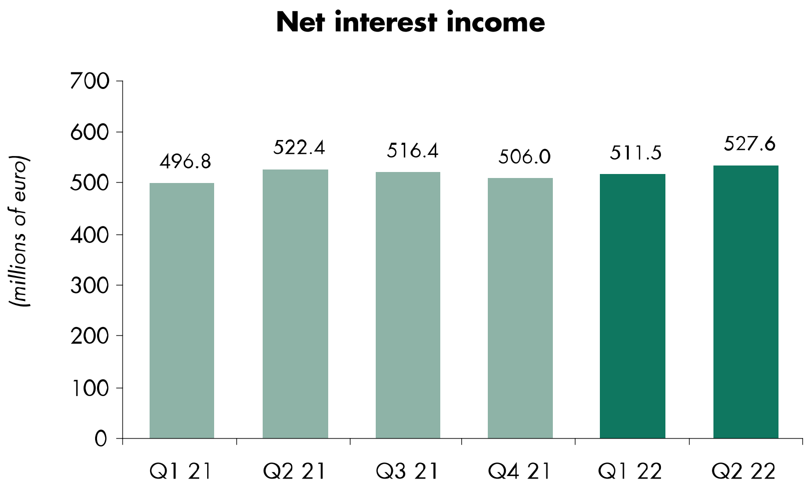
Consolidated income statement figures

Net interest income

(thousands of euro)	I half 2022	I half 2021	Abs. Change	% Change
Financial assets (securities)	176,027	210,594	(34,567)	(16.4%)
Net interest due to customers	840,946	846,003	(5,057)	(0.6%)
Net interest due to banks	2,507	(2,814)	5,321	
Securities issued and other financial liabilities at fair value	(124,039)	(129,193)	5,154	(4.0%)
Hedging derivatives (net balance) (*)	(20,522)	(47,522)	27,000	(56.8%)
Net interest on other assets/liabilities	164,214	142,128	22,086	15.5%
Total	**1,039,133**	**1,019,196**	**19,937**	**2.0%**

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

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



Net interest income was equal to 1,039.1 million, a 2.0% increase on H1 2021 (1,019.2 million), due to the greater contribution made by TLTRO III financing operations which, in view of the net lending objectives reached by the Group, provided until 23 June 2022 for the payment of a special interest rate, equal to -0.50%, in addition to the rate applied for the entire duration of the loan[1].

Net interest income in the second quarter totalled 527.6 million, up by 3.1% from the figure in the first quarter of 2022 (511.5 million), both due to the development of trade receivables and the contribution from the portfolio of financial assets.

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

The **gains (losses) on interests in associates and joint ventures carried at equity** were equal to 91.1 million, down compared to the figure for the corresponding period of last year (98.1 million).

The main contribution to the item in question is provided by consumer credit channelled from the interest held in Agos Ducato, equal to 53.1 million, up compared to 50.8 million in H1 2021, as well as the contribution of the associate Anima Holding[2], equal to 23.3 million, down compared to 34.5 million in H1 2021.

The second quarter contribution was a positive 41.5 million, down compared to the first quarter (49.6 million).

(thousands of euro)	I half 2022	I half 2021	Abs. Change	% Change
Agos Ducato	53,135	50,799	2,336	4.6%
Anima Holding	23,314	34,480	(11,166)	(32.4%)
Vera Vita	3,512	4,114	(602)	(14.6%)
Vera Assicurazioni	4,001	(123)	4,124	
Bipiemme Vita	1,227	3,211	(1,984)	(61.8%)
Factorit	-	2,691	(2,691)	
Other investee companies	5,925	2,907	3,018	103.8%
Total	**91,114**	**98,079**	**(6,965)**	**(7.1%)**

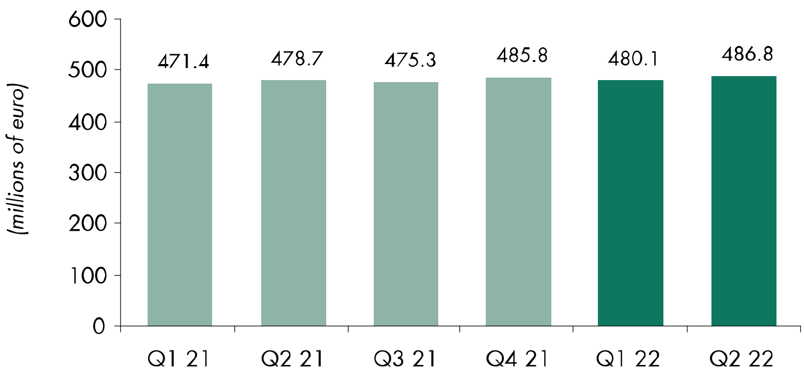
[1] The amount of eligible loans was significantly higher than the target levels set out in the regulations. This result guarantees the application to the TLTRO III refinancing operations for the period from 24 June 2020 to 23 June 2022 ("special interest period") of a special interest rate equal to -0.50% in addition to the average rate applicable to deposit facilities (currently -0.50%).

[2] The contribution to the consolidated income statement for the first half of 2022 also includes the profit resulting from the investee in the final quarter of 2021, equal to 11.8 million pro-rata. Please recall that, for the preparation of the 2021 financial statements, it was not possible to recognise the contribution of the fourth quarter, as Anima Holding approved its draft financial statements on 1 March 2022 and therefore subsequent to Banco BPM.

Net fee and commission income

(thousands of euro)	I half 2022	I half 2021	Abs. Change	% Change
Management, brokerage and advisory services	477,135	486,802	(9,667)	(2.0%)
Savings products and policies	382,557	409,000	(26,443)	(6.5%)
- Placement of financial instruments	13,716	11,717	1,999	17.1%
- Distribution and portfolio management	296,521	329,839	(33,318)	(10.1%)
- Bancassurance	72,320	67,444	4,876	7.2%
Consumer credit	27,302	18,795	8,507	45.3%
Credit cards	31,662	20,493	11,169	54.5%
Trading of securities and currencies and order collection	32,805	34,701	(1,896)	(5.5%)
Other	2,809	3,813	(1,004)	(26.3%)
Keeping and management of current accounts and loans	322,704	308,916	13,788	4.5%
Collection and payment services	91,456	81,659	9,797	12.0%
Guarantees given and received	25,257	34,029	(8,772)	(25.8%)
Other services	50,311	38,668	11,643	30.1%
Total	**966,863**	**950,074**	**16,789**	**1.8%**

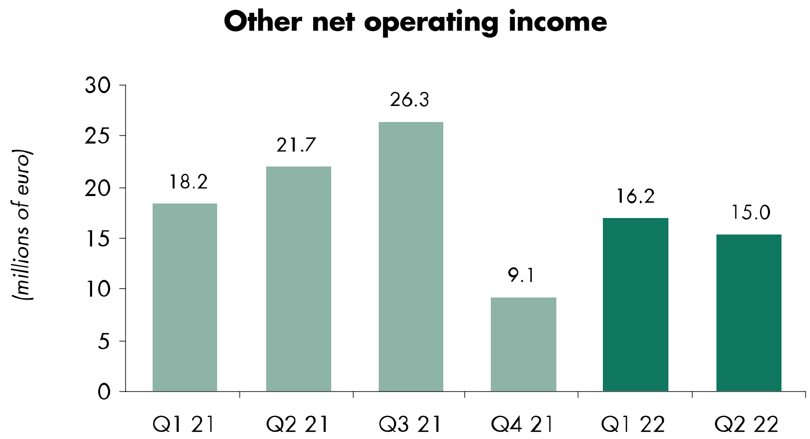
Net fee and commission income



Net fee and commission income in the first half totalled 966.9 million, marking growth of 1.8% compared to the same period of the previous year.
This trend is attributable to the contribution from the commercial banking services segment (+5.7% compared to the first half of 2021).
The contribution from management, brokerage and advisory services was down (-2.0% compared to 30 June 2021).
Net fee and commission income in the second quarter amounted to 486.8 million, up by 1.4% compared to the result recorded in the first quarter, mainly due to the contribution of fee and commission income on commercial banking services (+3.1% compared to the first quarter). The aggregate for management, brokerage and advisory services was down slightly (-0.3% compared to the first quarter of 2022). Within that segment, there was a decrease in the placement of funds and financial assets (linked to the situation on the financial markets) balanced by the positive performance of fee and commission income on credit cards, insurance products and consumer credit.

Other net operating income

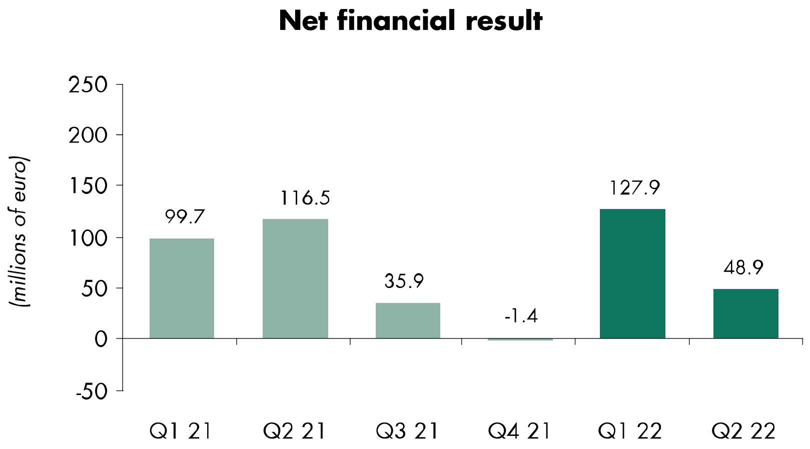
(thousands of euro)	I half 2022	I half 2021	Abs. Change	% Change
Income on current accounts and loans	3,213	2,757	456	16.5%
Rental income	17,913	19,236	(1,323)	(6.9%)
Expenses on leased assets	(12,661)	(13,152)	491	(3.7%)
Other income and charges	23,228	31,077	(7,849)	(25.3%)
Total	**31,693**	**39,918**	**(8,225)**	**(20.6%)**



Other net operating income totalled 31.7 million, compared to the figure of 39.9 million for the first half of 2021.

Net financial result

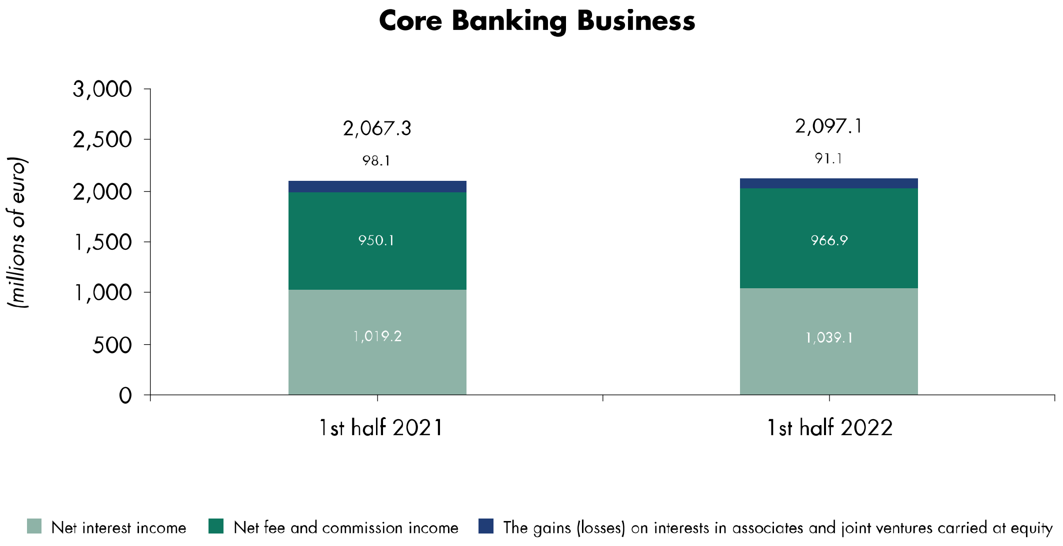
(thousands of euro)	I half 2022	I half 2021	Abs. Change	% Change
Net trading income	144,733	65,562	79,171	120.8%
Gains/losses on disposal of financial assets	89,919	90,901	(982)	(1.1%)
Dividends and similar income on financial assets	13,513	8,946	4,567	51.1%
Gains/losses on repurchase of financial liabilities	(2,029)	(730)	(1,299)	177.9%
Fair value gains/losses on hedging derivatives	(6,629)	2,087	(8,716)	
Result of assets and liabilities at fair value	(62,711)	49,494	(112,205)	
Total	**176,796**	**216,260**	**(39,464)**	**(18.2%)**



The **net financial result**[1] in the first half was positive and equal to 176.8 million, compared to the figure of 216.3 million recorded as at 30 June 2021.
The result in 2022 comprises +144.7 million from trading activities (+65.6 million in the first half of 2021), -62.7 million from changes recorded in the measurement of assets and liabilities at fair value (+49.5 million as at 30 June 2021) and +89.9 million from sales of financial assets (+90.9 million in the first half of 2021). Specifically, the comparison of the figure for the first half of 2022 with the same period of 2021 is influenced by the results of the valuation of the Nexi investment, which as at 30 June 2022 had a negative balance of -78.3 million compared to the positive impact of 27.6 million recognised in the same period of 2021.
The net financial result in the second quarter was 48.9 million, compared to 127.9 million in the first quarter. That trend is mainly attributable to the lower contribution from the sale of financial assets (-28.8 million compared to the first quarter), the impact of the Credit Value Adjustment and the Debit Value Adjustment (CVA/DVA) relating to derivative contracts (-24.5 million) and the negative effect connected to the measurement of certain financial assets recognised at fair value (-24.4 million).

By virtue of the trends described, the total **operating income** therefore amounted to 2,305.6 million, a slight decrease compared to 2,323.5 million recorded in the same period of the previous year (-0.8%).

[1] The item does not include the accounting effect, shown in a separate item of the reclassified income statement, of the change in the credit risk of the Group in regard to the fair value measurement of its own certificate issues, which led to the recognition of 38.3 million in income for the half year, compared to the negative impact of -17.8 million recorded as at 30 June 2021.

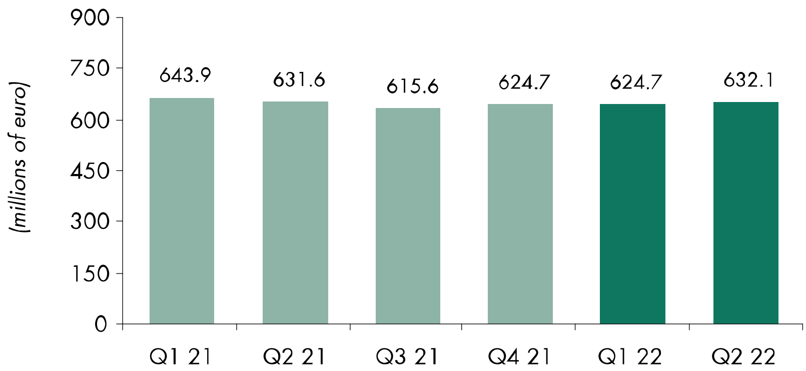


Taking only revenues from "core banking business" into account, represented by the sum of the aggregates relating to net interest income, net fee and commission income and the gains (losses) on interests in associates and joint ventures carried at equity, the H1 2022 figure reached 2,097.1 million, up 1.4% compared to the figure for the same period of the previous year.

Operating expenses

(thousands of euro)	I half 2022	I half 2021	Abs. Change	% Change
Personnel expenses	**(813,204)**	**(844,039)**	**30,835**	**(3.7%)**
Other administrative expenses	**(318,203)**	**(308,033)**	**(10,170)**	**3.3%**
- Taxes and duties	(159,860)	(159,046)	(814)	0.5%
- Services and consulting	(153,615)	(147,037)	(6,578)	4.5%
- Property	(34,247)	(30,127)	(4,120)	13.7%
- Postal, telephone and stationery	(11,470)	(11,657)	187	(1.6%)
- Maintenance and fees for furniture, machines and systems	(47,900)	(44,343)	(3,557)	8.0%
- Advertising and entertainment	(6,347)	(5,252)	(1,095)	20.8%
- Other administrative expenses	(45,898)	(52,873)	6,975	(13.2%)
- Expense recoveries	141,134	142,302	(1,168)	(0.8%)
Value adjustments to property, plant and equipment and intangible assets	**(125,297)**	**(123,453)**	**(1,844)**	**1.5%**
- Value adjustments to property, plant and equipment	(83,518)	(83,530)	12	0.0%
- Value adjustments to intangible assets	(41,650)	(38,649)	(3,001)	7.8%
- Net write-downs for impairment	(129)	(1,274)	1,145	(89.9%)
Total	**(1,256,704)**	**(1,275,525)**	**18,821**	**(1.5%)**

Operating expenses



Personnel expenses, equal to 813.2 million, decreased by 3.7% compared to 844.0 million in the first half of 2021. That performance reflects the savings deriving from the reduction in the workforce implemented starting in the previous year, as part of the programme involving the use of the Solidarity Fund for the industry. The total number of employees was 20,110 as at 30 June 2022, compared to 21,663 at the start of 2021.
In the second quarter this item, amounting to 405.3 million, showed a slight decrease compared to 407.9 million in the first quarter.

Other administrative expenses[1], equal to 318.2 million, are up on the figure for the first half of 2021, equal to 308.0 million, also due to the inflationary trends under way, which specifically impacted energy consumption.

Value adjustments to property, plant and equipment and intangible assets were equal to 125.3 million, in line with the figure of 123.5 million in the first half of 2021.

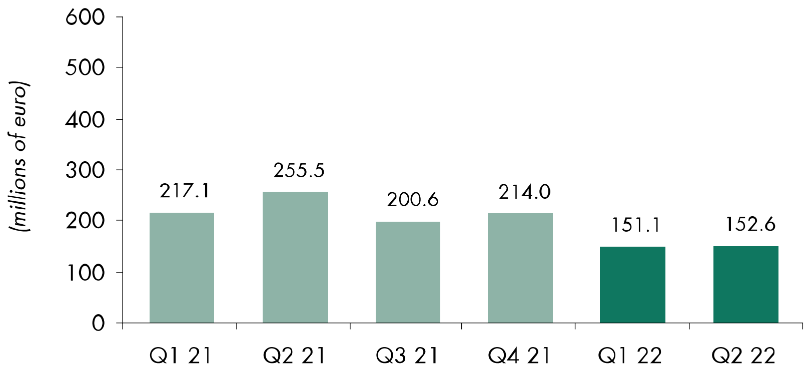
Total **operating expenses** therefore amounted to 1,256.7 million, down by 1.5% compared to 1,275.5 million in the first half of 2021.

Adjustments and provisions

(thousands of euro)	I half 2022	I half 2021	Abs. Change	% Change
Net adjustments to loans to customers	**(131,623)**	**(250,203)**	**118,580**	**(47.4%)**
Specific value adjustments: derecognition	(15,024)	(23,013)	7,989	(34.7%)
Specific value adjustments: other	(463,006)	(625,638)	162,632	(26.0%)
Specific recoveries	336,047	398,089	(62,042)	(15.6%)
Net portfolio adjustments/recoveries	10,360	359	10,001	2785.8%
Gains (losses) on disposal of loans	**(172,058)**	**(222,375)**	**50,317**	(22.6%)
Total	**(303,681)**	**(472,578)**	**168,897**	**(35.7%)**

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

Net adjustments to loans to customers



Net adjustments to loans to customers as at 30 June 2022, equal to 303.7 million, showed a 35.7% decrease on the figure for the same period of the previous year. Net adjustments in the first half of 2022 included the impact deriving from the increase in targets for the sale of non-performing loans following the change in the non-performing loan management strategy, for a total of 112.7 million. In the first half of 2021 the same impact was equal to 94.0 million.
As at 30 June 2022, the cost of credit, measured by the ratio of net value adjustments on loans to net loans, was 55 basis points. Excluding the extraordinary impacts due to the increase in the sale targets of non-performing loans approved by the Group, the cost of risk would come to 35 basis points as at 30 June 2022.

Fair value gains (losses) on property, plant and equipment show a loss of 40.8 million as at 30 June 2022, compared to -36.9 million in the first half of the previous year, due to the adjustment of several properties to their updated appraisal values.

The item **net adjustments to securities and other financial assets** includes net losses of -5.5 million (+0.5 million as at 30 June 2021).

Net provisions for risks and charges in the first half amounted to -12.7 million (-12.8 million as at 30 June 2021).

As at 30 June 2022, **gains on disposal of interests in associates and joint ventures and other investments** amounted to 1.5 million, referring to sales of properties. In the first half of 2021, that item was equal to -0.4 million.

Due to the trends described, the **profit (loss) before tax from continuing operations** was equal to 687.6 million compared to 525.8 million in the first half of 2021, an increase of 30.8%.

Other revenue and cost items

Taxation charges related to profit or loss from continuing operations were equal to -231.0 million (-133.3 million in the first half of 2021).

Profit (loss) after tax from continuing operations therefore was equal to 456.5 million, a 16.3% increase compared to 392.5 million in the first half of the previous year.

The income statement for the period also included **charges related to the banking system, net of taxes**, equal to 74.6 million (78.6 million in the first half of 2021), consisting of the ordinary contribution to the Single Resolution Fund (110.5 million gross of taxes compared to 116.4 million as at 30 June 2021, which also included additional contributions to the National Resolution Fund for 28.6 million).

The impairment test conducted on intangible assets resulted in the recognition of **goodwill impairment** for 8.1 million, relating to the goodwill allocated to the Bancassurance CGU.

In the half, the **change in own credit risk on Certificates issued by the Group, net of taxes,** generated a positive impact of 25.7 million (38.3 million before taxes), compared to the charge of -11.9 million in the first half of 2021 (-17.8 million before taxes).

As at June 30, 2022, the impact of the **Purchase Price Allocation net of taxes** was equal to -15.7 million, against -20.0 million in the first half of 2021.

Considering the share of profit due to non-controlling interests, the first half of 2022 closed with a **net profit for the period** equal to 383.9 million (361.3 million as at 30 June 2021).

The **result net of non-recurring components** in the first half came to 497.0 million, compared to 382.0 million recorded in the first half of 2021 (+30.1%).

Key financial highlights of the main Group companies

A summary of the main interests in Group companies is presented below, with an indication of the most significant balance sheet, income statement and operating balances as at 30 June 2022.

(millions of euro)	Total assets	Shareholders' equity (*)	Direct Funding	Indirect Funding	Net loans	Profit (Loss)
Banks						
Banca Aletti & C.	3,248.1	367.6	2,752.2	20,255.0	434.3	9.9
Banca Akros	8,927.8	717.6	1,534.1	-	1,760.7	2.7
Banca Aletti & C. (Suisse)	122.7	28.1	92.9	455.9	18.2	(0.6)
Bipielle Bank (Suisse) in liquidation	23.5	21.9	-	-	-	(0.3)
Financial companies						
Aletti Fiduciaria	10.4	7.3	-	907.5	1.6	(0.1)
Oaklins Italy	2.5	1.8	-	-	-	0.8
Other companies						
Tecmarket Servizi	37.3	22.1	-	-	-	5.4
Ge.Se.So.	1.4	0.3	-	-	-	0.03

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

Banco BPM stock

As at 30 June 2022, the value of Banco BPM shares fluctuated between a minimum closing price of 2.32 euro on 7 March 2022 and a maximum closing price of 3.63 euro on 15 February 2022.
From the beginning of the year, Banco BPM shares recorded a positive performance of +3%. As at 30 June 2022, average daily volumes were approximately 18 million shares.
In addition, it should be noted that at the end of June 2022, the Banco BPM share was "covered" by 19 equity research companies (of which: 16 with positive recommendations, 3 neutral and 0 negative), with which continuous dialogue was maintained during the year.

Lastly, the shareholders of Banco BPM have a consultation agreement in place relating to the shares of Banco BPM S.p.A., made public pursuant to Art. 122 of Italian Legislative Decree 58/1998 and Art. 129 of CONSOB Regulation 11971 of 14 May 1999.
This consultation agreement, originally signed on 21 December 2020 between several Italian Foundations, shareholders of Banco BPM with a total share of 5.49% of Banco BPM's share capital, gained new shareholders, who signed the Consultation Agreement on 20 July 2021.
To date, this agreement encompasses shareholders that hold 6.17% of the Bank's share capital.
For further details, please refer to the website www.gruppo.bancobpm.it Investor Relations - Stock, shareholder base and dividends section, "Consultation Agreements".

Group ratings

Summary table of Banco BPM ratings

Rating Agency	Type of Rating	30/06/2022	31/12/2021
Fitch Ratings	Long Term IDR	BBB-/Stable Outlook	
	Short Term IDR	F3	
	Viability Rating (VR)	bbb-	
	Long Term Deposits	BBB	
	Short-Term Deposits	F3	
Moody's Investors Service	Long Term on Senior Unsecured Debt	Ba1/Stable Outlook	Ba2/Stable Outlook
	Issuer Rating	Ba1/Stable Outlook	Ba2/Stable Outlook
	Long Term on Deposits	Baa2/Stable Outlook	Baa3/Stable Outlook
	Short Term on Deposits	P-2	P-3
	Baseline Credit Assessment	ba2	ba3
	Counterparty Risk Assessment	Baa2(cr)/P-2(cr)	Baa3(cr)/P-3(cr)
DBRS Morningstar	Long-Term Issuer Rating	BBB (low)/Positive Trend	BBB (low)/Positive Trend
	Short-Term Issuer Rating	R-2 (middle)/Positive Trend	R-2 (middle)/Positive Trend
	Long Term on Senior Debt	BBB (low)/Positive Trend	BBB (low)/Positive Trend
	Short Term on Debt	R-2 (middle)/Positive Trend	R-2 (middle)/Positive Trend
	Long Term on Deposits	BBB/Positive Trend	BBB/Positive Trend
	Short Term on Deposits	R-2 (high)/Positive Trend	R-2 (high)/Positive Trend
	Intrinsic Assessment	BBB (low)	BBB (low)
	Support Assessment	SA3	SA3

Summary table of Banca Akros ratings

Rating Agency	Type of Rating	30/06/2022	31/12/2021
DBRS Morningstar	Long-Term Issuer Rating	BBB (low)/Positive Trend	BBB (low)/Positive Trend
	Short-Term Issuer Rating	R- 2 (middle)/Positive Trend	R- 2 (middle)/Positive Trend
	Long Term on Senior Debt	BBB (low)/Positive Trend	BBB (low)/Positive Trend
	Short Term on Debt	R-2 (middle)/Positive Trend	R-2 (middle)/Positive Trend
	Long Term on Deposits	BBB/Positive Trend	BBB/Positive Trend
	Short Term on Deposits	R-2 (high)/Positive Trend	R-2 (high)/Positive Trend
	Support Assessment	SA1	SA1

On 26 April 2022, Fitch Ratings assigned new ratings to Banco BPM, all in the investment grade area, with a stable outlook. The ratings are based on the analysis of Banco BPM's standalone profile which leverages its franchise, rooted in Northern Italy, and take into account a diversified mix of revenues, a moderate risk profile, stable funding and liquidity and adequate capitalisation.

Over the course of 2022, 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 11 May 2022, Moody's improved Banco BPM's ratings by 1 notch, as specified in the table above. The improvement in long-term ratings on deposits and unsecured senior debt was driven by the upgrade by a notch of Banco BPM's standalone Baseline Credit Assessment (BCA), which went from ba3 to ba2. The BCA upgrade mainly reflects the Bank's improvement in credit quality as a result of the continuous process of derisking its loan portfolio. Moody's also notes the equity position of Banco BPM, which significantly exceeds the regulatory requirements. On 18 May 2022, the rating company published an updated Credit Opinion on Banco BPM confirming said assessment;
- DBRS Morningstar (DBRS) maintained its ratings, after revising the Trend of Banco BPM and of Banca Akros from Negative to Positive on 19 November 2021, 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. Please recall that subsequently, on 6 December 2021, DBRS published a Rating Report analysing Banco BPM, which incorporated, inter alia, this recent improvement.

RISK MANAGEMENT

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

DISCLOSURE ON TRANSACTIONS WITH RELATED PARTIES

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

OUTLOOK FOR BUSINESS OPERATIONS

The general framework is impacted by the continuing pandemic as well as the tensions generated by the Russia-Ukraine conflict, with inevitable effects on the outlook for growth and expectations of inflation, triggered by the increase in the cost of raw materials.
In that scenario, following the sharp growth recorded in 2021, the Italian economy is expected to slow its pace, which, however, will continue to benefit from the use of the Next Generation EU funds and continuing monetary conditions which, despite a less accommodating policy and rates gradually increasing, will remain favourable on the whole.

Given the context, also during the second half of the year, the external variables will likely continue to be the main influences on the operating performance of the Group.
Net interest income, which will be impacted by the reduction in the extra remuneration of ECB funding in the form of TLTRO, will benefit from the increase in interest rates both in the commercial component and that deriving from the portfolio of financial assets. The Group presents significant sensitivity, equal to around +443 million in a scenario of a parallel shift of +100 basis points in interest rates.
Fee and commission income, though in a scenario impacting both up front and running fees and commissions connected with investment products, will be supported by the trend in fees and commissions relating to typical commercial banking operations.
The governance of operating expenses will remain one of the key areas of focus of managerial action, in order to offset the impacts from the unlikely repeatability of certain cost recoveries that characterised last year (above all relating to personnel expenses), the increases relating to application of the national labour contract for the industry, the increase in IT investments and inflation.
As regards adjustments to loans, the conservative approach to their measurement adopted over the last few years, and confirmed in the first half of 2022, on both performing and non-performing exposures, even in a trend of default inflows which, though still very low, could grow during the year in the event of a further worsening of the macroeconomic scenario, should allow for the continuation of the process of the reduction in the cost of credit launched in recent years, without harming the derisking trend or the maintenance of a solid coverage level.
Save for further worsening of the scenario, for the entire year, an improvement is expected in the Group’s net result compared to 2021, with a trend that confirms both the trajectory of profitability and the overall targets outlined in the Strategic Plan.

Consolidated condensed interim financial statements

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated balance sheet

Asset items	30/06/2022	31/12/2021
10. Cash and cash equivalents	33,109,414	29,153,316
20. Financial assets at fair value through profit and loss	7,474,032	6,337,110
a) financial assets held for trading	5,771,429	4,538,625
c) other financial assets mandatorily measured at fair value	1,702,603	1,798,485
30. Financial assets measured at fair value through other comprehensive income	10,594,239	10,675,079
40. Financial assets at amortised cost	142,423,433	140,448,388
a) loans to banks	10,778,617	12,773,990
b) loans to customers	131,644,816	127,674,398
50. Hedging derivatives	1,011,804	127,076
60. Fair value change of financial assets in macro fair value hedge portfolios (+/-)	(262,165)	2,875
70. Interests in associates and joint ventures	1,537,747	1,794,116
90. Property, plant and equipment	3,192,497	3,278,245
100. Intangible assets	1,202,985	1,213,722
of which:		
- goodwill	46,726	54,858
110. Tax assets	4,581,900	4,540,229
a) current	243,016	246,601
b) deferred	4,338,884	4,293,628
120. Non-current assets and disposal groups held for sale	102,802	229,971
130. Other assets	3,693,314	2,689,089
Total assets	**208,662,002**	**200,489,216**

Liabilities and shareholders' equity items	30/06/2022	31/12/2021
10. Financial liabilities at amortised cost	170,798,566	166,561,146
a) due to banks	46,230,401	45,691,578
b) due to customers	111,377,387	107,788,219
c) debt securities in issue	13,190,778	13,081,349
20. Financial liabilities held for trading	14,874,526	14,132,931
30. Financial liabilities designated at fair value	1,774,417	1,405,190
40. Hedging derivatives	610,185	227,972
50. Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	(754,167)	(47,812)
60. Tax liabilities	287,370	302,816
a) current	13,921	8,894
b) deferred	273,449	293,922
80. Other liabilities	7,239,994	3,613,968
90. Provisions for employee severance pay	273,540	320,303
100. Provisions for risks and charges	747,840	876,643
a) commitments and guarantees given	130,908	131,108
b) post-employment benefits and similar obligations	106,263	124,879
c) other provisions	510,669	620,656
120. Valuation reserves	(301,301)	341,360
140. Equity instruments	1,390,153	1,092,832
150. Reserves	4,253,943	3,999,850
170. Share capital	7,100,000	7,100,000
180. Own shares (-)	(18,409)	(8,159)
190. Non-controlling interests (+/-)	1,402	1,108
200. Profit (loss) for the period (+/-)	383,943	569,068
Total liabilities and shareholders' equity	**208,662,002**	**200,489,216**

Consolidated income statement

Items	I half 2022	I half 2021
10. Interest and similar income	1,273,861	1,212,569
of which: interest income using the effective interest method	1,062,702	1,079,290
20. Interest and similar expense	(242,650)	(206,713)
30. Net interest income	**1,031,211**	**1,005,856**
40. Fee and commission income	1,032,060	1,008,454
50. Fee and commission expense	(74,465)	(62,153)
60. Net fee and commission income	**957,595**	**946,301**
70. Dividends and similar income	36,259	34,408
80. Net trading income	162,457	22,719
90. Fair value gains/losses on hedging derivatives	(6,629)	2,087
100. Gains (losses) on disposal or repurchase of:	(84,168)	(132,204)
a) financial assets at amortised cost	(44,964)	(144,858)
b) financial assets measured at fair value through other comprehensive income	(37,175)	13,384
c) financial liabilities	(2,029)	(730)
110. Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss	(55,589)	52,841
a) financial assets and liabilities designated at fair value	88,110	1,491
b) other financial assets mandatorily measured at fair value	(143,699)	51,350
120. Operating income	**2,041,136**	**1,932,008**
130. Net credit impairment losses/recoveries relating to:	(136,244)	(247,453)
a) financial assets at amortised cost	(134,035)	(247,191)
b) financial assets measured at fair value through other comprehensive income	(2,209)	(262)
140. Gains (losses) from contractual modification without derecognition	(919)	(2,222)
150. Net income from financial activities	**1,903,973**	**1,682,333**
180. Net income from financial and insurance activities	**1,903,973**	**1,682,333**
190. Administrative expenses:	(1,383,202)	(1,415,442)
a) personnel expenses	(812,286)	(847,793)
b) other administrative expenses	(570,916)	(567,649)
200. Net provisions for risks and charges	(12,734)	(12,805)
a) commitments and guarantees given	(83)	(6,234)
b) other net provisions	(12,651)	(6,571)
210. Depreciation and impairment losses on property, plant and equipment	(83,647)	(83,368)
220. Amortisation and impairment losses on intangible assets	(57,126)	(56,678)
230. Other operating expenses/income	173,011	186,906
240. Operating expenses	**(1,363,698)**	**(1,381,387)**
250. Gains (losses) of associates and joint ventures	91,114	98,079
260. Fair value gains (losses) on property, plant and equipment and intangible assets	(40,845)	(36,889)
270. Value adjustments to goodwill	(8,132)	-
280. Gains (losses) on disposal of investments	1,466	(437)
290. Profit (loss) before tax from continuing operations	**583,878**	**361,699**
300. Taxation charge related to profit or loss from continuing operations	(200,044)	(494)
310. Profit (loss) after tax from continuing operations	**383,834**	**361,205**
330. Profit (loss) for the period	**383,834**	**361,205**
340. Profit (loss) for the period attributable to non-controlling interests	109	112
350. Parent Company's profit (loss) for the period	**383,943**	**361,317**
Basic EPS (euro)	0.25	0.24
Diluted EPS (euro)	0.25	0.24

Statement of consolidated comprehensive income

Items	30/06/2022	30/06/2021
10. Profit (loss) for the period	**383,834**	**361,205**
Other comprehensive income after tax without reclassification to the income statement	**35,467**	**122,173**
20. Equity instruments designated at fair value through other comprehensive income	(30,727)	(1,435)
30. Financial liabilities designated at fair value through profit and loss (changes to its own credit risk)	29,229	(6,932)
50. Property, plant and equipment	2,023	130,337
70. Defined benefit plans	34,751	137
90. Share of valuation reserves related to interests in associates and joint ventures carried at equity	191	66
Other comprehensive income after tax with reclassification to the income statement	**(671,438)**	**(82,176)**
100. Foreign investment hedges	(656)	314
110. Exchange rate differences	1,795	(781)
120. Cash flow hedges	(9,974)	(6,600)
140. Financial assets (other than equity instruments) measured at fair value through other comprehensive income	(512,557)	(71,282)
160. Share of valuation reserves related to interests in associates and joint ventures carried at equity	(150,046)	(3,827)
170. Total other comprehensive income after tax	**(635,971)**	**39,997**
180. Comprehensive income (Items 10+170)	**(252,137)**	**401,202**
190. Consolidated comprehensive income attributable to non-controlling interests	(109)	(112)
200. Consolidated comprehensive income attributable to the Parent Company	**(252,028)**	**401,314**

Statement of changes in consolidated shareholders' equity

30 June 2022	Balance as at 31/12/2021	Changes in opening balances	Balance as at 01/01/2022	Allocation of profit from previous year		Changes in the period									Shareholders' equity as at 30/06/2022	Group shareholders' equity as at 30/06/2022	Non-controlling interests as at 30/06/2022
							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 H1 2022			
Share capital:	**7,100,736**	**-**	**7,100,736**	**-**		**-**	**-**	**-**					**-**		**7,100,736**	**7,100,000**	**736**
a) ordinary shares	7,100,736	-	7,100,736	-		-	-	-					-		7,100,736	7,100,000	736
b) other shares	-	-	-	-		-	-	-					-		-	-	-
Share premium reserve	**-**	**-**	**-**	**-**		**-**	**-**	**-**					**-**		**-**	**-**	**-**
Reserves:	**4,000,506**	**-**	**4,000,506**	**280,448**		**(20,476)**	**(5,760)**	**-**	**-**		**-**		**-**		**4,254,718**	**4,253,943**	**775**
a) retained earnings	3,670,845	-	3,670,845	280,448		(28,128)	(5,760)	-	-				-		3,917,405	3,916,628	777
b) other	329,661	-	329,661	-		7,652	-	-			-		-		337,313	337,315	(2)
Valuation reserves	**341,360**	**-**	**341,360**	**-**		**(6,690)**							**-**	**(635,971)**	**(301,301)**	**(301,301)**	**-**
Equity instruments	**1,092,832**	**-**	**1,092,832**							**297,321**					**1,390,153**	**1,390,153**	**-**
Own shares	**(8,159)**	**-**	**(8,159)**			**-**	**5,766**	**(16,016)**							**(18,409)**	**(18,409)**	**-**
Profit (loss) for the period	**568,784**	**-**	**568,784**	**(280,448)**	**(288,336)**									**383,834**	**383,834**	**383,943**	**(109)**
Shareholders' equity	**13,096,059**	**-**	**13,096,059**	**-**	**(288,336)**	**(27,166)**	**6**	**(16,016)**	**-**	**297,321**	**-**		**-**	**(252,137)**	**12,809,731**	**12,808,329**	**1,402**
- of the Group	**13,094,951**	**-**	**13,094,951**	**-**	**(288,336)**	**(27,569)**	**6**	**(16,016)**	**-**	**297,321**	**-**		**-**	**(252,028)**	**12,808,329**		
- of non-controlling interests	**1,108**	**-**	**1,108**	**-**		**403**	**-**	**-**					**-**	**(109)**	**1,402**		

30 June 2021	Balance as at 31/12/2020	Changes in opening balances	Balance as at 01/01/2021	Allocation of profit from previous year		Changes in the period									Shareholders' equity as at 30/06/2021	Group shareholders' equity as at 30/06/2021	Non-controlling interests as at 30/06/2021
						Changes in reserves	Operations on shareholders' equity							Comprehensive income H1 2021			
				Reserves	Dividends and other allocations		Issue of new shares	Purchase of own shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on own shares	Stock options	Changes in equity interests				
Share capital:	**7,101,310**	**-**	**7,101,310**	**-**		**-**	**-**	**-**					**(565)**		**7,100,745**	**7,100,000**	**745**
a) ordinary shares	7,101,310	-	7,101,310	-		-	-	-					(565)		7,100,745	7,100,000	745
b) other shares	-	-	-	-		-	-	-					-		-	-	-
Share premium reserve	**-**	**-**	**-**	**-**		**-**	**-**	**-**					**-**		**-**	**-**	**-**
Reserves:	**4,117,332**	**-**	**4,117,332**	**16,632**		**(16,872)**	**(4,059)**	**-**	**(90,544)**		**-**		**72**		**4,022,561**	**4,021,905**	**656**
a) retained earnings	3,796,621	-	3,796,621	16,632		(21,116)	(4,059)	-	(90,544)				72		3,697,606	3,696,948	658
b) other	320,711	-	320,711	-		4,244	-	-			-		-		324,955	324,957	(2)
Valuation reserves	**310,412**	**-**	**310,412**	**-**		**(115)**							**-**	**39,997**	**350,294**	**350,294**	**-**
Equity instruments	**695,417**	**-**	**695,417**							**397,415**					**1,092,832**	**1,092,832**	**-**
Own shares	**(14,002)**	**-**	**(14,002)**			**-**	**5,681**	**-**							**(8,321)**	**(8,321)**	**-**
Profit (loss) for the period	**16,632**	**-**	**16,632**	**(16,632)**	**-**									**361,205**	**361,205**	**361,317**	**(112)**
Shareholders' equity	**12,227,101**	**-**	**12,227,101**	**-**	**-**	**(16,987)**	**1,622**	**-**	**(90,544)**	**397,415**	**-**		**(493)**	**401,202**	**12,919,316**	**12,918,027**	**1,289**
- of the Group	**12,225,207**	**-**	**12,225,207**	**-**	**-**	**(16,987)**	**1,622**	**-**	**(90,544)**	**397,415**	**-**		**-**	**401,314**	**12,918,027**		
- of non-controlling interests	**1,894**	**-**	**1,894**	**-**		**-**	**-**	**-**					**(493)**	**(112)**	**1,289**		

Consolidated cash flow statement

Indirect method

A. Operating activities	**30/06/2022**	**30/06/2021 (*)**
1. Cash flow from operations	**749,269**	**678,842**
- profit (loss) for the period (+/-)	383,834	361,205
- gains/losses on financial assets held for trading and on other financial assets/liabilities at fair value through profit and loss (-/+)	(36,186)	20,911
- capital gains/losses on hedging derivatives (-/+)	6,629	(2,087)
- net credit impairment losses/recoveries (-/+)	137,163	249,675
- net impairment losses/recoveries on property, plant and equipment and intangible assets (+/-)	148,905	140,046
- net provisions for risks and charges and other costs/revenues (+/-)	15,799	13,933
- net premiums not collected (-)		
- other insurance income/expenses not collected (-/+)		
- taxes, duties and tax credits not settled (+/-)	184,130	(6,874)
- net impairment losses/recoveries on discontinued operations net of taxes (-/+)		
- other adjustments (+/-)	(91,005)	(97,967)
2. Cash flow from/used in financial assets	**(4,602,346)**	**(3,219,264)**
- financial assets held for trading	(1,149,046)	531,813
- financial assets designated at fair value	-	-
- other financial assets mandatorily measured at fair value	(40,908)	(23,445)
- financial assets measured at fair value through other comprehensive income	78,631	(4,736,384)
- financial assets at amortised cost	(2,109,999)	1,668,569
- other assets	(1,381,024)	(659,817)
3. Cash flow from/used in financial liabilities	**7,902,657**	**14,191,796**
- financial liabilities at amortised cost	4,237,420	13,502,733
- financial liabilities held for trading	741,595	(1,515,277)
- financial liabilities designated at fair value	458,445	266,152
- other liabilities	2,465,197	1,938,188
Net cash flow from/used in operating activities	**4,049,580**	**11,651,374**
B. Investing activities		
1. Cash flow from:	**75,582**	**4,970**
- sales of interests in associates and joint ventures	75,000	-
- dividends collected on interests in associates and joint ventures		
- sales of property, plant and equipment	582	4,970
- sales of intangible assets	-	-
- sales of subsidiaries and business segments		
2. Cash flow used in:	**(122,040)**	**(90,953)**
- purchases of interests in associates and joint ventures	(700)	-
- purchases of property, plant and equipment	(67,199)	(35,026)
- purchases of intangible assets	(54,141)	(55,927)
- purchases of subsidiaries and business segments		
Net cash flow from/used in investing activities	**(46,458)**	**(85,983)**
C. Financing activities		
- issues/purchases of own shares	(16,016)	-
- issues/purchases of equity instruments	257,328	372,040
- dividend distribution and other allocations	(288,336)	(90,544)
- third-party sales/purchases		
Net cash flow from/used in financing activities	**(47,024)**	**281,496**
Net cash flow from/used during the period	**3,956,098**	**11,846,887**

(*) The figures relating to the previous period 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 period includes the profit (loss) of non-controlling interests.

Reconciliation	30/06/2022	30/06/2021 (*)
- Cash and cash equivalents at the beginning of the period	29,153,316	9,410,687
- Net cash flow from/used during the period	3,956,098	11,846,887
- Cash and cash equivalents: foreign exchange effect		
Cash and cash equivalents at the end of the period	**33,109,414**	**21,257,574**

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

EXPLANATORY NOTES

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

PART A – ACCOUNTING POLICIES

A.1 – General part

General preparation principles

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

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

The financial statements have been prepared in keeping with the provisions of the Bank of Italy in Circular no. 262 of 22 December 2005 "Bank financial statements: layouts and rules for preparation" and the subsequent updates (most recently, the seventh 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 financial statements provide not only the accounting data as at 30 June 2022, but also the comparative balances relating to the same period in the previous year, with the exception of the balance sheet, which is compared with the last financial statements approved as at 31 December 2021.

The Consolidated condensed interim financial statements, approved by the Board of Directors of Banco BPM on 3 August 2022, are subject to a limited audit by independent auditors PricewaterhouseCoopers S.p.A., in application of the engagement assigned to this company with the shareholders' resolutions of Banco Popolare Soc. Coop. and Banca Popolare di Milano S.c. a r.l. of 15 October 2016.

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

Statement of compliance with the international accounting standards

These consolidated condensed interim financial statements as at 30 June 2022 have been prepared in accordance with IAS/IFRS issued by the International Accounting Standard Board (IASB) and related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Union, as established by EU Regulation no. 1606 of 19 July 2002.
For the interpretation and application of international accounting standards, the following documents, although not endorsed by the European Commission, have been referenced:

- Conceptual Framework;

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

The accounting standards applied in the preparation of these consolidated condensed interim financial statements are those in force on 30 June 2022 (including the SIC and IFRIC interpretations).
For an overview of the accounting standards and the related interpretations endorsed by the European Commission, whose application is planned for 2022 or future years, please refer to the following paragraph "New accounting standards/interpretations or amendments to existing standards approved by IASB/IFRIC", which also illustrates any impacts for the Group.

The communications of the Supervisory Authorities (Bank of Italy, ECB, EBA, CONSOB and ESMA) and the interpretation documents on the application of IAS/IFRS prepared by the Italian Accounting Body (OIC), the Italian Banking Association (ABI) and the Italian Measurement Body (OIV), 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. For an examination of the documents published on accounting issues relating to Covid-19 and the Russia-Ukraine conflict, please refer to the following paragraph "Risks, uncertainties and impacts of the Covid-19 epidemic and the Russia-Ukraine conflict".

The accounting standards used for the preparation of the consolidated condensed interim financial statements are those adopted for the preparation of the consolidated financial statements as at 31 December 2021, to which reference should be made for an explanation of the criteria for the recognition, classification, measurement, derecognition and recognition of income components relating to the items in the financial statements.

With reference to the disclosure provided, please note that the consolidated condensed interim financial statements as at 30 June 2022 were drafted in summary form, in compliance with the provisions of IAS 34 "Interim financial reporting".
The consolidated condensed interim financial statements are drawn up clearly and provide a true and fair view of the equity and financial situation and economic result of Banco BPM and its subsidiaries as at 30 June 2022, as illustrated in the paragraph "Scope of consolidation and methods".

Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated condensed interim financial statements

The application of certain accounting standards necessarily involves the use of estimates and assumptions, which affect the values of the assets and liabilities recorded in the balance sheet and the disclosures made on contingent assets and liabilities.
The assumptions underlying the estimates made take into account all the information available at the date of preparation of the interim financial report as at 30 June 2022, as well as assumptions considered reasonable in light of historical experience.
Due to their nature, it thus cannot be excluded that the assumptions adopted, however reasonable, might not be confirmed by future scenarios in which the Group will operate.
The results, which will be achieved in the future could therefore differ from the estimates made for the purpose of drawing up this report and could consequently make adjustments necessary, which at present cannot be foreseen or estimated with respect to the book value of the assets and liabilities recorded in the financial statements.
In that regard, note that it may be necessary to adjust the estimates as a result of changes in the underlying circumstances, following new information or increased experience.
As regards the main factors of uncertainty that could impact future scenarios in which the Group operates, the negative effects on the global and Italian economies connected directly and indirectly with developments in the conflict between Russia and Ukraine and the evolution of the COVID-19 epidemic must not be underestimated. Until the framework of the conflict takes on more defined contours in order to be able to assess its consequences (especially as regards indirect effects), the inclusion in the budget estimates of its indirect impacts will be a particularly complex exercise, and the results of these estimation processes will be subject to a significant level of uncertainty. For further details, please refer to what is illustrated in the following paragraph "Risks, uncertainties and impacts of the Covid-19 epidemic and the Russia-Ukraine conflict".

The accounting policies considered most critical for giving a faithful representation of the Group's equity, economic and financial situation, both in terms of the materiality of the values recognised in the financial statements affected by such policies and the high level of judgement required for assessments entailing the use of estimates and assumptions by the management, are illustrated below with reference to the specific sections of the Notes to the financial statements for detailed information on the assessment processes conducted as at 30 June 2022. The following analysis on the most important accounting policies will also include the main aspects of uncertainty relating to the Covid-19 pandemic and the Russia-Ukraine conflict that are able to influence financial statement valuations, subject to a more in-depth disclosure in the paragraph below entitled "Risks, uncertainties and impacts of the Covid-19 epidemic and the Russia-Ukraine conflict".

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.

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. Specifically:

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

as an alternative scenario with respect to those retained recoverable from internal management ("work out");
- for recovery time;
- for the estimated realisable value of property and collateral.

Given the array of possible approaches relating to estimation models permitted by the reference international accounting standards, the use of a methodology or the selection of certain estimative parameters may have a significant influence on the valuation of the loans. These methods and parameters are necessarily updated through a continuous process also in light of historic data available, in order to best represent the estimated realisable value of the credit exposure. For updates introduced in the measurement of expected losses, please refer to the paragraph "Methods for measuring IFRS 9 expected losses for financial reporting purposes" contained in "Part E - Information on risks and related hedging policies" of these Explanatory Notes.

Given the above, it cannot be excluded that alternative monitoring criteria or different methodologies, parameters or assumptions in determining the recoverable value of the Group's credit exposures - influenced, however, also by possible alternative strategies for their recovery approved by the competent corporate bodies as well as by the evolution of the economic and financial context and reference regulations - may result in valuations different from those conducted for the purposes of the preparation of the consolidated condensed interim financial statements as at 30 June 2022.

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 (ECL) of performing loans 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 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 condensed interim financial statements as at 30 June 2022.
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.

As described in the section "Intangible assets - Item 100" set forth in "Part B - Information on the consolidated balance sheet" of these Notes, to which reference is made for further details, for assets with an indefinite useful life represented by trademarks and goodwill, in line with what is set forth in IAS 36, in the first half of the year an analysis was performed to exclude any existence of impairment indicators, such so as to call into question the recoverability of the relative carrying amounts.
The recognition of potential impairment triggers (internal and external), based on the evolution of all of the relevant factors for the measurement of the recoverable value of the Cash Generation Units - CGUs (discount rate, target capitalisation levels, cash flows and the relative growth rate, stock market capitalisation), brought to light the need to carry out impairment testing for the Bancassurance Protection CGU, as a result of which a write-down of the goodwill allocated to it was recognised for 8.1 million.

As at 30 June 2022, the assets in question therefore amounted to 551.0 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" CGU and 18.6 million to the "Banca Akros" CGU;
- 46.7 million in goodwill attributed to the "Bancassurance Protection" CGU (42.9 million) and the "Banca Akros" CGU (3.8 million).

In this regard, it should be noted that the verification of the recoverability of the intangible assets in question is a complex exercise, the results of which are affected by the valuation methods adopted, as well as by the underlying parameters and assumptions, which may need to be modified to take account of new information or developments that could not be foreseen when this Report was prepared. In order to be able to appreciate whether the recoverable value is maintained with respect to alternative assumptions and situations, please refer to the sensitivity analysis contained in the section "Intangible assets - Item 100 in the assets", of "Part B - Information on the consolidated balance sheet" of these Explanatory Notes.

Determining the fair value of financial assets and liabilities

In the presence of financial instruments not listed in active markets or of illiquid and complex instruments, adequate measurement processes must be undertaken characterised by significant elements of judgement as regards the choice of the measurement models and of the relative input parameters, which on occasion may not be observable in the market.
There are margins of subjectivity in the measurement as regards the observability or not of certain parameters and in the consequent classification in correspondence of the fair value hierarchy levels.
For qualitative and quantitative information on the method adopted to measure the fair value of financial assets and liabilities, reference should be made to the contents of these Explanatory 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 purposes only, tax regulations permit tax losses to 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 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, for the purpose of this interim financial report, the probability test was carried out, in line with that carried out for the 2021 financial statements, using the "Risk-adjusted profit approach", i.e. discounting the forecasts of future taxable income on the basis of a corrective factor that is expressive of a specific risk, consistent with the risk premium used for the impairment test of intangible assets with an indefinite useful life, which pushes further back the time period of the estimate of taxable income flows.
Considering that the recoverability of DTAs could be negatively influenced by a revision of the cash flows assumed as the basis of the probability test - in line with what is suggested by generally accepted practice for valuations characterised by uncertainty - the estimation of future taxable income was conducted on the basis of a multi-scenario approach.
In line with the prudential view of the probability test, the forecasts on taxable income were developed on the basis of the latest income projections approved by the Board of Directors in April 2022 as part of the internal capital adequacy assessment process (ICAAP), taking into account that the updates being processed do not show any signs of critical issues with respect to the above-mentioned projections, as well as with respect to the values of the Business Plan approved on 4 November 2021, which must therefore still be considered valid.

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.

The section "Tax assets - Item 110 and Item 130 in the assets" 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 evaluation 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 (actions to void and pending lawsuits) and tax disputes with the Tax Authorities, reference should be made to the section "Liability provisions - Items 90 and 100" 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 the section “Liability provisions - Item 90 and Item 100 in the liabilities” contained in “Part B - Information on the consolidated balance sheet” 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 properties used in operations, i.e. those used for administrative and/or commercial purposes. The update of the fair value, in compliance with the requirements laid out by IFRS 13, is based on a dedicated appraisal issued by a leading company, on the basis of the “RICS Valuation” standards.[1]
In more detail, for properties for investment purposes, the Group’s accounting policies require fair value to be updated annually, unless there is evidence that an earlier update is necessary. 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.
In the preparation of this Report, it was considered that the evolution recorded in the property market during the first half of the year was not such as to require an update with respect to previous valuations, except for a limited number of property units selected based on the size or specific events observed over the half-year period and deemed capable of influencing their value. For the above-cited perimeter, which represents approximately 70% of the total properties held for investment in terms of book value, the fair value was updated by using specific appraisals drawn up by qualified, independent experts, in compliance with the criteria laid out by 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 of such assets, also considering the specific nature and distinctive characteristics of the asset to be valued.

Margins of subjectivity are also present when identifying the perimeter of properties 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.

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, - may lead to different valuations with respect to those conducted for the condensed interim financial statements as at 30 June 2022, with consequent negative impacts on the Group’s balance sheet and income statement.

For further details, please refer to the section “Property, plant and equipment - Item 90” contained in “Part B - Information on the consolidated balance sheet” of these Explanatory Notes.

Estimating obligations relating to employee benefits

Determining the liabilities associated to employee benefits, with specific reference to defined benefit plans and to long-term benefits, implies a certain degree of complexity; the outcome of the 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 judgement of management is fundamental, when selecting the most suitable technical basis to evaluate the cases, which may be influenced by the socio-economic context in which the Group operates at the time, as well as the performance of the financial markets. The illustration of the main actuarial assumptions, together with the sensitivity analysis of the liabilities with respect to the actuarial assumptions considered most significant, is provided in the section “Liability provisions - Items 90 and 100” contained in “Part B - Information on the consolidated balance sheet” of these Explanatory Notes.

§§§

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

The 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, in order to allow for an appreciation of any negative effects on the financial statements related to the above-mentioned factors of uncertainty, exacerbated by the Covid-19 pandemic and the ongoing Russia-Ukraine conflict as described in more detail below, in these Notes information for 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, liabilities for defined benefits to employees), the disclosure of the main hypotheses and assumptions used in the estimate, as well as a sensitivity analysis with respect to alternative assumptions, is provided in the specific sections.

Risks, uncertainties and impacts of the Covid-19 epidemic and the Russia-Ukraine conflict

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 epidemic (Covid-19) and, starting from the first quarter of 2022, the conflict between Russia and Ukraine, must be considered.
After the global recession of 2020, the global economic recovery that started from 2021, albeit in an uneven manner between the various geographical areas thanks to the measures to combat the pandemic and substantial repressed demand, was interrupted by the outbreak of the Russia-Ukraine conflict in late February. The conflict in question and the sanctions imposed by the international community on the Russian government, companies and economy, as well as the countermeasures taken by Russia, have led to a situation of elevated uncertainty in terms of macroeconomics, exchange rates, energy and raw material costs, the cost of debt, inflationary expectations and the cost of credit. The increase in inflation, already triggered by the Covid-19 epidemic, led the central banks of the main countries to adopt restrictive monetary policies, thus raising interest rates.
In this context, the uncertainties surrounding the consequences of the war, especially as regards its indirect effects and its duration, make any valuation highly complex, since, on one hand, they increase the risk of the economic environment in which business is carried out and, on the other hand, increase the risk of limited predictivity of economic projections.
In order to assist drafters of financial statements in addressing these uncertainties - in line with the evolution of the health, economic and political framework - standard setters and regulatory and supervisory authorities intervened with a series of clarifications and recommendations on certain accounting issues related, first, to the impacts of Covid-19 and, subsequently, to the impacts of the Russia-Ukraine conflict, as illustrated below.

Main accounting documents issued in the context of Covid-19

The extraordinary nature of the current health 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 above-mentioned 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 impacts on future performance.
The following table provides a list of the main documents issued at the date of preparation of this Interim Financial Report, relating to the issue mentioned above:

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, during the first half of 2022 there were no further interventions by the Authorities and standard setters beyond the considerations already formulated in 2020 and 2021, which still remain valid.

Main accounting documents issued in the context of the Russia-Ukraine conflict

As previously illustrated, the invasion of Ukraine by Russia, introducing a series of uncertainties in the outlooks for running the business, has increased the risk of having to make significant adjustments to the book value of assets and liabilities in the financial statements. Therefore, during the first half of 2022 the supervisory authorities (ESMA and CONSOB) intervened by providing some recommendations to be followed for the purposes of market disclosure and in particular the financial reports prepared in accordance with IAS 34.

Authority/ Document Type	Date	Title
European Securities and Market Authority (ESMA)		
Statement	14/03/22	ESMA coordinates regulatory response to the war in Ukraine and its impact on EU financial markets (ESMA71-99-1864)
Statement	13/05/22	Implications of Russia's invasion of Ukraine on half-yearly financial reports (ESMA32-63-1277)
Commissione Nazionale per la Società e la Borsa (CONSOB)		
Notification	18/03/22	Notification on the impact of the war in Ukraine with regard to inside information and financial reporting
Notification	19/05/22	Conflict in Ukraine - Notification on financial disclosure and obligations relating to compliance with the restrictive measures adopted by the European Union against Russia

The ESMA Statement of 13 May 2022, which was followed by the publication by CONSOB on 19 May 2022 of its notification no. 3/22, provides the management and control bodies with a series of recommendations on certain topics relating to the process of producing the financial statements, with the aim of guaranteeing correct supervision over certain valuation issues impacted by the conflict and complete financial reporting, suggesting that detailed information be provided, when necessary, in line with the requirements set forth for a financial statements drawn up in complete form.

§§§§

The main aspects of attention considered in the financial statement valuations or disclosures, resulting from the Covid-19 crisis or the Russia-Ukraine conflict, are illustrated below, with particular reference to the changes and improvements made by the Group in the first half of 2022, also to take into account the recommendations of the standard setters and Authorities listed above.

Direct exposures to Russia and Ukraine

For the Banco BPM Group, the impacts directly related to the Russia-Ukraine conflict are marginal, taking into account that there are no operating activities located in Russia or Ukraine and that credit exposures to customers residing in such countries or indirectly related to Russian or Ukrainian counterparties are insignificant in extent. The above-mentioned exposures are entirely represented by loans as the Group does not hold any position in debt securities.
In detail, direct gross exposures to Russian customers amounted to 81.9 million, almost entirely referring to two counterparties; net of the relative provisions for impairment, the book value is equal to 71.2 million.
The exposures referring to counterparties belonging to groups with direct control by Russian or Ukrainian entities refer to two Italian counterparties with an overall authorised credit amount of 69.4 million; the relative utilisation amounts to 17.9 million (10.1 million for unsecured loans and 7.8 million for advances on invoices).
Direct gross exposures to banks resident in Russia - for letters of credit issued by them and used with a discount without recourse and commitment of the Group to the beneficiary - amount to 14.2 million, an amount substantially aligned with the book value. Unsecured loans to the same counterparties for letters of credit confirmed amounted to approximately 29 million.
Commercial risks associated with the operations of the Group's main customers and associated with ongoing transactions with Russian and Ukrainian counterparties amounted to 197.1 million, of which the majority consisted of risks relating to unsecured loans. The most significant exposure is attributable to a customer with unsecured risks of 71.2 million, to which approximately 50 million must be added referring to a pending enforcement of several direct guarantees, the beneficiary of which is a Russian company operating in the energy sector. In particular, these are guarantees issued as part of a construction project for a gas treatment plant in Russia by a consortium which includes, among others, the Group's customer. Against the above-mentioned guarantees, the Group received, in the final days of June 2022, requests for enforcement, which were rejected as they did not comply with the requirements of the Uniform Rules for Demand Guarantees no. 758 ("URDG 758"). On 4 July 2022, Banco BPM received notification of a decree from the Court of Turin with which, on appeal pursuant to Art. 700 of the Code of Civil Procedure of the customer and the subsidiary, the Bank as well as the other banks involved in the operation were ordered, *inaudita altera parte*, not to pay any amount to the beneficiary or its assignees as a result of any enforcement of the guarantees. With the same ruling, the Court scheduled the hearing for the discussion of the case for 21 September 2022.

As a result of this ruling, and in the absence of any further intervening circumstances, the Group will refrain from paying the above-mentioned guarantees, at the same time taking steps to preserve its rights vis-à-vis the beneficiaries and counter-guarantors.

Also the Group's exposure to the rouble is substantially equalised.

Lastly, it should be noted that there are no exposures deriving from contracts governed by Russian law, which are subject to the Russian Decree 95/22 according to which payments originally envisaged in currencies other than the rouble can be made in the rouble currency.

Indirect impacts related to the Russia-Ukraine conflict - credit risk

For the Banco BPM Group, the impacts of the conflict in question are indirect in nature, i.e. linked to the evolution of macroeconomic scenarios and the relative consequences on the Group's activities.
Particularly with reference to impacts on credit quality, it should be noted that during the first half of the year, in order to ensure proper risk management, the Group undertook a series of initiatives, through contact campaigns and surveys, with respect to customers belonging to certain portfolios considered potentially most vulnerable to the effects of the Russia-Ukraine crisis. In particular, these are the "Energy and Raw materials", "Real estate companies with financing of construction sites on a Work In Progress (WIP) basis" and "Companies active in gas and energy trading" portfolios, i.e. the portfolios considered most exposed to the increase in energy prices and raw material procurement difficulties. As at 30 June 2022, following these initiatives and ordinary monitoring activities, exposures of approximately 55.3 million were classified in Stage 3; in addition, taking into account the elements of uncertainty regarding the evolution of the conflict and its consequences, from a conservative perspective, approximately 1.5 billion in exposures were classified from Stage 1 to Stage 2.
The engagement campaign also made it possible to identify customers who need some type of intervention, in terms of new liquidity or restructuring, which will be able to count on support measures with the SACE and Mediocredito Centrale guarantee, established by the Aid Decree (Decree Law no. 50 of 17 May 2022), and being implemented by the competent bodies.

Moratorium measures, relative classification and other Covid-19 support measures

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, in previous years the Group provided 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, the 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.
Regarding the expiry of the moratoria pursuant to the Cura Italia Decree (Decree Law 18/2020), please recall that the Sostegni bis Decree (Decree Law 73/2021) extended the measures until 31 December 2021, provided the customer makes the request by 15 June 2021.
In light of the expiry of the term of the moratoria extended pursuant to the Sostegni bis Decree, as previously illustrated, as at 30 June 2022 the stock of exposures for which a payment suspension is still in progress due to a moratorium amounts to only 24 million.
On the same date, the total volume of exposures that benefited from the Covid-19 moratorium measures - and therefore inclusive of moratoria the suspension terms of which have expired and are now back in repayment - amounted to 13.7 billion, down from 14.9 billion as at 31 December 2021, as a result of payments made during the half-year. In terms of credit quality, 72.2% of the above-mentioned volumes are classified in Stage 1, 22.9% in Stage 2 and 4.9% in Stage 3.
For the moratoria already expired, as at 30 June 2022 the default rate, measured on the volume of the total moratoria granted, was confirmed as limited and equal to 1.19% (2.38% on an annual basis). For the portfolio in

question, in light of this information and taking into account the initiatives concluded in 2021 - aimed at planning the necessary interventions in the face of positions identified as critical - during the first half of 2022 it was not necessary to pursue further specific initiatives beyond what is established within ordinary monitoring processes.
The support measures also include the disbursements covered by the public guarantee provided for in the Liquidity Decree (in application of Legislative Decree 23/20) which at 30 June 2022 amounted, in terms of gross value, to 17.8 billion (16.6 billion as at 31 December 2021). In terms of credit quality, approximately 89% is classified among Stage 1 performing exposures, approximately 10% among Stage 2 performing exposures and 1% among non-performing ones. Also due to these measures, the default rate recorded at 30 June 2022 is limited and equal to 0.51% (1.02% on an annual basis).

Measurement of expected losses on credit exposures

The various authorities underscore the importance of assessing whether the deterioration of the economic situation caused by the Covid-19 scenario and the Russia-Ukraine conflict has led to a significant increase in credit risk (SICR) and/or impacts on the measurement of expected credit losses (ECL), taking into account forward-looking information. It is also specified that, in the event that issuers encounter difficulties in identifying the above-mentioned effects at individual exposure level, it may be necessary to carry out an assessment on a collective basis.
While being aware of the difficulty of this estimation of expected losses within a scenario of uncertainty, on 27 March 2020 the IASB reaffirmed the need to consider 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 crisis and relative government support measures.
In order to calculate performing credit exposures (on and off balance sheet), in line with what was done for the 2021 financial statements, also in the preparation of the accounting situation as at 30 June 2022 it was deemed necessary to apply some "post model adjustment/management overlays" where it was considered that the estimation models used were not able to adequately capture certain risk factors deemed relevant in order to determine the expected losses on uniform risk classes, also taking into account the emerging effects relating to the Russia-Ukraine conflict and the Covid-19 epidemic. These "management overlays", which in fact nearly completely eliminate the positive economic impacts that would have otherwise been recognised in the half-year, strengthen the Group's ability to absorb any negative macroeconomic effects considering the significant factors of uncertainty existing at the half-year report preparation date.
To illustrate the new macroeconomic scenarios incorporated into the calculation of expected losses on performing exposures, the interventions carried out during the first half of the year to take into account the likely effects of the war and uncertainties as to the evolution of macroeconomic scenarios and sensitivity analyses, reference is made to what is illustrated in the paragraph "Methods for measuring IFRS 9 expected losses for financial reporting purposes" contained in "Part E - Information on risks and related hedging policies" of these Explanatory Notes.

Impairment of non-financial assets

ESMA and CONSOB note that in the current context of uncertainty the determination of the recoverable value of the assets in question requires a careful assessment of cash flow projections. These projections may require the consideration of several scenarios, especially in the current circumstances and depending on the level of risk associated with the assets being tested. The weighting of the different scenarios must be calibrated on the basis of reasonable, sustainable and realistic estimates and assumptions (for example, cash flow projections and assumptions may need to be updated to reflect observable trends relating to decreasing revenues and/or increasing production costs caused by rising energy prices). ESMA stresses that, in accordance with paragraphs 55 and 56 of IAS 36, the discount rates used in determining the value in use of an asset must reflect current market valuations of the time value of money and the specific risks of the asset in question and exclude the risks and uncertainties that have already been taken into consideration in determining the expected cash flows. In this regard, ESMA notes that the conflict has had an impact on interest rates and inflation trends. Consequently, the discount rate used to determine the recoverable value should be updated. ESMA expects issuers to disclose any significant changes made with respect to the latest tests performed. For example, issuers should disclose the main financial and operational assumptions and significant changes in them (including the scenarios used and their weightings).
In light of the aforementioned recommendations, when preparing the half-year financial report, a survey was carried out on potential impairment triggers (internal and external) in order to be able to express an opinion on the need to perform a formal impairment test or not, taking into account the headrooms identified as at 31 December 2021.

For a review of the analyses carried out and the updates of the sensitivity analysis on the Group's intangible assets with an indefinite useful life, reference should be made to the paragraph "Intangible assets - Item 100" contained in "Part B - Information on the consolidated balance sheet" of these Explanatory Notes.

Probability test of deferred tax assets

In the context of the ongoing crisis, 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 previously illustrated in the discussion of "Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated condensed interim 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 checks carried out and the sensitivity analysis on the recoverability of DTAs, reference should be made to the paragraph "Tax assets - Item 110 and Item 130 in the assets" contained in "Part B - Information on the consolidated balance sheet" of these Explanatory Notes.

Declaration of going concern

With regard to what is required by the Bank of Italy, CONSOB and ISVAP in the Joint Document no. 4 of 3 March 2010, the Consolidated Interim Financial Report as at 30 June 2022 has been prepared on the going concern assumption: the Directors do not believe that risks and uncertainties have emerged, that cast doubt on its ability to continue as a going concern. The Directors have considered that the Group is reasonably expected to continue to operate for the enforceable future; therefore, the consolidated condensed interim financial statements have been drawn up on the going concern assumption.

To express this judgement, the Directors assessed the impact of the ongoing health pandemic and the Russia-Ukraine conflict, which could reasonably have negative repercussions on the company's future results; nevertheless, said impact was not deemed 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.

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

An illustration of the new accounting standards or amendments to existing standards approved by the IASB is provided below, as well as new interpretations or amendments to existing ones, published by the IFRIC, with separate disclosure of those applicable in 2022 and of those applicable in subsequent years.

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

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, some limited amendments approved by the IASB on 14 May 2020 to IAS 16, IAS 37 and IFRS 3 were endorsed. 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 condition required in order to operate in the manner intended by the management;
- the amendment to IAS 37 specifies which costs must be considered when assessing whether the contract is onerous. In particular, it is specified that the "fulfilment cost", in order to assess whether a contract is

onerous, includes costs that refer directly to the contract; these may be incremental costs but also costs that the entity cannot avoid following the conclusion of 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.

Taking into account the extent of the amendments in question, the application of such amendments did not have any impact on the Group.

IAS/IFRS accounting standards and endorsed SIC/IFRIC interpretations, the application of which takes effect after 30 June 2022

The standards or the amendments whose application starts after 30 June 2022, and for which the Group, where envisaged, had not opted for early application, are illustrated below.

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 governs the accounting treatment of insurance contracts. On 25 June 2020, the IASB published several amendments to IFRS 17, which did not affect the basic principles but instead provided an aid to the implementation of the standard 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 application of IFRS 17 to 1 January 2023; the postponement also regards the adoption 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 provides for an exposure in the income statement "by margins" achieved during the life of the policies, i.e. when the company actually obtains the estimated profits, compared to the exposure of the insurance premiums collected from the insurance company.
In relation to the disclosure of performance, IFRS 17 introduces a distinct representation of the two components that contribute to the profitability of insurance companies: that is, the profit deriving from the "hedging" activity provided - the so-called "technical margin" - and the deriving from the "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.
For the Group, the first time application of the above-mentioned standard will have both an indirect impact related to the valuation at equity of the interests in associates held in the insurance companies Vera Vita and Vera Assicurazioni, and a direct impact for the interests held in Bipiemme Vita, which became a controlling interest following the finalisation in July 2022 of the purchase of an 81% stake from Covéa Coopérations SA, as illustrated in the section "Significant events after the end of the interim period".
These companies have started a specific project in order to define methods for measuring insurance contracts in compliance with the new IFRS 17. At the date of this report, the Group is unable to provide a reliable forecast of the impact related to the first time application of the standard in question. This circumstance is justified by the fact that the Group can rely on limited information on the project for the transition to IFRS 17 by the companies, as up to 30

June 2022 it had significant influence but not control. In addition, on the basis of the information known to date, some methodological choices are being defined, also in relation to the method of representing the contract margins at consolidated level, which could influence the impact of its first time application.

Regulation (EU) no. 357 of 2 March 2022 - Amendments to IAS 1 "Presentation of financial statements" and IFRS Practice Statement 2

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

Regulation (EU) no. 357 of 2 March 2022 - Amendments to IAS 8 "Accounting standards, changes in accounting estimates and errors"

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.

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

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

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 for the transition to IFRS 17, for entities that apply the transition to IFRS 9 at the same time, taking into account the different requirements established by such accounting standards for the restatement of comparative balances; indeed, IFRS 17 requires the restatement of comparative information, which is allowed but not required by IFRS 9.
The amendment in question therefore concerns financial assets for which comparative information must be presented at the IFRS 17 and IFRS 9 transition date, which however is not restated pursuant to IFRS 9, with the objective of avoiding temporary accounting mismatching between valuations of financial assets and those of insurance contracts, thus contributing to improving the relevance of comparative information for users of financial statements. 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.
The amendments shall apply from 1 January 2023.

Amendments to IAS 1 "Classification of Liabilities as Current or Non-current - Deferral of Effective Date"

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 scheduled for the year 2022, was deferred to 1 January 2023 with the amendments approved by the IASB on 3 June 2020.

Amendments to IAS 12 "Deferred Taxes related to Assets and Liabilities arising from a single transaction"

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

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

Interest Rate Benchmark Reform ("IBOR Reform")

IBOR Reform - regulatory, accounting and planning aspects

The remaining activities of the IBOR Reform project, the regulatory, planning and accounting aspects of which were extensively illustrated in part A of the consolidated financial statements as at 31 December 2021 to which reference is made, continued during the first half of 2022.
In addition, the SOFR Compounded Average Rate parameter for the USD currency is currently being replaced with the Term SOFR parameter for foreign loans with a maximum duration of 12 months, in consideration of changing market needs.

From a regulatory perspective, it is worth noting CONSOB notice of 20 January 2022 on the ESMA Guidelines[1] on methodology, oversight function and record keeping under the Benchmarks Regulation regarding the rates used as reference rates issued by ESMA pursuant to Art. 40 of Regulation (EU) 2016/1011. Furthermore, on 28 January 2022 ESMA published the Q&A ESMA70-145-114 Version 23.

After the publication of the Risk Free Rate called "€STR Compounded Average Rate" already reported in the consolidated financial statements as at 31 December 2021, there are no further changes.

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

As regards the quantification of current exposure to the IBOR rates subject to discontinuation, described below, it should be noted that the scope considers the contracts in place as at 30 June 2022 still referring to the EONIA and LIBOR, with the exception of contracts indexed to the LIBOR USD rate, within which only those expiring after 30 June 2023 (expected rate discontinuation date) have been included.
The exposures pegged to the EONIA rate (margin accounts) have been extinguished, by number and by value.
With regard to LIBOR rates, the main positions, both on-balance sheet and derivatives, are indexed to the USD LIBOR rate. More specifically:

- for derivatives the positions in the Swiss Franc and in Yen are extinguished, while for those indexed to the USD LIBOR, 50 total positions for a notional value of USD 1,860 million broken down into Clearing Houses (32 for USD 1,360 million notional) and other counterparties (18 for USD 500 million notional) remain;
- with regard to assets represented by loans, there are 91 structured finance contracts in USD LIBOR, with a total value of roughly 606 million. The structured finance positions in GBP and CHF were renegotiated with the new Risk Free rates. As regards multi-currency current accounts, there are 32 accounts indexed to the

[1] On 7 December 2021, ESMA published on its website the "Guidelines on methodology, oversight function and record keeping under the Benchmarks Regulation" ("Guidelines"), issued pursuant to Art. 16 of Regulation (EU) no. 1095/2010.

USD LIBOR for a value of 35 million euro; an additional 8 accounts are indexed to the CHF/GBP/YEN currencies for an insignificant equivalent value;
- for liabilities, there are 2,634 multi-currency current accounts in place with a total balance of 252 million. Of these, 2,159 are indexed to the USD LIBOR for a value of 209 million euro, 204 to the GBP LIBOR for a value of 17 million euro, 194 to the CHF LIBOR for a value of 12 million euro and 77 to the YEN LIBOR for a value of 14 million euro. The relative renegotiation campaign is in progress.

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.

Accounting hedges (IFRS 7 paragraph 24 H)

As at 30 June 2022, the notional value of the contracts potentially impacted by the reform in question and qualified as hedges amounted to USD 1,310 million (for an equivalent value in euros of 1,261 million) and refers only to derivatives indexed at the "3-month USD LIBOR (London Interbank Offered Rate)", entered into with the central counterparty London Clearing House (LCH) and with maturity after 30 June 2023. Specifically, they are 27 "Interest Rate Swap" derivative instruments designated in a specific relationship hedging the fair value of government bonds classified in the "Financial assets at amortised cost" portfolio for a nominal value of USD 1,300 million (1,252 million euro) and in the "Financial assets measured at fair value through other comprehensive income" portfolio for a nominal value of USD 10 million (9.6 million euro).

Other significant aspects relating to Group accounting policies

Below is an illustration of several transactions or events occurring during the first half of 2022, 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 has a duration of three years, without prejudice to any early redemption option, which can be exercised according to the timing established for each operation. In detail, for the first seven transactions (September 2019 - March 2021) early redemption may be exercised quarterly, twelve months after the settlement of each transaction, starting from September 2021; for the last three transactions (June 2021 - December 2021) the redemption may take place quarterly starting from June 2022.
Following the emergency linked to the Covid-19 pandemic, several of the criteria initially established by the ECB in 2019 were improved between March and December 2020, particularly as regards the maximum financeable amount and the relative remuneration.
With regard to the remuneration of the loans, following these revisions, the interest rate is set at a level equal to the average rate of the Eurosystem's main refinancing operations (MRO), except for the period from 24 June 2020 to 23 June 2022 (special interest rate period), in which a rate 50 basis points below this rate will apply.
There is also an incentive mechanism that allows for access to more favourable rate conditions, depending on the achievement of certain benchmarks, which depend on net lending. In more detail, it is possible to benefit from the average rate on deposits (Deposit Facility) for the entire duration of the operation instead of the MRO rate, with a further reduction of 50 basis points for the "special interest rate period".
Such interest is settled at the maturity of each operation or on early repayment.

Accounting treatment

The accounting treatment of the transactions in question, and in particular the recognition of interest based on the various remuneration mechanisms, does not seem to be directly attributable to any IAS/IFRS accounting standard. This was confirmed by the request that ESMA submitted 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 clarifications as to the accounting treatment to be applied to the financing in question.
In light of the foregoing, taking into account that at the date of preparation of these consolidated condensed interim financial statements no official interpretations have been received on the accounting treatment of TLTRO III transactions, the Banco BPM Group has defined the reference accounting policy, based on the provisions of IAS 8, as specified 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. In greater detail, the rules envisaged by IFRS 9 for floating-rate financial instruments (paragraph B5.4.5) are deemed applicable, in line with the treatment applied in the past for loans obtained under the previous TLTRO programmes. In particular, with reference to the application methods, it is believed that the interest must be recognised on the basis of the rates, in existence over time and applicable for each reference period, according to the probability of being able to achieve certain "benchmark" objectives. It follows that the special interest for the period between 24 June 2020 and 23 June 2022 is subject to recognition in the above-mentioned period, to the extent that it is deemed probable that it will be obtained. 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 (IFRIC) to provide clarification on the accounting treatment for TLTRO III operations.
In March 2022, the IFRIC, after consultation with the IASB, confirmed that the issue will be discussed as part of the "Post Implementation Review" (PIR) project relating to the Classification and Measurement of IFRS 9.
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 30 June 2022.

Active loans and relative interest pertaining to H1 2022

As at 30 June 2022, the TLTRO III operations subscribed by the Group amounted to a nominal 39.2 billion and pertained entirely to the six quarterly drawdowns by the Parent Company in the period between June 2020 and December 2021.
Having achieved all "net lending" objectives, the interest accrued on the aforementioned liabilities is assessed to the maximum extent, equal to the Deposit Facility interest rate (-0.5%) plus the further reduction (-0.5%) established for the "special interest rate period" (from 24 June 2020 to 23 June 2022). Interest recognised in the first half of 2022 therefore amounted to 193.3 million (165.5 million in the first half of 2021).

Tax credits linked to the "Relaunch" Decree obtained following sale by direct beneficiaries or previous purchasers

In order to combat the negative economic effects of the Covid-19 pandemic, Law no. 77 of 17 July 2020, 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 direct use of the deduction - for an advance contribution in the form a discount from suppliers of goods or services ("invoice discount") or, alternatively, for the sale of the credit corresponding to the deduction due to other parties, including credit institutions and other financial intermediaries, with the right to subsequent sales (tax credit).
In this context, if the taxpayer opts for the sale of the deduction to the Bank, the tax credit acquired may be used to offset other tax payables of the Bank; any unused share cannot be requested as a refund from the tax authorities, but may in turn be sold to third-party purchasers, according to the methods and instructions established by rules in force over time.

The peculiarity of the tax credits described above does not make it possible to associate them with any specific international accounting standard; in this case, IAS 8 provides that the company management must define the accounting treatment considered the most suitable to guarantee relevant and reliable information to users of the financial statements.
To this end, taking into account the indications expressed on 5 January 2021 by the Bank of Italy, CONSOB and IVASS in document no. 9 of the Coordination Round Table on the application of IAS/IFRS "Accounting treatment of tax credits linked to the "Cura Italia" and "Relaunch" Decree Laws acquired following sale by direct beneficiaries or previous purchasers", Banco BPM defined its own accounting policy by making reference to certain accounting rules set forth in IFRS 9.
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", as they do not represent, pursuant to the international accounting standards, tax assets, public contributions, intangible assets or financial assets, in line with what is set forth in the joint document cited above.
The interest accrued based on the amortised cost is recognised in the income statement in item "10. Interest and similar income".

As at 30 June 2022 the nominal value of the total tax credits purchased amounts to 1,888.5 million, of which 976.3 million referring to purchases made in the first half of 2022. Taking into account the offset receivables, equal to 276.1 million, the residual nominal value as at 30 June 2022 amounts to 1,612.4 million. The corresponding book value, shown in the balance sheet item "130. Other assets" on the basis of the amortised cost, which takes into account the purchase price and the net interest accrued as at 30 June 2022, amounts to 1,477.7 million (817.4 million as at 31 December 2021).
As at 30 June 2022, 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.

"Hold to Collect" Business Model - sales

In the first half of 2022, transactions were carried out for the disposal of debt securities classified in the "Financial assets at amortised cost" portfolio for a total nominal value of roughly 4 billion, roughly half represented by the settlement of forward sales of several Italian government bonds ("forward sales") entered into by the Parent Company in 2021, in compliance with the eligibility thresholds of this last year.
The result achieved was a positive 126.8 million (of which 94.0 million from the settlement of forward sales) and is shown in income statement item "100. Gains (losses) on disposal or repurchase of: a) financial assets at amortised cost".
For 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" or HTC Business Model), accounting standard IFRS 9

envisages that their sale is permitted in observance of specific materiality and frequency thresholds, close to maturity, in the event of a significant increase in credit risk or in the case of exceptional circumstances.
In this regard, it should be noted that the transactions for the sale of HTC debt securities during the first half of 2022, not attributable to the causes of eligibility due to proximity to maturity or increase in credit risk, amount to approximately 1 billion and took place in compliance with significance and frequency thresholds set out in the Group's accounting policies. The gains on disposal recognised in income statement item "100. Gains (losses) on disposal or repurchase of: a) financial assets at amortised cost" recorded a positive 31.3 million.
More specifically, such sales correspond to around 5.2% of the nominal value of securities in issue as at 1 January 2022 and therefore within the materiality threshold of 10% of the nominal value of the securities portfolio at the beginning of the year, established by Group policy. The annual frequency threshold, defined in terms of twelve annual transactions, was also respected.
During the half year, sales were also made for a nominal value of approximately 1 billion not calculated in the significance and frequency thresholds; almost all of this relates to the sale of some Italian government bonds with a residual maturity of less than three months and with a difference between the sale price and the residual contractual cash flows not exceeding 5% as well as a bond issued by Russia for a nominal value of 2 million, following the significant increase in credit risk caused by the Russia-Ukraine conflict. The result of the disposal is positive overall for 1.5 million and is recorded under item 100 mentioned above.
For more details on the breakdown of the above-mentioned thresholds, along with the other indicators/limits of eligibility of sales, please refer to the accounting policies illustrated in the Annual financial report as at 31 December 2021.

Lastly, it should be noted that the management of debt securities classified in the "HTC" and "Hold To Collect and Sale" portfolios continues to be in line with the choices made in previous years; in fact during the half-year, there were no changes to the business model that led to the need to reclassify the securities portfolio, as there were also no changes to accounting policies relating to eligibility criteria for HTC sales.

Additional Tier 1 Issue

As indicated in the "Significant events during the period" section of the Interim Report on Operations, on 5 April 2022, Banco BPM issued Additional Tier 1 instruments for an amount of 300 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 12 April 2027; 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 7%. If the option of early redemption envisaged, for 12 April 2027, 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, 14 January 2020 and 12 January 2021 for 1.1 billion. Since these are perpetual securities, the issuer has the option of early redemption starting respectively from 18 June 2024, 21 January 2025 and 19 January 2026; in case of failure to call, the call can be exercised every five years in the first case and every 6 months for the other two issues. The six-monthly coupon, non-cumulative, was set at an annual rate of 8.75%, 6.125% and 6.5%, respectively. If the option of early redemption is not exercised, a new fixed-rate coupon will be determined adding the original spread to the mid-swap rate in euro at five years to be recorded at the moment of the recalculation date. This new coupon will remain fixed for the next five years and until the next recalculation date.
For the above issues, in line with the provisions of the CRR for AT1 instruments, the issuer has full discretion in deciding not to pay the coupons, for any reason and for an unlimited period of time. Cancellation is instead obligatory if certain conditions occur, including the occurrence of a trigger event, namely when the Common Equity Tier 1 (CET1) of Banco BPM (or consolidated CET1) is lower than 5.125%. In addition, interest is not cumulative, as any amount that the issuer decides not to pay or would be obliged not to pay will not be accumulated or payable at a later date. It is also envisaged that on the occurrence of a trigger event, the capital would be irrevocably and obligatorily written down by the amount needed to bring the CET1 (of Banco BPM or of the Group) to 5.125%. The capital written down could be reinstated (written up), on fulfilment of certain conditions, and in any event at the issuer's complete discretion, even in the event that Banco BPM decided to repay the issue early.
Based on the above with respect to the characteristics of the loans, the above-cited issues are considered the equivalent of "equity instruments" in terms of accounting standard IAS 32, as illustrated in the accounting policies

shown in paragraph "16 - Other information" of "A.2 - Key financial statement items" of the Annual financial report as at 31 December 2021, to which reference is made.
In the consolidated condensed interim financial statements as at 30 June 2022, the price received from the above-cited issues, after deducting the directly attributable transaction costs, net of the related tax charge (10.4 million), is therefore shown under equity item "140. Equity instruments", for an amount of 1,390.2 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 the first half of 2022, the shareholders' equity was therefore reduced by 27.8 million, as a result of the payment of the six-monthly coupons relating to the first three issues, amounting to 38.4 million, net of the relative IRES tax charge of 10.6 million. On the other hand, for the last issue in April 2022 there was no reduction in shareholders' equity for the coupons to be paid, as their first payment is expected to take place only in October 2022.

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. Where the available financial resources of the IDGF and/or the SRF are insufficient to guarantee the protected reimbursement of depositors or to fund the resolution, respectively, it is set out that banks shall provide such funds via the payment of extraordinary contributions.
The contributions are recognised in the income statement item "190. b) Other administrative expenses" in application of IFRIC 21 interpretation "Levies", on the basis of which the liability relating to the payment of a levy arises at the time the "obligating event" occurs, namely at the time of the obligation to pay the annual fee. In the case in hand, from an accounting perspective, the contributions are considered the equivalent of a levy and the time of the occurrence of the "obligating event" has been identified as in the first quarter for the SRF (1 January of each year) and in the third quarter for the IDGF (30 September of each year).
The ordinary contribution to the Single Resolution Fund, charged to the income statement for the first half of 2022, amounted to 110.4 million, up by 22.6 million compared to the contribution of the first half of 2021 (which was 87.8 million) due to an increase in the annual contribution to be collected at system level.
In that regard, please note that for 2022, as for the previous years, the Group did not avail itself of the option to fulfil the request to pay the contribution by taking on an irrevocable payment commitment ("IPC"), established to the maximum extent of 15%.
In view of the above-mentioned increase, it should be noted that in the first half of the year, no request was received from the Bank of Italy to pay additional contributions to the National Resolution Fund connected with the resolution measures carried out in November 2015, i.e. prior to launch of the SRF, with respect to the following four banks: Cassa di risparmio di Ferrara S.p.A., Banca delle Marche S.p.A., Banca popolare dell'Etruria e del Lazio - Società cooperativa and Cassa di risparmio della Provincia di Chieti S.p.A. No expenses are therefore charged to the income statement for the first half of 2022 for the contributions in question, unlike the first half of last year when 28.6 million was paid. Please recall that, pursuant to the cited IFRIC 21 interpretation, for the contribution in question the payment obligation emerges when the Bank of Italy, having evaluated the financial requirements of the National Resolution Fund, provides a communication thereof, taking into account that prior to the above-mentioned communication there is no commitment, as also specified in the Bank of Italy communication ("The total amount annually due by the intermediaries is communicated on each occasion by the Bank of Italy and divided among them proportionally to the amount of the annual contributions due by the same parties to the European Single Resolution Fund. The additional contribution in the year in question is only due by intermediaries which have a contribution obligation towards the Single Resolution Fund for the same year. To this end, the classification as a 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").

Lastly, please note that the ordinary contribution to the Interbank Deposit Guarantee Fund will be recognised in the income statement for the third quarter of 2022 (98.4 million was the contribution requested for 2021, recognised in the third quarter of 2021).

Project Argo - sales of a portfolio of bad and unlikely to pay loans

As indicated in the section "Significant events during the period" of the Group Interim Report on Operations, in the first half of 2022, the "Argo" project was completed, for the purpose of derisking a portfolio of non-performing loans, achieved through the disposal of the loans to a securitisation SPE established pursuant to Law 130/99.

On 8 June 2022, Banco BPM therefore carried out a sale without recourse for consideration and en bloc to the vehicle company Tevere SPV S.r.l. of a portfolio of bad and unlikely to pay loans, for a total gross exposure of 673 million at the date of 31 December 2021 (cut-off date).

In order to finance the acquisition of the loans, on 16 June 2022 the special purchase entity issued the following three tranches of ABSs:

- Class A Senior for a nominal value of 104.7 million;
- Class B1 Mezzanine for a nominal value of 22.4 million;
- Class B2 Mezzanine for a nominal value of 11.2 million;
- Class J Junior for a total nominal value of 18.7 million initially subscribed for 11.2 million.

In compliance with the retention rule established by supervisory provisions, the Banco BPM Group subscribed all of the Senior security, 5% of the Mezzanine tranches and 5% of the Junior tranche, while 95% of the Mezzanine and Junior tranches were acquired by Elliott Group companies.

Following subscription of the above-mentioned tranches by third parties, or the shares that support the first loss and which possibly benefit from the excess spread on the transactions, the conditions established by IFRS 9 were fulfilled for derecognition of the portfolio of loans sold, because the relative risks and benefits have substantially been transferred.

The sale had a negative impact of 176.5 million recorded in item "100. a) Gains (losses) on the disposal of financial assets at amortised cost", determined by taking into account the provisions for impairment that were in place at the beginning of the year.
The above-mentioned sale also entailed the release of a portion of the provisions set up as at 31 December 2021 in order to adjust them to the lower sales targets remaining after the sale of the portfolio in question. This release, estimated at 65 million, is recognised in the item "130. a) Net credit impairment losses/recoveries relating to financial assets at amortised cost".
Taking into account other minor components, the overall economic effect directly and indirectly related to the sale is estimated at approximately 110 million.

In light of the above, as at 30 June 2022 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 104.6 million;
- 5% of the mezzanine notes and 5% of the junior notes classified in the portfolio of "Other financial assets mandatorily measured at fair value" for a book value of 1.7 million and 0.6 million, respectively. The measurement at fair value used the price of the recent transaction for the issue of securities acquired by third parties as a benchmark, and was considered as level 3 in the fair value hierarchy.

Scope of consolidation and methods

(A) Subsidiaries

The consolidated condensed interim financial statements include the balance sheet and income statement results of the Parent Company Banco BPM S.p.A. and its direct and indirect subsidiaries, including structured entities, in accordance with that envisaged by accounting standard IFRS 10.
Based on the cited standard, the requirement of control is the basis for the consolidation of all types of entity, including structured entities, and is met when an investor simultaneously fulfils the following three requirements:

- power to decide on the relevant activities of the entity;
- exposures, or rights, to variable returns resulting from involvement with the entity;

- ability to use its power to affect the amount of said returns, as a result of its involvement 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 30 June 2022, broken down into companies controlled through voting rights and structured entities.

Companies controlled through voting rights

With reference to the Group's situation as at 30 June 2022, companies in which a majority of voting rights in the ordinary shareholders' meeting is held are considered to be exclusively controlled, insofar as there is no evidence that other investors have the practical ability to direct the relevant activities.
As regards companies in which half or a lower amount of voting rights are held, as at 30 June 2022, there are no arrangements, statutory clauses, or situations able to establish that the Group has the practical ability to unilaterally direct the relevant activities.

In order to corroborate the above opinion, a brief examination is provided below of the analyses carried out on the interests in the company Bipiemme Vita S.p.A. (hereinafter also Bipiemme Vita), held at 30 June 2022 in an amount equal to 19% of the share capital, and on its subsidiary Bipiemme Assicurazioni S.p.A. (hereinafter also Bipiemme Assicurazioni), taking into account that on 12 April 2022 Banco BPM exercised the purchase option on 81% of the share capital of Bipiemme Vita held by Covéa Coopérations SA (hereinafter also Covéa).
Following the above-mentioned exercise and the finalisation of the authorisation process on 13 July 2022, Banco BPM acquired full control of Bipiemme Vita, finalising on 22 July 2002 the purchase from Covéa of 81% of the share capital for consideration of 309.4 million. This consideration was defined on the basis of the exercise price of the call option exercised, which is equal to 81% of the Unrestricted T1 regulatory capital of Bipiemme Vita as at 30 June 2021, plus a component of the remuneration of absorbed capital from holding the interests for Covéa - conventionally equal to 140% of the Solvency Capital Requirement as at 30 June 2021 - minus any dividends received, and plus any Bipiemme Vita capital increases carried out up to the equity investment transfer date.
In line with what is already represented in the financial statements as at 31 December 2021, the exercise of potential rights (call option) - following the positive assessment of cost-effectiveness - is not considered such so as to entail control of the companies, pursuant to the provisions of IFRS 10, which is instead understood to be acquired only when the transaction is authorised by the competent Supervisory Body (IVASS). It was considered, in fact, that the above-mentioned authorisation has substantial aspects such as to constitute a barrier to the free and current exercise of voting rights, constituting evidence of the lack of practical ability to exercise control. In order to express this opinion, the opinion of a leading professional was used, issued when the 2021 financial statements were prepared.
Considering that the authorisation to acquire 81% of Bipiemme Vita was received on 13 July 2022, or subsequent to the end of the half-year period, for the purpose of the preparation of the interim financial statements as at 30 June

2022, the interests held in Bipiemme Vita - and indirectly through the latter in Bipiemme Assicurazioni - qualify as interests in associates, to be carried at equity, according to the principle established by accounting standard IAS 28. Starting from July 2022, such interests will qualify as controlling, pursuant to IFRS 10, and must therefore be consolidated on a line-by-line basis.

Consolidated structured entities

The control of structured entities, namely entities for which voting rights are not considered relevant to establish control, is retained to exist where the Group has contractual rights to manage the relevant activities of the entity and is exposed to the variable returns of the same.
On this basis, the structured entities for which consolidation for the purpose of the consolidated condensed interim financial statements as at 30 June 2022 is necessary, are represented by the several SPEs for securitisation transactions originated by the Group. For those SPEs, the elements deemed significant for identifying control and the resulting consolidation are:

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

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

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

As at 30 June 2022, the analyses conducted on the investments held by the Group in mutual investment funds and similar, resulted in the exclusion of the existence of control over the same; therefore, no fund is included in the scope of consolidation.

Line-by-line consolidation method

Controlled entities are consolidated from the date on which the Group acquires control, according to the purchase method, and cease to be consolidated from the moment in which a situation of control no longer exists; for details, please refer to the Annual Financial Report as at 31 December 2021, section "A.2 - Key financial statement items" paragraph "16 - Business combinations, goodwill and changes in interest holdings".

Full consolidation consists of the "line-by-line" acquisition of the balance sheet and income statement aggregates of subsidiary entities. For consolidation purposes, the book value of the equity interests held by the Parent Company or by the other Group companies is eliminated against the acquisition of the assets and liabilities of the investees, as a balancing entry to the corresponding portion of shareholders' equity attributable to the Group and the portion held by non-controlling interests, also taking into account the purchase price allocation upon acquisition of control.

For subsidiary entities, the portion of shareholders' equity, profit (loss) for the year and comprehensive income attributable to non-controlling interests is indicated as a separate item in the respective schedules of the consolidated financial statements (respectively in items: "190. Non-controlling interests", "340. Profit (loss) for the year

attributable to non-controlling interests", "190. Consolidated comprehensive income attributable to non-controlling interests").
In this regard, please note that there is no effect on the balance sheet, the profit (loss) or comprehensive income attributable to non-controlling interests resulting from the consolidation of the separate equities held by the SPEs for securitisations originated by the Group, not subject to derecognition in the separate financial statements of the assigning Group banks. For a description of the effects of the consolidation of these equities, please refer to the information in the Annual Financial report as at 31 December 2021, contained in "A.2. Key financial statement items", paragraph "16 - Other information, Securitisations - derecognition from financial statements of financial assets transferred".

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

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

The balance sheet and income statement results of the consolidated companies whose operating currency is different from the euro are translated based on the following rules:

- the balance sheet assets and liabilities are converted at the exchange rate in effect at the end of the period;
- the revenues and costs on the income statement are converted at the average exchange rate for the period.

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

In order to prepare the consolidated condensed interim financial statements as at 30 June 2022, 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 "A.2 - Key financial statement items" of the Annual financial report as at 31 December 2021.
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" of the Annual Financial Report as at 31 December 2021.

Interests in exclusively controlled companies

The table below lists the interests in exclusively controlled companies. For information on interests in companies subject to joint control and significant influence by Banco BPM Group please refer to the Interests in associates and joint ventures section of these Explanatory Notes.

	Company name	Operational headquarters	Registered office	Type of relationship (1)	Investment relationship		Available
					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 Fiduciaria S.p.A. Share capital € 1,040,000.00	Milan	Milan	1	Banca Aletti	100.000%	100.000%
3.	Banca Akros S.p.A. Share capital € 39,433,803.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
4.	Banca Aletti S.p.A. Share capital € 121,163,538.96	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	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.	BPM Covered Bond S.r.l. Share capital € 10,000.00	Rome	Rome	1	Banco BPM	80.000%	80.000%
8.	BPM Covered Bond 2 S.r.l. Share capital € 10,000.00	Rome	Rome	1	Banco BPM	80.000%	80.000%
9.	BRF Property S.p.A. Share capital € 2,000,000.00	Parma	Parma	1	Banco BPM	65.428%	65.428%
10.	BP Covered Bond S.r.l. Share capital € 10,000.00	Milan	Milan	1	Banco BPM	60.000%	60.000%
11.	Consorzio AT01 Share capital € 100,000.00	Lodi	Lodi	1	Banco BPM	95.000%	95.000%
12.	Ge.Se.So. S.r.l. Share capital € 10,329.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
13.	Lido dei Coralli S.r.l. Share capital € 10,000.00	Sassari	Sassari	1	Banco BPM	100.000%	100.000%
14.	Oaklins Italy S.r.l. Share capital € 350,000.00	Milan	Milan	1	Banca Akros	100.000%	100.000%
15.	Partecipazioni Italiane S.p.A. in liquidation Share capital € 350,000.00	Milan	Milan	1	Banco BPM	99.966%	100.000%
16.	P.M.G. S.r.l. in liquidation Share capital € 52,000.00	Milan	Milan	1	Banco BPM	84.000%	84.000%
17.	Sagim S.r.l. Società Agricola Share capital € 7,746,853.00	Asciano (SI)	Asciano (SI)	1	Agriurbe	100.000%	100.000%
18.	Sirio Immobiliare S.r.l. Share capital € 10,000.00	Lodi	Lodi	1	Banco BPM	100.000%	100.000%
19.	Tecmarket Servizi S.p.A. Share capital € 983,880.00	Verona	Verona	1	Banco BPM	100.000%	100.000%

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

(1) Type of relationship:
1 = majority of voting rights in the ordinary shareholders' meeting
4 = other forms of control
(2) Availability of votes in the ordinary shareholders' meeting, distinguishing between actual and potential
(*) Special Purpose Entity for securitisation transactions originated by the Group

Changes in the scope of consolidation

During the half-year, the main change in the scope of consolidation was the sale in March of the interest held in Factorit S.p.A., previously valued with the equity method, equal to 39.50% of the share capital.

Furthermore, the subsidiary BP Trading Immobiliare S.r.l. in liquidation was removed from the scope of companies consolidated using the line-by-line method after it was struck off in February from the competent Companies' Register.

Please also recall that as of 1 January 2022, the incorporation of Bipielle Real Estate S.p.A. into the Parent Company took effect, while the merger by incorporation of Release S.p.A. into Banco BPM S.p.A. became effective as of 21 February 2022. The accounting and fiscal effects of the latter in any event began as of 1 January.

Lastly please note that, after obtaining the legal authorisations from the competent authorities, on 22 July 2022, Banco BPM completed its acquisition from Covéa Coopérations SA of 81% of Bipiemme Vita S.p.A.'s share capital. The company and its subsidiary Bipiemme Assicurazioni S.p.A. will be included in the scope of line-by-line consolidation as of the second half of 2022.
For further details, please refer to the subsequent section relating to events after the end of the interim period.

Significant events after the end of the interim period

Illustrated below are the most significant events occurred from the reporting date of the interim report (30 June 2022) to the date of its approval by the Board of Directors (3 August 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 of the interim report.

Acquisition completed of 100% of Bipiemme Vita

As mentioned in the section dedicated to the significant events that occurred in the first half of the year, on 22 July 2022, once the required authorisation process was completed, Banco BPM finalised the purchase from Covéa Coopérations SA of 81% of the share capital of Bipiemme Vita S.p.A., for consideration of 309.4 million.
After exercising the option for authorised acquisition on 12 April - communicated to the market on the same date - the completion of this operation allowed Banco BPM to gain the entire share capital of Bipiemme Vita S.p.A., an insurance company dealing in the life insurance area, which, in turn, holds the entire share capital of Bipiemme Assicurazioni S.p.A., which deals in the non-life business.
After gaining total control over Bipiemme Vita S.p.A. and Bipiemme Assicurazioni S.p.A., interventions were launched to guarantee that the companies' governance would adapt to the alteration of their corporate structure, when applicable, applying Banco BPM Group's organisational principles to them. These interventions are functional

to the Group's intention to obtain recognition of the status of "financial conglomerate" and to access the benefits in the prudential treatment of the equity investment deriving from the application of the so-called "Danish Compromise".

A.2 - Key financial statement items

For accounting standards with regard to the classification, recognition, measurement and derecognition of financial statements items, as well as the procedures for recognising revenues and costs, reference should be made to the Banco BPM Group's Annual Financial Report as at 31 December 2021 ("A.2 - Key financial statement items").

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

During the period there were no transfers between portfolios of financial assets.
In this regard, it should be noted that, during the period, as in the previous ones, there was no change in Banco BPM Group's business model, i.e. the way in which the Group manages financial instruments.

A.4 - Fair value disclosure

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

Fair value is defined as the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants, at the current conditions on the measurement date in the main market or in the most advantageous market (exit price). Underlying the fair value measurement is the assumption that the entity is a going concern, namely that it is in a fully operational situation and that it does not intend to liquidate or significantly reduce its operations or undertake transactions at unfavourable conditions. Fair value is not therefore the amount that the entity would receive or pay in the event of forced transactions or sales below cost.

Fair value is a market valuation approach not specifically referring to estimates concerning possible future cash flows developed by the individual company; indeed, fair value must be determined by adopting the assumptions that market participants would use in determining the price of assets and liabilities, presuming that they are acting in their own best economic interest.
To measure the fair value of financial and non-financial assets and liabilities, IFRS 13 established a three-level fair value hierarchy, based on the source and the quality of the inputs used:

- **Level 1**: the inputs are represented by listed prices (unadjusted) on active markets for identical assets and liabilities;
- **Level 2**: the inputs are represented by:
  - prices listed on active markets for similar assets and liabilities;
  - prices listed on non-active markets for identical or similar assets and liabilities;
  - parameters observable on the market or corroborated by market data (e.g. interest rates, credit spreads, implicit volatility, exchange rates) and used in the valuation technique;
- **Level 3**: the inputs used are not observable on the market.

For financial instruments, measured in the financial statements at fair value, the Group has implemented a "Fair Value Policy" that assigns the highest priority to prices listed on active markets (level 1) and the lowest priority to the use of unobservable inputs (level 3), as more discretionary, in line with the above-illustrated fair value hierarchy. More specifically, this policy establishes:

- the rules for identifying market data, the selection/hierarchy of the sources of information and the price configurations needed to measure the financial instruments listed on active markets and classified as level 1 of the fair value hierarchy ("Mark to Market Policy");
- the valuation techniques and the relative input parameters in all cases in which the Mark to Market Policy cannot be adopted ("Mark to Model Policy").

Mark to Market

To measure the fair value, the Group uses, whenever available, information based on market data obtained from independent sources, as considered the best evidence of the fair value. In this case, the fair value is the market price of the same instrument being measured, namely without changes or reorganisations of the same instrument, inferable from the prices listed on an active market (classified as level 1 of the fair value hierarchy). A market is considered active when the list prices express actual and regular market transactions and are readily and regularly available through stock markets, brokers, intermediaries, sector companies, listing services or authorised entities.

Mark to Model

If the "Mark to Market Policy" is not applicable, due to the absence of prices directly observable in markets considered active, valuation techniques must be adopted that maximise the use of information available on the market, based on the following valuation approaches:

1. Comparable Approach: in this case, the instrument's fair value is derived from the prices observed in recent transactions on similar instruments in active markets, suitably adjusted to take into account differences in the instruments and in the market conditions, rather than from the prices of recent transactions on the same instrument as that subject to valuation not listed in active markets;
2. Model Valuation: if there are no transaction prices observable for the instrument to be measured or for similar instruments, a valuation model needs to be adopted; this model must be of proven reliability in estimating the hypothetical "operating" prices and therefore must be widely acknowledged by market operators.

In particular:

- debt securities are valued according to the discounted cash flow method, appropriately adjusted to take account of issuer risk;
- loans that do not pass the SPPI test are valued on the basis of the discounting of expected cash flows determined using models that vary according to the status of the counterparty at an interest rate considered representative from the perspective of the potential buyer;
- unlisted equity instruments are measured by referring to direct transactions of the same security or similar securities observed over a suitable time frame as compared to the valuation date, using the market multiples method of comparable companies, and, as an alternative, using financial, income and equity valuation methods;
- investments in UCITs, other than open-ended harmonised UCITs, are measured on the basis of the NAV made available by the fund administrator or by the management company. These investments typically include private equity, private debt and similar funds, property funds and hedge funds;
- Bond Repo contracts are valued by discounting the forward contractual flows expected, determined based on the characteristics of the contract, based on the interest rate curve differentiated according to the issuer of the security underlying the contract (government securities and corporate securities);
- OTC derivative contracts are measured on the basis of multiple models, depending on the type of instrument and input factors (interest rate risk, volatility, exchange rate risk, price risk, etc.) which affect their valuation; for the purpose of discounting future cash flows, Banco BPM Group uses the OIS ("Overnight Indexed Swap") curve as a reference, considered to be the expression of a risk-free rate. The values thus obtained are then adjusted to take account of all factors considered relevant by market participants, with the aim of best reflecting the realisable price of a potential market transaction (model risk, liquidity risk, counterparty risk). With regard to the counterparty risk of performing derivatives, referring both to the credit risk of the counterparty "Credit Valuation Adjustment" (CVA) and the risk of failure to fulfil its contractual obligations "Debit Valuation Adjustment" (DVA), the corresponding correction factor is determined for each individual legal entity of the Group according to the expected future exposure generated by the contracts, the probability of default of the parties and the related losses. In particular, the expected future exposure is variously configured in consideration of the existence or non-existence of netting and collateral agreements capable of mitigating counterparty risk, while the probability of default is estimated using Credit Default Swap quotations, where available, in priority over internal parameters. The model for the quantification of CVA/DVA adjustments provides that, for each derivative, counterparty risk is equal to the sum of the components:
  - "Bilateral CVA": this is the possible loss if the future exposure is positive for the Group, adjusted to take account of the possibility that the Group may fail before the counterparty;

- "Bilateral DVA": aimed at appreciating the benefit in the event of breach of contractual obligations, if the expected exposure is negative for the Group. This benefit is then mitigated to take into account the probability that, in the course of the transaction, the counterparty may fail before the Group.

The classification as level 2 rather than level 3 is established on the basis of the market observability of the significant inputs used to determine the fair value. A financial instrument must be classified in its entirety at a single level; therefore, if inputs belonging to different levels are used in the valuation technique, the entire valuation must be classified in correspondence with the level of the hierarchy at which the lowest level input is classified, when deemed significant to the calculation of the fair value as a whole.

The following types of investment are considered level 2:
- OTC financial derivatives whose fair value is obtained through pricing models, which may use both observable and non-observable inputs. However, the latter parameters are judged to be insignificant in calculating the overall fair value;
- equity instruments not listed on active markets, measured using the market multiples technique, referring to a selected sample of comparable companies with respect to the subject of the valuation, or measured on the basis of the effective transactions made in a period of time reasonably close to the reference date;
- debt securities of third parties or own issues, not listed on active markets, for which the inputs, including the credit spreads, are taken from market sources;
- hedge funds featuring significant transparency and liquidity, measured based on the NAV provided by the management company/fund administrator;
- Bond Repo contracts when the inputs of the pricing models used to calculate the fair value, are observable in the market or, if not observable, are deemed that they do not significantly influence the determination of fair value.

As a rule, the following financial instruments are considered level 3:
- hedge funds characterised by significant levels of illiquidity, and for which the process to evaluate the assets of the fund requires a considerable amount of assumptions and estimates. The fair value measurement is made on the basis of the NAV. Said NAV may be appropriately corrected to take the poor liquidability of the investment into account, namely the period of time between the repayment request date and the effective repayment date, as well as to take any exit commissions of the investment into account;
- real estate funds measured on the basis of the last available NAV;
- private equity, private debt and similar funds, measured on the basis of the last available NAV, possibly adjusted to take into account events not included in the valuation of the price or to reflect a different valuation of the assets underlying the fund in question;
- illiquid shares for which no recent or comparable transactions are observable, usually measured on the basis of the equity model;
- debt securities characterised by complex financial structures for which sources that are not publicly available are usually used. These are non-binding prices and are also not corroborated by market data;
- debt securities issued by parties in financial difficulty, for which the management has to use its own judgement to establish the "recovery rate", as no significant prices can be observed on the market;
- OTC financial derivatives, for which the non-observable input parameters used by the pricing model are deemed significant in order to measure the fair value;
- medium-long term loans (performing and non-performing) valued on the basis of the expected cash flows determined using models that vary according to the status of the counterparty, and discounted at an interest rate considered representative from the perspective of the potential buyer.

For further details on the methods used to measure the fair value of financial assets and liabilities, on the techniques and inputs used, on how to complete the transfer tables between levels, please refer to the Annual Financial Report as at 31 December 2021 ("Part A - Accounting policies", "A.4 - Fair value disclosure").

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

Given the above, the table below provides a breakdown of the financial assets and liabilities measured at fair value on a recurring basis, in the fair value hierarchy. As defined by the cited standard IFRS 13, recurring valuations refer to assets and liabilities measured at fair value in the balance sheet, based on that envisaged or permitted by the reference international accounting standards.

Financial assets/liabilities measured at fair value	30/06/2022			31/12/2021		
	L1	L2	L3	L1	L2	L3
1. Financial assets at fair value through profit and loss	2,962,870	3,567,541	943,621	3,379,057	2,044,482	913,571
a) Financial assets held for trading	2,239,059	3,530,366	2,004	2,518,850	2,017,586	2,189
b) Financial assets designated at fair value	-	-	-	-	-	-
c) Other financial assets mandatorily measured at fair value	723,811	37,175	941,617	860,207	26,896	911,382
2. Financial assets measured at fair value through other comprehensive income	10,262,817	161,751	169,671	10,312,065	166,209	196,805
3. Hedging derivatives	-	1,011,804	-	-	127,076	-
Total	**13,225,687**	**4,741,096**	**1,113,292**	**13,691,122**	**2,337,767**	**1,110,376**
1. Financial liabilities held for trading	182,534	14,691,992	-	385,882	13,747,049	-
2. Financial liabilities designated at fair value	-	1,774,417	-	-	1,405,190	-
3. Hedging derivatives	-	610,185	-	-	227,972	-
Total	**182,534**	**17,076,594**	**-**	**385,882**	**15,380,211**	**-**

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

Financial assets measured at fair value on a recurring basis

As at 30 June 2022, 84.6% of financial instruments measured significantly on the basis of non-observable parameters (Level 3) were represented by instruments classified in the portfolio of "Other financial assets mandatorily measured at fair value" in the category of "Financial assets at fair value through profit and loss", and 15.2% by instruments classified in the category of "Financial assets measured at fair value through other comprehensive income". The remainder is classified in "Financial assets held for trading".
More specifically, level 3 financial assets amounted to 1,113.3 million and are represented by the following types of investment:

- unlisted equity instruments of 201.7 million, mostly valued on the basis of internal equity models, "Discounted Cash Flow" techniques, opinions issued by independent third parties or transaction prices, which do not meet the requirements to be assigned to level 2;
- UCIT units of 573.5 million, represented by private equity, private debt and similar funds (520.3 million), property funds (49.5 million) and hedge funds (3.7 million). These funds are characterised by significant levels of illiquidity, and for which the process to evaluate the equity of the fund requires a considerable amount of assumptions and estimates;
- loans to customers amounting to 291.5 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 44.8 million, of which structured credit securities of 41.8 million;
- Over the Counter (OTC) derivatives amounting to 1.8 million, mainly represented by valuations that are significantly affected by the use of non-observable input parameters.

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

- level 1 includes listed derivatives (futures and options), measured on the basis of the prices provided by the Clearing Houses, for a total of 98 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 4,499.4 million.

Financial liabilities measured at fair value on a recurring basis

Level 1 financial liabilities refer to listed trading derivatives for 78.7 million and to technical overdrafts listed in active markets for 103.9 million.
The remaining financial liabilities are 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 9,466.1 million, financial and credit

derivatives for 3,480.1 million and issues of Certificates unconditionally guaranteed by Banca Akros for 1,745.8 million (2,188.5 million in December 2021).
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 1,763.6 million (1,394.4 million in December 2021).

Transfers between fair value levels (Level 1 and Level 2) for financial assets and liabilities measured at fair value on a recurring basis

During the half year, transfers concerned a limited number of certificates, transferred from level 1 to level 2, for an amount of 53.2 million (value at the beginning of the year), classified in the portfolio of “Financial assets held for trading”, and a bond, transferred from level 2 to level 1, for an amount of 3 million (value at the beginning of the year), classified in the portfolio of “Financial assets measured at fair value through other comprehensive income”.

Impact of Credit Valuation Adjustment (CVA) and Debit Valuation Adjustment (DVA) on the determination of the fair value of derivative financial instruments

As at 30 June 2022, 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 26.7 million, and were comprised by:

- adjustments for CVA which resulted in a cumulative loss, in terms of lower assets/higher liabilities, of 3.1 million;
- adjustments for DVA which resulted in a cumulative benefit, in terms of higher assets/lower liabilities, of 29.8 million.

As at 31 December 2021, cumulative fair value adjustments to take account of counterparty risk (CVA/DVA) were positive overall for 2.7 million, equal to the imbalance between negative adjustments for CVA (-10.0 million) and positive adjustments for DVA (+12.7 million).
The ensuing impact on the income statement for the first half of 2022 was therefore positive for 24 million, almost entirely recognised in the first quarter.

The above trend is justified by the evolution of interest rates, as well as the adoption of a more advanced approach in the calculation of CVA/DVA adjustments starting from the second quarter.
In detail, the increase in interest rates, which occurred during the first half of the year, had a significant impact on the fair value of derivatives and consequently on the measurement of counterparty risk (CVA/DVA), in particular for contracts not backed by Credit Support Annex (CSA) agreements. For the latter, in fact, there is no counterparty risk mitigation element represented by the exchange of collateral, based on the change in the fair value of the derivatives. The increase in the fair value of derivatives recorded in the half year, and in particular of liabilities, led to an increase in the CVA/DVA adjustments, and in particular in the DVA, with the resulting recognition of an overall positive economic effect.
Taking into account the importance of the phenomenon due to what is set forth above, several refinements were introduced, starting from the second quarter, in the methodology for determining counterparty risk for derivatives not backed by CSA, particularly with reference to the method of calculating future exposure, using more advanced approaches based on the Monte Carlo simulation. The above-mentioned refinements led to a reduction in future exposure, i.e. the basis for calculating the CVA/DVA adjustments. Applying the new method to the data as at 31 March 2022, the economic result of the CVA/DVA adjustments would have been positive for approximately 9 million in the first quarter and for approximately 15 million in the second quarter. The estimated impact as at 31 March 2022, resulting from the application of the new method, is therefore negative by approximately 15 million.

Period changes in financial 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
	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	**913,571**	**2,189**	**-**	**911,382**	**196,805**	**-**
2. Increases	**105,354**	**38**	**-**	**105,316**	**1,178**	**-**
2.1. Purchases	35,980	-	-	35,980	777	-
2.2. Profits charged to:	38,655	-	-	38,655	401	-
2.2.1. Income statement	38,655	-	-	38,655	-	-
- of which capital gains	26,772	-	-	26,772	-	-
2.2.2. Shareholders' equity	-	X	X	X	401	-
2.3. Transfers from other levels	-	-	-	-	-	-
2.4. Other increases	30,719	38	-	30,681	-	-
3. Decreases	(75,304)	(223)	-	(75,081)	(28,312)	-
3.1. Sales	(2,728)	-	-	(2,728)	(10)	-
3.2. Redemptions	(8,770)	-	-	(8,770)	-	-
3.3. Losses charged to:	(43,037)	(223)	-	(42,814)	(25,152)	-
3.3.1. Income statement	(43,037)	(223)	-	(42,814)	-	-
- of which capital losses	(42,089)	(223)	-	(41,866)	-	-
3.3.2. Shareholders' equity	-	X	X	X	(25,152)	-
3.4. Transfers to other levels	(6,256)	-	-	(6,256)	-	-
3.5. Other decreases	(14,513)	-	-	(14,513)	(3,150)	-
4. Closing balance	**943,621**	**2,004**	**-**	**941,617**	**169,671**	**-**

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

During the half-year there were no changes in financial liabilities measured at fair value on a recurring basis in level 3; therefore, the relative table is omitted.

Fair value disclosure on financial assets and liabilities measured at cost

With reference to the fair value disclosure, required by IFRS 7, paragraphs 25 and 26, referred to by standard IAS 34, regarding the fair value of financial assets and liabilities recognised in the financial statements at amortised cost, please refer to the relevant tables showing the breakdown of financial assets and liabilities measured at amortised cost in "Part B - Information on the consolidated balance sheet" (for asset item 40 and liability item 10).
For an illustration of the method used to determine fair value, which is relevant for information purposes only, reference should be made to the Annual Financial Report as at 31 December 2021.

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

In accordance with IFRS 7 paragraph 28, in the context of the Group's financial instruments, it should be noted that in the period there were no transactions that led to the recognition of "day one profit/loss" and therefore as at 30 June 2022, and as at 31 December 2021, there were no suspended costs or revenues related to the effect.

Disclosure on structured credit products

As at 30 June 2022, the Group's exposure to structured credit instruments amounted to 2,498.3 million and consisted of 2,321.0 million in asset backed securities (ABS) arising from securitisation transactions and 177.3 million in units in mutual funds held as a result of multi-originator sales of impaired loan portfolios in previous years.
The composition of ABSs is as follows:

- 106.9 million relating to securities issued by the entity Tevere SPV, which the Group holds following the securitisation of UTP and bad loans, called "Project Argo", completed in June 2022 (senior tranche of 104.6 million; B1 mezzanine tranche of 1.1 million; B2 mezzanine tranche of 0.6 million and junior tranche of 0.6 million);
- 288.5 million relating to securities issued by the entity Aurelia SPV, which the Group holds following the GACS securitisation of bad loans, called "Project Rockets", completed in May 2021 (senior tranche of 287.9 million; mezzanine tranche of 0.6 million);
- 27.7 million relating to securities issued by the entity Titan SPV, which the Group holds following the securitisation of bad loans, called "Project Titan", completed in December 2020 (senior tranche of 27.6 million; mezzanine tranche of 0.1 million);
- 56.2 million relating to securities issued by the entity Tiberina SPV, which the Group holds following the securitisation of UTP and bad loans, called "Project Django", completed in December 2020 (senior tranche of 54.7 million; B1 mezzanine tranche of 0.6 million; B2 mezzanine tranche of 0.5 million and junior tranche of 0.4 million);
- 837.5 million relating to securities issued by the entity Leviticus SPV, which the Group holds following the GACS securitisation of bad loans, called "Project ACE", completed in February 2019 (senior tranche of 833.1 million; mezzanine tranche of 4.4 million);
- 842.8 million relating to securities issued by the entity Red Sea SPV, which the Group holds following the GACS securitisation of bad loans, called "Project Exodus", completed in June 2018 (senior tranche of 839.8 million; mezzanine tranche of 3.0 million);
- 161.4 million for securities relating to third-party securitisations (senior tranche for 132.5 million; mezzanine tranche for 4.2 million; junior tranche for 24.7 million). It should be noted that the junior tranche is attributable nearly exclusively (24.6 million) to the security issued by the SPE "BNT Portfolio SPV" established in 2014 to complete the securitisation of agricultural loans of Banca della Nuova Terra, financed by the issue of a single tranche of securities.

For an examination of mutual funds resulting from multi-originator sales transactions, reference should be made to the "Part E - Section 2 - D. Sale transactions - Financial assets sold and fully derecognised" of the Annual Financial Report as at 31 December 2021.

PART B – INFORMATION ON THE CONSOLIDATED BALANCE SHEET

ASSETS

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

2.1 Financial assets held for trading: breakdown by product

Items/Amounts	Total 30/06/2022			Total 31/12/2021		
	L1	L2	L3	L1	L2	L3
A. On-balance sheet assets						
1. Debt securities	949,726	32,259	-	1,057,713	2,051	-
1.1 Structured securities	631	32,024	-	53,225	-	-
1.2 Other debt securities	949,095	235	-	1,004,488	2,051	-
2. Equity instruments	1,164,114	-	19	1,270,245	-	18
3. UCIT units	27,252	-	134	18,888	-	134
4. Loans	-	10,518	-	-	194,122	-
4.1 Repurchase agreements	-	10,518	-	-	194,122	-
4.2 Other	-	-	-	-	-	-
Total (A)	**2,141,092**	**42,777**	**153**	**2,346,846**	**196,173**	**152**
B. Derivative instruments	-	-	-	-	-	-
1. Financial derivatives	97,967	3,485,740	1,851	172,004	1,821,274	2,037
1.1 held for trading	97,967	3,449,611	1,851	172,004	1,786,116	2,037
1.2 connected with the fair value	-	35,849	-	-	34,956	-
1.3 other	-	280	-	-	202	-
2. Credit derivatives	-	1,849	-	-	139	-
2.1 held for trading	-	1,849	-	-	139	-
2.2 connected with the fair value	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	**97,967**	**3,487,589**	**1,851**	**172,004**	**1,821,413**	**2,037**
Total (A+B)	**2,239,059**	**3,530,366**	**2,004**	**2,518,850**	**2,017,586**	**2,189**

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

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

Items/Amounts	Total 30/06/2022			Total 31/12/2021		
	L1	L2	L3	L1	L2	L3
1. Debt securities	39,512	-	44,764	40,601	-	48,520
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	39,512	-	44,764	40,601	-	48,520
2. Equity instruments	142,814	37,175	31,979	252,623	26,896	38,277
3. UCIT units	541,485	-	573,396	566,983	-	505,559
4. Loans	-	-	291,478	-	-	319,026
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	291,478	-	-	319,026
Total	**723,811**	**37,175**	**941,617**	**860,207**	**26,896**	**911,382**

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

Financial assets measured at fair value through other comprehensive income – Item 30

3.1 Financial assets measured at fair value through other comprehensive income: breakdown by product

Items/Amounts	Total 30/06/2022			Total 31/12/2021		
	L1	L2	L3	L1	L2	L3
1. Debt securities	10,242,290	48,226	-	10,283,038	52,684	-
1.1 Structured securities	6,367	-	-	6,564	-	-
1.2 Other debt securities	10,235,923	48,226	-	10,276,474	52,684	-
2. Equity instruments	20,527	113,525	169,671	29,027	113,525	196,805
3. Loans	-	-	-	-	-	-
Total	**10,262,817**	**161,751**	**169,671**	**10,312,065**	**166,209**	**196,805**

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

Banco BPM holds, among level 2 equity instruments, 4,541 stakes in the Bank of Italy's share capital, corresponding to 1.5137% of the entire share capital. The book value of 113.5 million is obtained by applying the value of 25,000 euro to each unit, 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 tha Bank of Italy in 2013 as an effect of Italian Decree Law 133 of 30 November 2013, converted with Italian Law 5 of 29 January 2014, leading to the issuing of new shares, with a value of 25,000 per unit.

Financial assets at amortised cost – Item 40

4.1 Financial assets at amortised cost: breakdown by product for loans to banks

Transaction type/Amounts	Total 30/06/2022						Total 31/12/2021					
	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	**7,561,527**	**-**	**-**	**-**	**-**	**7,561,527**	**10,036,899**	**-**	**-**	**-**	**-**	**10,036,899**
1. Fixed-term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Minimum reserve	7,561,527	-	-	X	X	X	10,036,899	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Loans to banks	**3,217,090**	**-**	**-**	**900,953**	**108,512**	**2,172,559**	**2,737,091**	**-**	**-**	**837,726**	**79,028**	**1,848,444**
1. Loans	2,170,043	-	-	-	-	2,172,559	1,840,979	-	-	-	-	1,848,444
1.1. Current accounts	-	-	-	X	X	X	-	-	-	X	X	X
1.2. Fixed-term deposits	338,293	-	-	X	X	X	154,496	-	-	X	X	X
1.3. Other loans:	1,831,750	-	-	X	X	X	1,686,483	-	-	X	X	X
- Reverse repurchase agreements	239,317	-	-	X	X	X	293,490	-	-	X	X	X
- Loans for leases	606	-	-	X	X	X	666	-	-	X	X	X
- Other	1,591,827	-	-	X	X	X	1,392,327	-	-	X	X	X
2. Debt securities	1,047,047	-	-	900,953	108,512	-	896,112	-	-	837,726	79,028	-
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	1,047,047	-	-	900,953	108,512	-	896,112	-	-	837,726	79,028	-
Total	**10,778,617**	**-**	**-**	**900,953**	**108,512**	**9,734,086**	**12,773,990**	**-**	**-**	**837,726**	**79,028**	**11,885,343**

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

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

Transaction type/Amounts	Total 30/06/2022						Total 31/12/2021					
	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	**105,657,200**	**2,711,254**	**292,282**	**-**	**-**	**107,215,367**	**103,678,315**	**3,063,186**	**344,321**	**-**	**-**	**112,608,922**
1. Current accounts	9,567,097	210,866	67,257	X	X	X	8,223,489	240,496	78,652	X	X	X
2. Reverse repurchase agreements	2,338,551	-	-	X	X	X	3,658,922	-	-	X	X	X
3. Mortgage loans	79,598,049	1,706,824	127,712	X	X	X	77,212,146	1,911,505	162,190	X	X	X
4. Credit cards, personal loans and salary-backed loans	1,108,819	15,648	87	X	X	X	1,333,945	16,508	97	X	X	X
5. Loans for leases	621,530	473,766	2,471	X	X	X	702,296	516,984	3,450	X	X	X
6. Factoring	83,961	-	-	X	X	X	78,116	-	-	X	X	X
7. Other loans	12,339,193	304,150	94,755	X	X	X	12,469,401	377,693	99,932	X	X	X
2. Debt securities	**22,984,080**	**-**	**-**	**20,383,627**	**109,862**	**2,344,635**	**20,588,576**	**-**	**-**	**18,430,425**	**205,821**	**2,461,687**
1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2. Other debt securities	22,984,080	-	-	20,383,627	109,862	2,344,635	20,588,576	-	-	18,430,425	205,821	2,461,687
Total	**128,641,280**	**2,711,254**	**292,282**	**20,383,627**	**109,862**	**109,560,002**	**124,266,891**	**3,063,186**	**344,321**	**18,430,425**	**205,821**	**115,070,609**

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

As at 30 June 2022, the breakdown into risk stages of loans to customers is provided in the table below (purchased or originated impaired loans were classified in the relative risk stages):

Exposure types/risk stages	Stage 1	Stage 2	Stage 3	Total
Bad loans	-	-	768,911	**768,911**
Unlikely to pay	-	-	2,033,820	**2,033,820**
Non-performing past-due exposures	-	-	58,923	**58,923**
Non-performing loans	**-**	**-**	**2,861,654**	**2,861,654**
Performing exposures	**94,899,237**	**10,899,845**	**-**	**105,799,082**
Total loans to customers	**94,899,237**	**10,899,845**	**2,861,654**	**108,660,736**

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

Interests in associates and joint ventures – Item 70

Interest in associates and joint ventures as at 30 June 2022 amounted to 1,537.7 million, compared with 1,794.1 million as at 31 December 2021.

The decrease of -256.4 million recorded during the half-year refers to the effects deriving from the valuation of investments in associates using the equity method, which in detail include the share of the results recorded by the investees during the period (+91.1 million), the effects of the reductions of capital of Agos Ducato (-85.4 million), Anima Holding (-20.0 million), Vera Assicurazioni (-10.5 million), Bipiemme Vita (-5.0 million), Gardant Liberty Servicing (-1.8 million) and Etica SGR (-1.5 million) following the distribution of dividends, as well as changes attributable to the Group in the valuation reserves and other reserves of the above-mentioned companies (-148.9 million).
The sale of the interests held in Factorit was also completed during the half-year for 75 million.
The change in the half-year also includes the payment by way of reserve to cover losses and the subscription of the share capital increase approved by the investee HI-MTF SIM (0.7 million).

7.1 Interests in associates and joint ventures: information on investment relationships

Company name	Registered office	Operational headquarters	Type of relationship (a)	Investment relationship		Available
				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	20.622%	20.622%
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%

Company name	Registered office	Operational headquarters	Type of relationship (a)	Investment relationship		Available
				Holder	% held	% votes
9. Etica SGR S.p.A. (*) Share capital € 4,500,000.00	Milan	Milan	1	Banco BPM	19.444%	19.444%
10. 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%
11. HI-MTF SIM S.p.A. Share capital € 7,300,000.00 (**)	Milan	Milan	1	Banca Akros	20.000%	20.000%
12. SelmaBipiemme Leasing S.p.A. Share capital € 41,305,000.00	Milan	Milan	1	Banco BPM	40.000%	40.000%
13. 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%
14. Vera Assicurazioni S.p.A. Share capital € 63,500,000.00	Verona	Verona	1	Banco BPM	35.000%	35.000%
15. 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.
(**) Share capital registered in the Companies' Register on 1 July 2022

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.	703,833	-	85,410
Alba Leasing S.p.A.	163,486	-	-
Anima Holding S.p.A.	237,498	249,966	20,009
Vera Vita S.p.A.	136,092	-	-
Total	**1,240,909**	**249,966**	**105,419**

The "Fair value" column shows the value relating to the stock market listing as at 30 June 2022 of the associate Anima Holding, which is the only listed company.
Also note that dividends received during the half-year were recognised as decreasing the book value of the interest in associates and joint ventures, in that the profits, which gave rise to them, were already indicated in the financial statements as at 31 December 2021, as a result of measuring the investment using the equity method.

Interests in associates and joint ventures: impairment testing to determine whether there has been a permanent loss in value

<u>Analysis of potential impairment triggers</u>

The negative performance of the financial markets and the ensuing capital losses on the securities portfolio had negative repercussions on shareholders' equity and on the regulatory capital of the interests in associates held in the life insurance companies, namely Vera Vita and Bipiemme Vita. This circumstance was considered a potential impairment trigger, which therefore suggested the execution of an interim test aimed at ascertaining the recoverability of the book values. This test is in addition to that indirectly carried out on the interests held in Vera Assicurazioni, by testing the recoverability of the Bancassurance Protection CGU, as described in the section "Intangible assets - Item 100", which should be referenced for further details.

Overall, the book value of the interests held in Vera Vita and Bipiemme Vita amounted to 211.2 million, as specified in the following table.

Interests in associates and joint ventures	**Book value**
Vera Vita	136.1
Bipiemme Vita	75.1

Calculation methodology, cost of equity and results

For the methodology for calculating the recoverable value of the interests in associates and joint ventures in question and the relative cost of equity (equal to 8.10%), reference is made to what is illustrated for the Bancassurance Protection CGU in the section "Intangible assets - Item 100" and in particular in paragraph "B. Criteria used to determine the recoverable value of the CGUs and interests in insurance companies".
As a result of the checks carried out, for the interests in associates held in Vera Vita and Bipiemme Vita, the impairment test conducted as at 30 June 2022 did not reveal the need to recognise any impairment, showing a positive margin between the recoverable value and the book value.

Sensitivity Analysis

In compliance with the dictates of IAS 36, for the interests in Vera Vita and Bipiemme Vita, 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 case of an increase in the Ke rate or a linear decrease in the expected profit with respect to the flows and the rates effectively used in the test, keeping all the remaining assumptions unchanged.

With regard to the interests in Vera Vita, the following table highlights how, purely by way of example and sensitivity, an increase in the cost of equity, combined with a decrease in flows, would affect the available margin, resulting in the elimination of the margin or the need to recognise impairment.

Vera Vita Change in flows/Discount rates "ke" (difference between recoverable value and reference value in millions of euro) (percentage impact on value in use)					
			(Ke)		
		8.10%		12.28%	
Profit	0%	116	46%	0	0%
	-5%	103	41%	-7	-3%
	-45%	0	0	-63	-25%

Again for the interests in Vera Vita, the following table provides a sensitivity analysis on the differential (in absolute value and percentage) between the recoverable value and the reference book value, in the case of an increase or decrease in the growth rate (g) and/or the cost of equity (Ke) with respect to the parameters actually used, keeping all the remaining assumptions unchanged.

Vera Vita 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)		
		8.10%		12.28%	
(g)	1%	86	34%	-9	-4%
	2%	116	46%	0	0%
	2.5%	135	54%	5	2%

With regard to the interests in Bipiemme Vita, the following table highlights how, purely by way of example and sensitivity, an increase in the cost of equity, combined with a decrease in flows, would affect the available margin, even resulting in the elimination of the margin or the recognition of impairment.

Bipiemme Vita Change in flows/Discount rates "ke" (difference between recoverable value and reference value in millions of euro) (percentage impact on value in use)					
		(Ke)			
		8.10%		9.94%	
Profit	0%	16	18%	0	0%
	-5%	11	12%	-3	-3%
	-19%	0	0	-12	-13%

Again for the interests in Bipiemme Vita, the following table provides a sensitivity analysis on the differential (in absolute value and percentage) between the recoverable value and the reference book value, in the case of an increase or decrease in the growth rate (g) and/or the cost of equity (Ke) with respect to the parameters actually used, keeping all the remaining assumptions unchanged.

Bipiemme Vita 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)			
		8.10%		9.94%	
(g)	1%	11	12%	-2	-2%
	2%	16	18%	0	0%
	2.5%	18	20%	1	1%

Commitments relating to interests in jointly controlled companies and subject to significant influence

Commitments deriving from agreements with Crédit Agricole for consumer loans

On 28 June 2019, in execution of the agreements signed at the end of 2018 by Banco BPM, Crédit Agricole Consumer Finance SA, Crédit Agricole SA and Agos Ducato, the reorganisation of the Group's consumer credit segment was completed. The reorganisation, which confirms the partnership between Banco BPM Group and Crédit Agricole for the next 15 years:

(i) formalised, inter alia: (a) a new Shareholders' Agreement, (b) a new Distribution Agreement, and (c) a new Funding Agreement;

(ii) resulted in the transfer of ProFamily to Agos Ducato, through the finalisation of a demerger of ProFamily's non-captive operations in favour of a newly established company, 100%-owned by Banco BPM, which retained the name ProFamily.

On 18 December 2020, an Amendment Agreement between the parties was 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 Assicurazioni

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. A fixed component of 60 million will be added to this value, of which 26 million against Cattolica's waiver to extend the distribution agreement to the branches currently served by another insurance partner. 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, regulated the methods of continuation and conclusion of the partnership up until, at most, the end of 2028.

In particular, the amended agreements provided 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 possibility of continuing the partnership until the end of 2028, subject to the exercise of put and call options granted to Covéa and the Bank respectively in certain time windows.

These agreements redefined, inter alia, the terms and conditions of the parties' partnership exit rights. In brief, the right was established 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 as at 30 June 2021) and any capital increases minus any dividends paid.
The transfer as of 31 October 2021 was also planned for all delegated management activities of BPM Vita to Anima SGR, as set forth in the 2018 agreements between Banco BPM and Anima.

On 12 April 2022, the Board of Directors of Banco BPM resolved to exercise the option for the purchase from the partner Covéa Coopérations SA of 81% of the share capital of Bipiemme Vita. Concurrently with the exercise of the option, Banco BPM also proceeded, in accordance with the provisions of the New Reciprocal Options Agreement, to send the cancellation of the New Shareholders' Agreement and the cancellations of the New Life Distribution Agreement (to Bipiemme Vita) and the New Non-Life Distribution Agreement (to Bipiemme Assicurazioni).

As specified in the section dedicated to Significant events after the end of the interim period of these Explanatory Notes, the cancellation of the agreements took effect on the date on which, after obtaining the legal authorisations from the competent Authorities, Banco BPM completed its acquisition of the interests held by Covéa Coopérations SA in Bipiemme Vita and precisely on 22 July 2022.

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.

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

Property, plant and equipment – Item 90

Property, plant and equipment totalled 3,192.5 million as at 30 June 2022, compared with the amount of 3,278.2 million of the previous year. In detail, the aforementioned assets are represented by:

- property, plant and equipment used in operations valued at cost of 780.1 million, mainly concerning rights of use relating to property rental contracts;
- property used in operations and valuable works of art measured on the basis of the restatement of values of 1,376.7 million;
- property held for investment purposes valued at fair value of 1,035.6 million.

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

As at 30 June 2022 there were no commitments for the purchase of property or other property, plant and equipment of a significant amount.

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

Asset/Amounts	Total 30/06/2022	Total 31/12/2021
1. Owned assets	**81,640**	**87,001**
a) land	-	-
b) buildings	-	-
c) furniture	15,246	16,829
d) electronic systems	55,105	55,522
e) other	11,289	14,650
2. Rights of use acquired through leases	**698,495**	**708,373**
a) land	-	-
b) buildings	658,074	698,160
c) furniture	39,931	9,067
d) electronic systems	-	-
e) other	490	1,146
Total	**780,135**	**795,374**
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 at 30 June 2022, as well as at 31 December 2021, the Group does not hold property, plant and equipment for investment purposes valued at cost. Therefore, the related table is omitted.

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

Asset/Amounts	Total 30/06/2022			Total 31/12/2021		
	L1	L2	L3	L1	L2	L3
1. Owned assets	**-**	**-**	**1,376,726**	**-**	**-**	**1,377,092**
a) land	-	-	1,005,631	-	-	1,004,302
b) buildings	-	-	320,995	-	-	322,690
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	**-**	**-**	**1,376,726**	**-**	**-**	**1,377,092**
of which: obtained through the enforcement of guarantees received	-	-	20,803	-	-	24,500

The changes that occurred during the half-year, aside from the normal deterioration process for 8.1 million, include the following:

- transfers of certain properties from assets held for investment purposes amounting to 5.0 million;
- net changes in fair value for a total negative amount of 0.9 million. Said effects are reported in the statement of comprehensive income for a positive 3.0 million and in the item "260. Fair value gains (losses) on property, plant and equipment and intangible assets" for a negative 3.9 million.

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

Asset/Amounts	Total 30/06/2022			Total 31/12/2021		
	L1	L2	L3	L1	L2	L3
1. Owned assets	**-**	**-**	**1,035,636**	**-**	**-**	**1,105,779**
a) land	-	-	742,194	-	-	791,671
b) buildings	-	-	293,442	-	-	314,108
2. Rights of use acquired through leases	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
Total	**-**	**-**	**1,035,636**	**-**	**-**	**1,105,779**
of which: obtained through the enforcement of guarantees received	-	-	530,154	-	-	587,324

The changes that occurred during the half-year include the following:

- transfers of several properties to assets for business use for a book value of 5.0 million;
- transfers of certain buildings, with a book value of 32.8 million, to assets held for sale;
- net changes in fair value for a total negative amount of 36.6 million recognised under item "260. Fair value gains (losses) on property, plant and equipment and intangible assets".

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

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

Intangible assets – Item 100

10.1 Intangible assets: breakdown by type of asset

Asset/Amounts	Total 30/06/2022		Total 31/12/2021	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	**X**	**46,726**	**X**	**54,858**
A.1.1 attributable to the Group	X	46,726	X	54,858
A.1.2 attributable to non-controlling interests	X	-	X	-
A.2 Other intangible assets	**651,987**	**504,272**	**654,592**	**504,272**
of which: software	364,988	-	352,092	-
A.2.1 Assets at cost:	651,987	504,272	654,592	504,272
a) Internally generated intangible assets	-	-	-	-
b) Other assets	651,987	504,272	654,592	504,272
A.2.2 Assets at fair value:	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
Total	**651,987**	**550,998**	**654,592**	**559,130**

Intangible assets with a finite life include the value of "Client Relationships" acquired as part of the business combination of the BPM Group and the Banca Popolare Italiana Group for a total of 286.9 million, down by 15.5 million compared to the previous year due to the amortisation process. For the above-mentioned activities, the analyses carried out on the evolution of flows and spreads, taken as a reference for the verification of the recoverability of the value, did not reveal any critical elements, also taking into account the broad safety margins in place for the test as at 31 December 2021, as well as the reduction in the half-year due to the amortisation process described above.

Intangible assets with an indefinite life recognised in the financial statements are comprised:

- by goodwill of 42.9 million resulting from the combination of Banca Popolare Italiana (Bancassurance Protection CGU), after the recognition of 8.1 million in impairment;
- by 3.8 million from the goodwill attributed to the "Banca Akros" CGU following the acquisition of control of the company Oaklins Italy S.r.l. by Banca Akros, which took place in 2021;
- 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 an indefinite life: impairment testing to determine whether there has been a permanent loss in value

Reference values for the impairment test

As at 30 June 2022, the Group's intangible assets with an indefinite life, for which it is necessary to verify the existence of any indicators of impairment, amounted to 559.1 million, represented for 504.3 million by trademarks and for 54.8 million by goodwill, in line with the values set forth in the 2021 financial statements. As a result of the testing, which will be illustrated in detail below, it was necessary to write down the goodwill allocated to the Bancassurance Protection CGU by 8.1 million.

As at 31 December 2021, the recoverability checks relating to the aforementioned intangible assets were conducted on the basis of their allocation to the following Cash Generating Units (CGUs):

- "Retail" CGU for the trademarks of the Parent Company equal to 485.7 million;

- "Banca Akros" CGU for the Banca Akros trademark for 18.6 million and for the goodwill relating to the subsidiary Oaklins Italy for 3.8 million;
- "Bancassurance Protection" CGU, represented by the company Vera Assicurazioni, for goodwill amounting to 51.1 million.

It should also be noted that the impairment test carried out as at 31 December 2021 could benefit from the following valuation margins ("headroom"):

- Retail CGU: 5,332 million, equal to the excess between the recoverable value of the CGU (8,369 million) and the relative book value (3,037 million);
- Banca Akros trademarks: 95 million, equal to the excess between the recoverable value of the trademarks (114 million) and the relative book value (19 million);
- Bancassurance Protection CGU: 6 million, equal to the excess between the recoverable value of the CGU (162 million) and the relative book value (156 million).

Methods for verifying impairment triggers

On the basis of the provisions of IAS 36, the results of the last annual impairment test can be considered valid for subsequent interim reports if the intervening elements and circumstances (potential impairment triggers) are not such so as to cast doubt on the underlying hypotheses and assumptions and therefore the recoverability of the values. Otherwise, should a probable loss in value emerge from this verification, it would be necessary to carry out an actual impairment test.
As indicated in "Part A - Accounting Policies" of these Explanatory Notes, the importance of the impairment test for non-financial assets, pursuant to IAS 36, is reaffirmed by ESMA in its Public Statement of 13 May 2022 as part of its recommendations to be followed for the correct representation of the effects of the Russia-Ukraine conflict in IAS 34 financial reporting, which was followed by notification no. 3 from Consob on 19 May 2022.
In this regard, the Statement notes that, by introducing uncertainties into the business outlooks of companies, the war in Ukraine increased the risk of significant adjustments to the book value of balance sheet assets and liabilities. The Statement therefore makes a general call to review and update the considerations used for the year-end financial statements, particularly with reference to the assumptions underlying future forecasts and other elements of estimation uncertainty for which disclosure is required in paragraphs 122 and 125 of IAS 1. It also recalls the importance of updating the disclosure on sensitivity analyses by extending, for example, the confidence intervals of the main parameters and assumptions underlying forecast cash flows. ESMA notes that the existence of indications of possible reductions in recoverable values should be assessed by considering available internal and external sources of information and evaluating whether the effects (direct and indirect) of the conflict specifically constitute an indication of impairment. ESMA also notes that, depending on the type and level of risk associated with the assets to be checked, it may be necessary to develop forward-looking data with multiple scenarios, to be weighted on the basis of reasonable, supportable and realistic assumptions. In any case, attention is drawn to the need to verify the consistency between the forecast data and the assumptions used for the recoverability of the values, on the one hand, and the choices and strategic plans formulated by the company following the conflict, on the other. Lastly, ESMA highlights the need to update the discount rates for determining the recoverable value of the assets, which must be able to reflect current market valuations of the time value of money and the specific risk associated with the assets to be checked.
In order to assist the drafters of the financial statements in carrying out the impairment test for the half year, in June the Italian Measurement Body (OIV) published the draft of the document "Impairment test on non-financial assets (IAS 36) following of the war in Ukraine", which was finalised on 28 July 2022 through the publication of "Discussion Paper no. 1/2022". This document proposes an analysis procedure to be followed to assess whether the conditions are met for repeating the impairment test in the interim report, and if so, which elements must be considered in order to deal with the uncertainty of the context.

Based on ESMA recommendations and the analyses proposed in the OIV document, for the purposes of preparing this interim financial report, the potential impairment triggers (internal and external) deemed relevant for the purposes of the recoverability of the assets in question were analysed, to be able to express an opinion on the need or otherwise to perform a formal impairment test as at 30 June 2022. Information about the main analyses carried out and the relative conclusions is provided below.

External factors

As regards the "external" indicators, the analyses were aimed at verifying the evolution that took place in the half-year in the capitalisation of Banco BPM compared to that recorded in the indices of the Italian and European banking sector. In detail, the stock market price of the Banco BPM share as at 30 June 2022 (2.7 euro) is substantially in line with that as at 31 December 2021 (2.6 euro), unlike what was found for the indices of the Italian banking sector (FTSE Italia All-Share Bank Index) and of the European sector (Euro Stoxx Bank Index) which, during the first half of 2022, recorded a negative change of 24.6% and 20.3%, respectively.
The trend in the price of Banco BPM shares in the configuration of average, maximum, minimum, as well as exact value relating to the first half of 2022, as well as to the period following the invasion of Ukraine, highlights a picture of substantial stability compared to what has been observed with reference to the end of the previous year and the second half of 2021.
In light of the above, although Banco BPM's stock market capitalisation as at 30 June 2022 (4.1 billion) shows a significant discount compared to tangible shareholders' equity (11.7 billion), a circumstance that can be found for all Italian banks for many years now, it is higher than that as at 31 December 2021 (4.0 billion).
As already described in the annual financial report for the year 2021, the measurements expressed for the purposes of preparing the 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.
The significant discount between the stock market capitalisation and tangible shareholders' equity is indeed linked 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 the financial statements are the result of an extrapolation of the economic value of the CGUs based on their specific profit capacities, measured using a much longer time horizon than that used by the financial community.

Internal factors - flows

For the "Retail" CGU, to which almost the entire value of the trademarks is attributed, the value in use was determined by applying the Dividend Discount Model (DDM), in the Excess Capital variant. This model establishes that the economic value of a business is considered equal to the sum of (i) 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 expected development, and (ii) the perpetual capitalisation of the normalised dividend of the last year of the forecast.
The estimates of the cash flows used for the purpose of the latest impairment test had been prepared in accordance with the numbers in the Group's 2021-2024 Business Plan, approved on 4 November 2021 and, for the first projection year, with information from the 2022 budget. The cash flow projections were calculated by adopting a "multi-scenario" approach, in order to incorporate the risk associated with the realisation of such flows, in line with the provisions of generally accepted practice in the presence of scenarios characterised by significant elements of uncertainty. To this end, three distinct macroeconomic scenarios were taken as a reference, developed on the basis of the forecasts published by Prometeia in March 2021, without any update with respect to the macroeconomic projections, slightly improving, developed at the beginning of December 2021, taking into account the conservative logic of the impairment test exercise.
For the purposes of the recoverability checks as at 30 June 2022 on the CGU in question, the Bank has updated the cash flows of the CGU, based on the information available, with the aim of reflecting the changed scenario and any impacts of the Russia-Ukraine war. Given that Banco BPM's exposure to Russian companies has remained substantially constant since the start of the conflict and is equal to less than 0.1% of the total cash assets and unsecured loans of the Group and that the main exposures refer to companies that do not fall within the scope of the Retail CGU, the update of the flows took into account the most up-to-date macroeconomic scenarios, the growing trend in the monetary and financial rate curves, data from the preliminary 2022 financial statements available at that date and an initial update of the 2024 target, developed on the basis of the best available information. The update of the flows was overall an improvement compared to the projections of the Business Plan taken as a reference in the impairment test as at 31 December 2021: indeed, the flows benefit above all from the new upward rates scenario which, generating a higher net interest income, is able to compensate for weak fees and commissions. The other components are assumed to be in line with the previous targets, as there is currently no evidence of negative

dynamics. In summary, the above-mentioned analysis did not reveal any signs of critical issues on these flows, compared to those used for the 2021 impairment test. The same conclusions are also valid with reference to the updating of the flows, in the case in which a "worse" macroeconomic scenario occurs. As further evidence of the fact that the Plan targets remain valid, it should be noted that the final net result as at 30 June 2022 did not show a negative difference compared to that envisaged in the 2022 budget: the reduction in fee and commission income, due to the net negative income of the asset management sector, was more than offset by the increase in net interest income driven by rising interest rates.
In addition, for the CGU in question, during the half-year there were no substantial changes in the scope of net assets compared to that considered as at 31 December 2021 and also the target capital ratio (CET 1) is confirmed as equal to that considered as at 31 December 2021 (8.519%), identified as the minimum capital level that on 2 February 2022 the ECB asked the Group to comply with continuously upon completion of the Supervisory Review and Evaluation Process (SREP).

With reference to the Banca Akros trademark, the recoverability of which was verified as at 31 December 2021 with the "royalties rate" methodology, there are no significant changes in the projections of operating income for the 2022-2024 period, consistent with the 2021-2024 Strategic Plan, which represent the flows used as a reference for the impairment test with the above-mentioned method. In particular, the Bank carried out a sensitivity analysis on the basis of the most recent updated results, also to take into account the situation created by the Russia-Ukraine conflict and the relative impacts on the financial markets. In detail, the aforementioned sensitivity analyses show that the negative deviation from the 2022 budget is not such so as to impact the recoverable value of the trademark; as a result, it is not necessary to repeat the impairment test for the trademark in question.

With regard to the Bancassurance Protection CGU, reference is made to what is described in the paragraph "Bancassurance Protection CGU: impairment test conducted as at 30 June 2022" below.

Internal factors - other valuation parameters

As regards the profile of the valuation parameters, a Cost of Equity was used for the 2021 test consistent with the return required for investments with characteristics similar to that subject to valuation. The Cost of Equity (Ke) was determined on the basis of the Capital Asset Pricing Model (CAPM), based on which the return of a risk asset should be equal to the sum of a risk-free rate (Rf) and a risk premium (MRP), considering the specific risk of the asset (ß) (Ke = Rf + ß x (MRP)). In detail, in the impairment test as at 31 December 2021:

- the risk-free (Rf) component, which in any case encompasses the so-called "Country risk", was determined using the 1-year average of the yields of Italian 10-year BTP government bonds which as at 31 December 2021 was equal to 0.78%;
- for the beta coefficient (ß), which measures the risk of the specific company or operating sector in terms of the correlation between the actual return of a share and the overall return of the reference market, the following was used: *(i)* for the retail CGU: the indicator relating to a sample of comparable companies (Italian listed banks), reported by Bloomberg which as at 31 December 2021 was equal to 1.11, *(ii)* for the "Banca Akros" CGU: the average indicator relating to a sample of companies active in Private and Investment Banking, reported by Bloomberg which as at 31 December was equal to 1.20, *(iii)* for the Bancassurance Protection CGU: the average indicator relating to a sample of companies active in the insurance sector was equal to 1.25;
- the market risk premium (MPR) was determined, in line with valuation practice, to be equal to 5.2%.

The updated analysis carried out with reference to 30 June 2022 shows an increase in the risk-free component, equal to the 1-year average of the yields of Italian 10-year BTP government bonds, from 0.78% to 1.57%.
As regards the beta coefficients, the one relating to the Retail CGU increases from 1.11 to 1.13, that of the Banca Akros CGU goes from 1.20 to 1.19 and that of the Bancassurance Protection CGU from 1.25 to 1.23.
Finally, the market risk premium is equal to 5.3% compared to 5.2% in the previous year.

With the update of the parameters, as at 30 June 2022, the cost of equity (Ke) relating to the various CGUs changes as follows:

- that relating to the Retail CGU increases from 6.53% to 7.55%;
- that relating to the Banca Akros CGU increases from 7.02% to 7.90%;
- that relating to the Bancassurance Protection CGU increases from 7.30% to 8.10%.

All other conditions being equal, the result is a decrease in the recoverable values of the CGUs compared to those estimated when the last impairment test was performed.

The "g" % growth rate for the determination of the terminal value used is confirmed at 2%; while elements of significant uncertainty remain in the general economic framework, no new information elements have been identified such so as to justify a modification of the parameter adopted when carrying out the last impairment test (2%), assumed to be equal to the nominal economic growth rate, in line with the inflation target under the ECB's long-term monetary stability policy.

As regards the other valuation parameters, there are no changes with respect to what was approved for the 2021 impairment test.

Conclusions regarding the existence of potential impairment triggers

In light of the above, taking into account the increase in the "Ke" discount rate and the sensitivity analyses prepared for the 2021 impairment test with respect to the parameter in question, an impairment indicator was deemed to exist only for the Bancassurance Protection CGU, represented by Vera Assicurazioni, while no potential impairment triggers emerged for the trademarks. For the above-mentioned CGU, the impairment test conducted as at 31 December 2021 indeed showed a positive margin between the recoverable value and the reference value of only 6 million, which would have been eliminated in the presence of an increase in the cost of equity from 7.30% to 7.51%.

An update of the sensitivity analyses with respect to those laid out in the 2021 financial statements is provided below for the Retail CGUs and for the Banca Akros trademark, based on the hypotheses and assumptions previously considered for the calculation of the recoverable value, while for the impairment test performed for the Bancassurance Protection CGU, please refer to the following paragraph.

For the Retail CGU, the following table shows that, with the updating of the cost of equity to 7.55%, all other factors being equal, the positive difference between the recoverable value and the book value would be 3.8 billion, down from 5.3 billion recorded as at 31 December 2021, when the cost of equity observed was 6.73%. In addition, the table shows that, all other factors being equal, there would be an impairment scenario following an increase in the cost of equity to a value of 15.35% combined with a decrease in the growth rate of the terminal value to 1.5%.

Retail CGU (2021 financial statements 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)			
		7.55%		15.35%	
(g)	1.50%	3,487	53.4%	-26	-0.9%
	2.00%	3,836	55.8%	0	0.0%
	2.50%	4,255	58.4%	28	0.9%

In addition, for the CGU in question, a sensitivity analysis was conducted with respect to cash flow projections and the cost of equity (Ke). The results of those analyses are summarised in the table below, which shows the differential (in absolute value and percentage) between the recoverable value and the reference book value, in the case of an increase or decrease in the Ke and/or the net profit with respect to the data effectively used. Specifically, the table shows the percentage reduction that there should be in the profit, with the same Ke, to eliminate the positive delta between the recoverable value and the book value (-57%). The table also shows the existence of an impairment scenario in the event of an increase in the cost of equity (Ke) of 9.55%, combined with a decrease in forecast profits of over 57%.

Retail CGU (2021 financial statements scenario probability: baseline (50%), best (20%), adverse (30%) % Change in net profit/Discount rates "Ke" (difference between recoverable value and reference value in millions of euro) (percentage impact on value in use)					
		Ke			
		7.55%		9.55%	
Profit	10.00%	4,515	59.8%	2,568	45.8%
	0.00%	3,836	55.8%	2,085	40.7%
	-10.00%	3,158	51.0%	1,601	34.5%
	-57.00%	0	0.0%	-650	-27.2%

For the Banca Akros trademark, the following table shows that, with the updating of the cost of equity to 7.90%, the positive difference between the recoverable value and the book value would be 78 million, down from 95 million as at 31 December 2021, when the cost of equity observed was 7.02%. The table also shows that there would be impairment in the case of an increase in the cost of equity to a value of 31.8% combined with a decrease in the growth rate of the terminal value to 1.5%.

Banca Akros Trademark (2021 financial statements 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)			
		7.90%		31.8%	
(g)	1.50%	71	78.9%	-0.2	-1.1%
	2.00%	78	80.4%	0	0.0%
	2.50%	86	81.9%	0.2	1.0%

Bancassurance Protection CGU: impairment test conducted as at 30 June 2022

A. Method for calculating the book value of the single CGUs

The reference value is specifically identified as the sum of the book values of the assets and liabilities of the above-mentioned entities and the intangible assets with an indefinite useful life allocated to them in the consolidated financial statements.
For the Bancassurance Protection CGU, the reference book value to be tested for impairment corresponds to the book value in the consolidated financial statements of the interests held in Vera Assicurazione and the goodwill attributed to the above-mentioned CGU, as there is no trademark, as summarised in the table below.

CGU	Reference book value	of which: goodwill	of which: trademarks
Bancassurance Protection / Vera Assicurazioni	139.6	51	-

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 and interests in insurance companies

On the basis of IAS 36, the amount of any impairment is determined as the difference between the book value of the CGU, identified on the basis of the criteria already described, and its recoverable value, if lower. The recoverable value is defined as the higher of:

- The Value in Use, i.e. the present value of future cash flows expected to arise from the continuous use of a specific asset or from a CGU;
- The Fair Value, after costs to sell, or the amount which could be obtained by selling an asset, in a free transaction between knowledgeable and willing parties.

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

According to the Dividend Discount Model, the value of a business is based on the dividend flows that it is capable of generating on a forward-looking basis. In the case in question, the method used is the Excess Capital variant of the DDM, which assumes that the economic value of a business is equal to the sum of the present value of future cash flows (Expected Dividends) generated over the selected planning time horizon and distributable to shareholders while maintaining an adequate level of capitalisation to guarantee the expected future development, and the perpetual capitalisation of the normalised dividend of the last year of the forecast, based on a pay-out ratio, depending on fully phased profitability. The application of the DDM entails the use of the following formula:

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

where:
W = General value of economic capital
Ke = Cost of equity (Ke)
Dt = Dividends distributable in the explicit period, with a level of capitalisation consistent with current regulations
n = Number of years in the explicit period
TV = Terminal Value determined as the present value of perpetual income represented by the average sustainable dividend for the years following the explicit planning period
SA = Value of any surplus assets.

In analytical terms, the Terminal Value is calculated as follows:

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

where:
Dn+1 = Average sustainable dividend expected after the explicit planning period
g = Expected long-term growth rate of the dividend after the explicit planning period. This rate is placed in relation to the nominal growth rate of the economy over the long term. In fact, it is prudently assumed that over the long term each sector and each company in the sector will converge toward a growth rate equal to that of the economy as a whole
Ke = Cost of equity.

B.1 - Estimates of cash flows

The estimation of the cash flows underlying the determination of the Value in Use is usually carried out using the latest available plan. In particular, the assessments were based, inter alia, on:

- the capital and regulatory situations as at 30 June 2022, which already include the negative market effects of the first half of 2022;
- the 2021-23 three-year Plans, the latest plans approved by the Boards of Directors of the Companies.

In this regard, it should be noted that the company Vera Assicurazioni, as well as the other insurance companies owned by the Group (Vera Vita and Bipiemme Vita), did not make changes to the approved Plans during the first half of 2022 and up to the valuation date. The flows used for the 2021 test as well and the relative main assumptions already adopted at the time are therefore confirmed.

B.2 - Cash flow discount rates

For the discounting of dividends distributable to shareholders, a cost of equity was used in line with the requested return for investments with characteristics equivalent to those being assessed. The cost of equity (Ke = 8.10%) 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 2021, by using the 1-year average yield on 10-year Italian government BTPs (1.57% is the value as at 30 June 2022).
With reference to the beta coefficient (ß) - which measures the riskiness of the specific business or operating sector in terms of correlation between the effective return of a share and the overall return of the reference market - an indicator relating to a comparable sample of companies active in the insurance sector reported by Bloomberg was used. As at 30 June 2022 the coefficient ß was 1.23.

Said ratio was identified weekly over a time horizon of 5 years.
Lastly, the risk premium requested from the market (MRP - Market Risk Premium) was determined to be 5.3%, based on the use of sources in line with measurement practices.

C. Summary of results

On the basis of what is illustrated in the previous points A and B, the impairment test as at 30 June 2022 determined the need to recognise a write-down of 8.1 million for the Bancassurance Protection CGU, represented by the investment held in Vera Assicurazioni, attributable to the allocated goodwill.
In this regard, it should be noted that the parameters and assumptions underlying the determination of the value in use may be significantly influenced by the assumed macroeconomic framework.
It cannot be excluded that the assumptions adopted, however reasonable and prudent, might not be confirmed by future scenarios in which the Group will operate. In particular, any worsening of the macroeconomic scenario could adversely affect the projections of estimated cash flows, the cost of equity and the growth factor, resulting in different results from those estimated for the purposes of this Interim Financial Report.

D. Sensitivity Analysis

In compliance with the dictates of IAS 36, for the CGU in question 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 table below represent the differential (in absolute value and percentage) between the recoverable value and the reference book value, in the case of an increase in the Ke rate or a linear decrease in the expected profit with respect to the flows and the rates effectively used in the test, keeping all the remaining assumptions unchanged. In detail, purely by way of example and sensitivity, a further increase in the cost of equity to the value of 8.60%, combined with a decrease in flows of 5% and 10%, would further affect the available margin (31 million would be the write-down to be recognised in the case of an increase in the discount rate of 0.5%, together with a negative change in cash flows of 10%).

Bancassurance Protection / Vera Assicurazioni CGU
Change in flows/Discount rates "Ke"
(difference between recoverable value and reference value in millions of euro)
(percentage impact on value in use)

		(Ke)			
		8.10%		8.60%	
Profit	0%	-8	-6%	-19	-14%
	-5%	-15	-12%	-25	-19%
	-10%	-22	-17%	-31	-24%

The table below instead shows the differential (in absolute value and percentage) between the recoverable value and the reference book value, in the case of an increase or decrease in the growth rate (g) and/or the cost of equity (Ke) with respect to the rates effectively used, keeping all the remaining assumptions unchanged. More specifically, by way of example and sensitivity only, an increase in the cost of equity to the value of 8.60%, combined with a reduction of the growth factor (g) to 1%, would result in a lower recoverable value of the CGU by 29 million (compared to the loss of 8 million determined on the basis of the parameters used as a reference in the impairment test as at 30 June 2022).

Bancassurance Protection / Vera Assicurazioni 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)			
		8.10%		8.60%	
(g)	1%	-21	-16%	-29	-22%
	2%	-8	-6%	-19	-14%
	2.5%	0	0%	-12	-9%

Tax assets - Item 110 and Item 130 in the assets

Deferred tax assets

A. Deferred tax assets – breakdown

As at 30 June 2022, total DTAs amounted to 4,338.9 million (4,293.6 million as at 31 December 2021), of which 4,021.3 million had an impact on the income statement, while 317.6 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 30 June 2022, 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 2,379.8 million (2,472.8 million as at 31 December 2021). The provisions under this law and, subsequently, under Italian Law 147/2013 (2014 Stability Law), provide for the conversion of DTAs into tax credits in the case of a "statutory loss", a "tax loss" for IRES purposes and a "net negative value of production" for IRAP purposes. For the purposes of these regulations, write-downs on loans not yet deducted based on temporal limits in effect at the time pursuant to Article 106, paragraph 3 of the Italian Consolidated Tax Law (TUIR) are included, as are negative components relative to goodwill and other intangible assets, not yet deducted according to the temporal limits in effect at the time (known as "qualified DTAs").
Specifically, as at 30 June 2022, 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 1,708.8 million (1,797.8 million as at 31 December 2021);
- temporary deductible differences relative to goodwill and other intangible assets recognised in previous years for 671.0 million (675.0 million as at 31 December 2021).

It should be specified that, specifically with reference to these DTAs, their continued convertibility to tax credits is subordinate to the payment of the fee pursuant to Decree Law 59 of 3 May 2016, amended and converted into law with Law no. 119 of 30 June 2016. Italian Law no. 15 of 17 February 2017, converting the "Salva risparmio" Decree Law postponed the period for which the fee is due to 31 December 2030. In order to guarantee the convertibility of DTAs into tax credit and avoid the negative impacts that would otherwise result on Own Funds, Banco BPM Group availed of the option by paying said fee.
The fee for 2022 amounts to 27.7 million.

As at 30 June 2022, residual deferred tax assets (non-convertible DTAs) amounted to 1,959.1 million (1,820.8 million as at 31 December 2021), of which 866.1 million deriving from IRES tax losses, which can be carried forward (904.7 million as at 31 December 2021) and 1,093.0 million deriving from costs and value adjustments deductible in years subsequent to those of recognition in the financial statements (916.2 million as at 31 December 2021).

Note that not all ineligible DTAs were recognised in the financial statements by Banco BPM and its subsidiaries. The amount of DTAs not posted as at 30 June 2022 in relation to the absence of the relative assumptions came to 30.2 million, of which 5.9 million of IRES DTAs and 24.3 million of IRAP DTAs.

B. Deferred tax assets - recoverability checks

In compliance with the provisions of IAS 12 and the ESMA communication of 15 July 2019, Banco BPM Group recognised Deferred Tax Assets (DTAs), after verifying that the values recognised were supported by judgements that it was probable they could be recovered. In order to make these judgements, the current tax provisions were taken into consideration, in particular with reference to rules regarding whether certain deferred tax assets can be converted into tax credits, and the Group's capacity to generate future taxable income, also taking the "tax consolidation" option into account.
As regards eligible DTAs that can be converted into tax credits, equal to 2,379.8 million - corresponding to 54.8% of the total DTAs posted in the financial statements as at 30 June 2022 - 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 1,959.1 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 for 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;
- the estimates of future taxable income have been made using a multi-scenario approach, by taking as a reference the most recent cash flow projections of the Banco BPM Group or Banco BPM for the 2022 - 2024 period, prepared for the ICAAP in April 2022;
- 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 (DTLs) were offset by DTAs in the event that their reversal over time is expected to occur in the same year.

Below is detailed information on the assumptions used for probability testing, their outcomes and sensitivity analysis.

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

The estimate of future taxable income took place starting from the most recent income projections of Banco BPM and the Group for the years 2022-2024 prepared for the ICAAP in April 2022.

Considering 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 base scenario, an adverse and favourable

scenario were developed, which were assigned probabilities of occurrence to the extent of 40%, 60% and 0%, respectively, in order to take into account the most recent deterioration of the economic and political scenario.
As at 31 December 2021, the above-mentioned probabilities were 50%, 30% and 20% respectively.
For long-term profitability, starting from 2025, we took as reference the expected income in 2024, determined by weighting the three scenarios indicated, appropriately normalised to take account of a number of components considered non-recurring. This income has been projected, starting from 2026, with an annual growth rate (g) of 2%, equal to the nominal growth forecasts of the national economy.

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 5.98% has been introduced. This factor has been defined as a function of the risk premium required by the market (MRP - Market Risk Premium), equal to 5.3%, multiplied by the Beta coefficient (ß), equal to 1.13%, 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 5.98%, 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 30 June 2022, which can be recovered through the income generated by all the companies participating in the tax consolidation, amount to 1,586.6 million. Full recovery of those DTAs is expected by the end of 2033 (12 years[1]), in line with the results as at 31 December 2021. It must also be noted that over 83% 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 30 June 2022, which can be recovered through the income generated in the separate financial statements of Banco BPM, amount to 246.8 million. The full recovery of the DTAs in question is expected to take place by the end of 2035 (14 years), one year prior to what emerged from the test as at 31 December 2021.

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 2032 (11 years), highlighting a reduction of one year with respect to 31 December 2021.
Lastly, referring to the IRAP DTAs of Banco BPM as at 30 June 2022, which can be recovered through income generated individually by Banco BPM, of 114.2 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% (1,586.6 million).
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 (7.48% and 4.48% respectively) would result respectively in an extension of the time horizon by 1 year (2034) and a confirmation of recovery by the end of 2033, respectively;

[1] Counted from the beginning of the year and therefore including 2022.

- long-term income growth rate (g): a reduction of 0.5% (from 2% to 1.5%) would result in the deferral by 1 year of the time horizon for recovery (by the end of 2034);
- a "normalised" taxable income expected from 2025 onwards: a 10% reduction in that income would lengthen the expected return of the DTAs by 2 years (2035).

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 30 June 2022 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 30/06/2022	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)	32.3%	32.3%	32.3%	32.3%	32.3%	32.3%
31/12/2031 (10 years)	83.3%	79.6%	87.3%	82.2%	76.3%	100.0%
31/12/2032 (11 years)	92.4%	87.6%	97.6%	91.0%	84.2%	
31/12/2033 (12 years)	100.0%	95.2%	100.0%	99.3%	91.7%	
31/12/2034 (13 years)		100.0%		100.0%	99.0%	
31/12/2035 (14 years)					100.0%	

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

Note that as at 30 June 2022, the DTAs deriving from IRES tax losses that can be carried forward amount to 866.1 million, compared to 904.7 million as at 31 December 2021.
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.

11.1 Deferred tax assets: breakdown

		IRES	IRAP	Other taxes	30/06/2022	31/12/2021
A)	**As balancing entry in the Income Statement**					
	A.1) Convertible DTAs pursuant to Italian Law 214/2011	**2,110,541**	**269,221**	**-**	**2,379,762**	**2,472,820**
	Write-downs of loans deductible in subsequent years	1,561,000	147,752	-	1,708,752	1,797,823
	Costs deductible in subsequent years deriving from the tax relief on goodwill and other intangible assets	549,541	121,469	-	671,010	674,997
	A.2) DTAs - Other types	**1,576,452**	**65,058**	**-**	**1,641,510**	**1,732,318**
	Tax losses that can be carried forward	866,072	-	-	866,072	904,653
	ECL adjustments of FTAs pursuant to IFRS 9 on loans to customers deductible in the subsequent years	237,796	48,078	-	285,874	304,585
	Provisions and value adjustments deductible in subsequent years	92,016	37	-	92,053	112,045
	Personnel expenses and provisions for employee severance pay deductible in subsequent years	111,995	950	-	112,945	152,104
	Value adjustments to real estate deductible in subsequent years	231,864	11,840	-	243,704	217,099
	Book values lower than the recognised tax values resulting from value adjustments to goodwill and other intangible assets	19,886	4,056	-	23,942	24,869
	Book values lower than the recognised tax values resulting from fair value measurement of financial assets	1,129	48	-	1,177	1,182
	Other cases of misalignment between book and tax values	15,694	49	-	15,743	15,781
	Total A	**3,686,993**	**334,279**	**-**	**4,021,272**	**4,205,138**
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	208,754	45,664	-	254,418	24,803
	Other cases of misalignment between book and tax values	53,385	9,809	-	63,194	63,687
	Total B	**262,139**	**55,473**	**-**	**317,612**	**88,490**
	Total (A+B)	**3,949,132**	**389,752**	**-**	**4,338,884**	**4,293,628**

Other assets: receivables due from tax authorities

Item 130 "Other assets" as at 30 June 2022 includes receivables due from tax authorities of 2,448.9 million (1,919.5 million as at 31 December 2021), mainly represented by:

The item "Receivables due from tax authorities" as at 30 June 2022 mainly includes:

- receivables resulting from claims for the refund of direct taxes totalling 309.7 million concerning:
  - receivables of 208.3 million relating to 2018, the refund of which was requested in 2019;
  - IRPEG/ILOR receivables of 94.0 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;
  - IRES and IRAP receivables of 3.6 million attributed following the liquidation of Group companies;
  - receivables of 3.8 million, for which the incorporated 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 Italian Presidential Decree no. 601/1973 identified by the most recent rulings of the Supreme Court. Banco BPM, as the incorporating company of Bipielle Real Estate, again filed a petition to the Provincial Tax Commission, also assessing, based on an analysis of the deed of sale by the Foundation, any recourse against the same. On this basis, it was considered prudent to allocate a bad debt provision as at 31 December 2021 of 50% of the amount of receivables or 1.9 million;

- receivables resulting from claims for the refund of IRES due to the failure to deduct IRAP for tax years 2005 to 2011, totalling 3.4 million. The principal credit was recognised in 2012 for 68.3 million (following the issue of Decree Law no. 201/2012 relating to the IRES refund due to the deductibility of the IRAP cost relating to personnel expenses for the years from 2008 to 2011) was repaid in 2021 for 67.1 million. An appeal has been filed with the Provincial Tax Commission for the residual amount of 1.2 million. Considering that critical elements emerged from the examination of the counter-arguments of the Tax Authority to the appeal submitted, a specific bad debt provision of 0.7 million was recognised as at 31 December 2021;
- receivables resulting from claims for the refund of VAT and indirect taxes totalling 72.3 million concerning:
  - 58.4 million relating to tax years 1998, 1999 and 2000 of the former Banca Italease S.p.A. The dispute, initiated for a total receivable of 179.9 million, was repaid during the half-year in the amount of 121.5 million, following the ruling during the resumption of the proceedings of the Regional Tax Commission of Milan of 9 November 2020, filed on 17 September 2021.

  With the aforementioned judgement, the Commission accepted the Bank's appeal with the exception of:
    - the amount of 1.7 million, relating to the VAT credit for the year 2000, for which the objection raised by the Office according to which there is no proof of the reimbursement due was considered valid;
    - the interest accrued on the VAT credit for the year 1999, for which the Commission denied the reimbursement of 7.7 million, considering that it concerned late payment interest. In the present case, according to the Commission, the Office should not be considered in default having requested additional documentation from the counterparty (documents relating to pending proceedings). The Bank's defence based on the irrelevance of this documentation for the purpose of proving the existence of the VAT receivable was not accepted.

    Prudentially for the amounts not recognised, a specific bad debt provision of 9.4 million was recognised as at 31 December 2021.

    The additional amount of 49 million is made up of interest accrued and not yet repaid. Given that there are reasons to submit a further appeal to the Supreme Court, it will proceed in this way;
  - 4.5 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. On 11 April 2022, the Provincial Tax Commission of Florence filed the ruling whereby it partially accepted the appeal lodged, recognising the amount due to the Bank of 4.1 million. The Bank will appeal. On a prudential basis, the Bank wrote down the receivable by 3.7 million as at 31 December 2021;
  - 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;
- receivables recorded as balancing entries to the provisional payments made pending the final judgement of the pending tax disputes, for a total of 210.4 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 and substitute taxes applied to customers during the year and which will be recovered through offsetting in the total amount of 266.4 million;
- various receivables due from the Tax Authorities of 53.6 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 68.2 million;
- tax receivables connected with the payment of Group VAT for 1.0 million;
- credits for Ecobonus for 1,477.7 million; the difference in these receivables compared to 31 December 2021 (817.4 million) is able to explain the change in receivables due from tax authorities classified under "Other assets". 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 - Accounting policies";

- municipal tax (IMU) credits of 0.5 million, of which 0.2 million refer to the merged company Release S.p.A. On a prudential basis, the Bank wrote down the receivables by 0.3 million as at 31 December 2021;
- other receivables for withholdings incurred in a higher amount than that established by the Conventions on the avoidance of double taxation on share dividends, for which refunds are expected from foreign governments for 1.0 million. As a precaution, a specific bad debt provision of 0.4 million was recognised for Banca Aletti;
- tax receivables due from Foreign tax authorities on dividends paid of 1.1 million.

In light of the above, the gross value of the tax credits is 2,465.3 million and the write-downs made amount to 16.4 million. Therefore, the net value of receivables due from the Tax Authority recognised in the financial statements is 2,448.9 million.

Non-current assets and disposal groups held for sale and associated liabilities – Item 120 in the assets and item 70 in the liabilities

12.1 Non-current assets and disposal groups held for sale: breakdown by type of asset

	Total 30/06/2022	Total 31/12/2021
A. Assets held for sale		
A.1 Financial assets	6,957	123,943
A.2 Interests in associates and joint ventures	-	-
A.3 Property, plant and equipment	95,845	106,028
of which: obtained through the enforcement of guarantees received	36,605	23,868
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total A	**102,802**	**229,971**
of which at cost	6,957	123,943
of which at fair value level 1	-	-
of which at fair value level 2	-	-
of which at fair value level 3	95,845	106,028
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 30 June 2022 (the same as at 31 December 2021), assets held for sale include owned properties for which sale negotiations in progress at the reporting date render probable the completion of the sales during the next year (indicated under item A.3 “Property, plant and equipment”).

During the half-year, on the other hand, the transfer to third parties of loans to customers relating to the “salary-backed loan” portfolio disbursed by the former ProFamily was completed, which as at 31 December 2021 were shown in item A.1. “Financial assets”.

LIABILITIES

Financial liabilities at amortised cost – Item 10

1.1 Financial liabilities at amortised cost: breakdown by product for amounts due to banks

Transaction type/Amounts	Total 30/06/2022				Total 31/12/2021			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**38,628,436**	X	X	X	**39,041,403**	X	X	X
2. Due to banks	**7,601,965**	X	X	X	**6,650,175**	X	X	X
2.1 Current accounts and demand deposits	62,671	X	X	X	421,964	X	X	X
2.2 Fixed-term deposits	243,069	X	X	X	398,035	X	X	X
2.3 Loans	5,914,122	X	X	X	5,428,926	X	X	X
2.3.1 Repurchase agreements	5,641,346	X	X	X	5,062,398	X	X	X
2.3.2 Other	272,776	X	X	X	366,528	X	X	X
2.4 Payables for commitment to repurchase own capital instruments	-	X	X	X	-	X	X	X
2.5 Lease payables	6,760	X	X	X	6,546	X	X	X
2.6 Other payables	1,375,343	X	X	X	394,704	X	X	X
Total	**46,230,401**	**-**	**-**	**46,230,401**	**45,691,578**	**-**	**-**	**45,691,578**

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 30 June 2022, there are TLTRO III long-term refinancing operations for a nominal value of 39.2 billion, unchanged compared to 31 December 2021.

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 30/06/2022				Total 31/12/2021			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	106,711,157	X	X	X	104,038,158	X	X	X
2. Fixed-term deposits	704,130	X	X	X	990,688	X	X	X
3. Loans	1,612,869	X	X	X	1,216,023	X	X	X
3.1 Repurchase agreements	1,057,753	X	X	X	627,845	X	X	X
3.2 Other	555,116	X	X	X	588,178	X	X	X
4. Payables for commitment to repurchase own capital instruments	-	X	X	X	-	X	X	X
5. Lease payables	672,292	X	X	X	667,326	X	X	X
6. Other payables	1,676,939	X	X	X	876,024	X	X	X
Total	**111,377,387**	**-**	**-**	**111,377,387**	**107,788,219**	**-**	**-**	**107,788,219**

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

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

Type of securities/Amounts	Total 30/06/2022				Total 31/12/2021			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	13,178,561	10,131,068	2,756,015	-	13,060,538	12,153,100	1,175,513	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	13,178,561	10,131,068	2,756,015	-	13,060,538	12,153,100	1,175,513	-
2. other securities	12,217	-	-	12,216	20,811	-	-	20,810
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	12,217	-	-	12,216	20,811	-	-	20,810
Total	**13,190,778**	**10,131,068**	**2,756,015**	**12,216**	**13,081,349**	**12,153,100**	**1,175,513**	**20,810**

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

Debt securities in issue as at 30 June 2022 amounted to 13.2 billion (13.1 billion as at 31 December 2021).

As specified in the section "Significant events during the period" in the Interim report on operations, in January, the placement of a 400 million 10-year Tier 2 subordinated bond issue for institutional investors was concluded, which is included within the Group's Euro Medium Term Notes Programme. The bond, primarily subscribed by foreign investors, provides for a fixed coupon of 3.375% for the first five years.
In addition, the Group's first issue of Green Covered Bonds was carried out, targeted to institutional investors, for an amount of 750 million and 5-year maturity.
The bond, which is part of the Green, Social and Sustainability Bond Framework under the Covered Bank Bonds programme, has a yield equal to the reference mid-swap rate +23 basis points and a fixed-rate coupon equal to 0.75%.

During the half-year, bonds amounting to an approximate nominal value of 2.7 billion matured or were repaid in advance.

Financial liabilities held for trading – Item 20

2.1 Financial liabilities held for trading: breakdown by product

Transaction type/Amounts	Total 30/06/2022					Total 31/12/2021				
	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	4,099,059	38,692	3,628,291	-	3,666,983	2,724,699	250,042	2,583,165	-	2,833,207
2. Due to customers	6,336,226	65,176	5,837,802	-	5,902,978	6,791,146	21,085	7,131,741	-	7,152,826
3. Debt securities	1,864,722	-	1,745,772	-	1,753,268	2,168,171	-	2,188,458	-	2,156,082
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	1,864,722	-	1,745,772	-	1,753,268	2,168,171	-	2,188,458	-	2,156,082
3.2.1 Structured	1,864,722	-	1,745,772	-	X	2,168,171	-	2,188,458	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total (A)	**12,300,007**	**103,868**	**11,211,865**	**-**	**11,323,229**	**11,684,016**	**271,127**	**11,903,364**	**-**	**12,142,115**
B. Derivative instruments										
1. Financial derivatives	-	78,666	3,479,948	-	-	-	114,755	1,841,534	-	-
1.1 Held for trading	X	78,666	3,331,082	-	X	X	114,755	1,782,756	-	X
1.2 Connected with the fair value option	X	-	148,788	-	X	X	-	58,709	-	X
1.3 Other	X	-	78	-	X	X	-	69	-	X
2. Credit derivatives	-	-	179	-	-	-	-	2,151	-	-
2.1 Held for trading	X	-	179	-	X	X	-	2,151	-	X
2.2 Connected with the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total (B)	**X**	**78,666**	**3,480,127**	**-**	**0**	**X**	**114,755**	**1,843,685**	**-**	**-**
Total (A+B)	**X**	**182,534**	**14,691,992**	**-**	**X**	**X**	**385,882**	**13,747,049**	**-**	**X**

NV = nominal or notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3
*Fair value * = Fair value calculated excluding changes in value due to changes in the issuer's credit risk with respect to the issue date*

Financial liabilities designated at fair value – Item 30

3.1 Financial liabilities designated at fair value: breakdown by product

Transaction type/ Amounts	Total 30/06/2022					Total 31/12/2021				
	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	**1,921,280**	**-**	**1,774,417**	**-**	**1,809,712**	**1,419,293**	**-**	**1,405,190**	**-**	**1,397,901**
3.1 Structured	1,911,280	-	1,763,575	-	X	1,409,293	-	1,394,416	-	X
3.2 Other	10,000	-	10,842	-	X	10,000	-	10,774	-	X
Total	**1,921,280**	**-**	**1,774,417**	**-**	**1,809,712**	**1,419,293**	**-**	**1,405,190**	**-**	**1,397,901**

FV = Fair Value
FV = FV calculated excluding changes in value due to changes in the issuer's credit risk with respect to the issue date*
NV = nominal value
L1 = Level 1
L2 = Level 2
L3 = Level 3

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

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

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

Liability provisions – Items 90 and 100

As at 30 June, liability provisions amount to 1,021.4 million (1,196.9 million as at 31 December 2021) and include the provisions for employee severance pay of 273.5 million (320.3 million at the end of last year), pension plans of 106.3 million (124.9 million as at 31 December 2021), risk provisions for commitments and guarantees given of 130.9 million (131.1 million as at last 31 December) and other provisions of 510.7 million (620.7 million at the end of 2021).

The latter include:
- provisions for legal and tax disputes amounting to 88.5 million;
- provisions for personnel expenses of 300.1 million, primarily attributable to allocations due to recourse to the extraordinary benefits of the sector Solidarity Fund relating to agreements for voluntary Group personnel retirement plans;

- other provisions amounting to 122.1 million, which include inter alia foreseeable charges connected with certain transactions linked with operations with customers and possible developments in the interpretation of certain regulations governing banking activities.

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

10.1 Provisions for risks and charges: breakdown

Items/Components	Total 30/06/2022	Total 31/12/2021
1. Provisions for credit risk relating to commitments and financial guarantees given	45,459	42,361
2. Provisions for other commitments and guarantees given	85,449	88,747
3. Company pension funds	106,263	124,879
4. Other provisions	510,669	620,656
4.1 legal and tax disputes	88,455	99,404
4.2 personnel expenses	300,074	382,622
4.3 other	122,140	138,630
Total	**747,840**	**876,643**

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 which will generate economic benefits and, as a result, will require the recognition of provisions, from the rest of the "contingent liabilities". "Contingent liabilities" are those disputes which correspond to the following, for which no provisions are recognised:

i) possible obligations, meaning that it has not been confirmed whether the entity has a current obligation that may result in the use of resources 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 not probable but just possible 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 condensed interim financial statements" contained in Part A of these Notes, 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 enforcement actions, total 88.5 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.
Below, a brief description is provided of the main legal disputes pending as at 30 June 2022, whose settlement is deemed could entail a probable 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 the judgement pronounced on 31 December 2020 by the Court of Milan, all of the opponents' claims were rejected. 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 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 for closing arguments of 10 May 2022, the Judge took the case under advisement.
- 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.
- Società Agricola La Meridiana S.r.l. in liquidation, with sole shareholder Realfin Group S.p.A., now bankrupt, summoned Banco BPM before the court on 17 January 2022, disputing the alleged unjustified granting of a loan of 14 million in 2006 secured by a mortgage. It is argued that the purpose of the loan was to cause the appearance of a restructuring of the Company for the sole purpose of re-evaluating the value of the shareholding of the sole shareholder Realfin Group, so as not to have to write down the receivable from the latter. The loan allegedly worsened the financial situation of Società Agricola La

Meridiana, which sought the Bank's sentencing to provide compensation for damages of 18 million. The lawsuit is pending in the initial stage before the Court of Milan.

- The Companies I.F.I.T. S.r.l. and S.I.R.O. S.r.l. on 14 February 2022 summoned Banco BPM before the court to obtain the revocation of a pledge made by the other two defendants in the case, Luigi Servidati and Fabio Planamente, former managers of the group, as a guarantee for a loan of 23 million granted to the company Cantiere del Pardo S.p.A. The plaintiffs claim damages of approximately 15.2 million, an amount for which they obtained a precautionary seizure against the same two former managers (later shareholders), for having transferred ownership of Cantiere del Pardo to third parties. The lawsuit is pending in the initial stage before the Court of Bologna.
- 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.
  On 7 March, a settlement agreement was finalised with one of the current owners of the site, regarding the reclamation of the portion of the former Necchi area it owns. The agreement provides, among other things, for the contribution of Partecipazioni Italiane to support the reclamation costs for the amounts defined with the counterparty and already accounted for in the financial statements as at 31 December 2021.

In light of the successful outcomes in the courts of first instance and/or the existence of valid grounds on which to challenge the claims made by the claimants with regard to proceedings under way, the claims classified as possible but unlikely amount to a total of 451.5 million (396.3 million as at 31 December 2021).
Claims classified as probable amount to a total of 234.3 million (244.3 million as at 31 December 2021), against which 55.2 million has been allocated under the item Provisions for risks and charges (60.2 million as at 31 December 2021).

<u>Clawbacks - lawsuits initiated for bad loans</u>

The high number of disputes prevents us from providing a detailed list, while their diverse nature makes it extremely difficult, if not impossible, to group them into categories of similar nature.
Below, a brief description is provided of the main legal disputes pending as at 30 June 2022, whose settlement is deemed could entail a probable 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 is postponed to 16 November 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 19 January 2024.

- 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 sentence was appealed by the counterparty; the hearing for closing arguments was scheduled for 28 September 2022.
- 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. The judgement in the Supreme Court ended with a ruling filed on 14 February 2022 which declared inadmissible the appeal of the receivership against the ruling of the Court of Appeal of Perugia.
- 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 and appeal proceedings concluded with rulings in the Bank's favour, which rejected the claims of the plaintiff. The ruling on appeal was challenged by the counterparty with an Appeal in the Supreme Court. Banco BPM is waiting for a hearing to be scheduled.

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 26.8 million (28.8 million as at 31 December 2021).
Claims classified as probable amount to a total of 25.1 million (25.7 million as at 31 December 2021), against which 4.7 million has been allocated under the item Provisions for risks and charges (6.6 million as at 31 December 2021).

<u>Tax disputes</u>

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 30 June 2022[1] (unchanged compared to claims as at 31 December 2021).

<u>Details of pending disputes as at 30 June 2022</u>

The main tax disputes pending as at 30 June 2022 (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

[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.

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 challenge 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 (offence 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 afore-mentioned appeal was lodged with the Supreme Court.

  The in-depth analyses of the situation conducted with the support of the advisors assigned to draw up the appeal, as well as the additional opinions requested from other authoritative experts on the matter confirmed the belief that the claim of the Tax 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 30 June 2022.

Audits under way as at 30 June 2022

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 300.1 million and include the amount of 189.0 million (originally equal to 257.0 million) allocated for the charges expected for the use of the extraordinary benefits of the Solidarity Fund and for voluntary redundancy incentives following the agreements reached with the trade unions announced to the market on 30 December 2020 for early retirement on a voluntary basis of more than 1,600 resources.
This item also includes: i) the estimated expense deriving from the expected payment of variable remuneration in compliance with the provisions of the Group's incentive systems; ii) the residual charges to be paid to finance the Solidarity Fund for early retirement incentive plans for personnel begun in years prior to 2020 and iii) the estimate relating to other disbursements planned in favour of the staff (e.g., loyalty bonuses, non-competition agreements, etc.).

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 (53.0 million);
b) estimate of probable reimbursements of fees consequent to the possible early termination of insurance policies by customers (21.2 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 (14.9 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 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 closure 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.
During the preliminary hearing which began on 19 July 2021, the Judge established that it had no jurisdiction for the proceedings that involve the former managers and employees of the Group in relation to the crimes of aggravated fraud, self-laundering and 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 with which a former manager of the Bank has been charged.
Furthermore, the Judge, accepting the petitions submitted by Banco BPM and Banca Aletti and at the end of the preliminary hearing, on 8 April 2022 handed down a ruling applying the penalty at the request of the parties under the proposed conditions, thus applying the financial penalty of 240 thousand euro to Banco BPM and 56 thousand euro to Banca Aletti, at the same time ordering the confiscation of only the profit of the predicate offence of self-laundering, equal to 293 thousand euro, already subject to a real precautionary restriction. Furthermore, again with a measure dated last 8 April, the Judge ordered the release of the sum of 500 thousand euro initially subject to a real restriction for the case of corruption between private parties, ordering its return to the Bank.
For the case of aggravated fraud, which is also the subject of a request for release from seizure by the Bank, the competent Public Prosecutor's Office, which will be identified by the Court of Cassation due to the territorial jurisdiction conflict, will be called upon to decide. The same Public Prosecutor's Office will also have to decide on the new initiation of the criminal action, with regard to both the case of aggravated fraud and self-laundering and obstructing the exercise of the functions of public supervisory authorities.

These situations resulted in the receipt of a high number of complaints from the Group customers involved and the launch of disputes in civil court. In this regard, also with a view to standing by to its customers, the Group has implemented a large-scale customer care initiative over the last few years, aimed, if necessary, at finalising transactions by providing a free service for assistance to customers in submitting requests to the bankruptcy receiver for the return of stones and, lastly, for the return of diamonds in custody at the vaults managed by the IDB bankruptcy. As at 30 June 2022, over 24,000 claims had been received, and over 1,200 disputes were under way (partly preceded by a claim) for a total relief sought of around 717 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 of 627 million.
Against the complaints and disputes, both those not yet defined and those potentially estimated, the sub-item in question includes the specific provision recognised against the above disputes with customers amounting to 53.0 million as at 30 June 2022.
The total provision made over the years, from 2017, was 390 million, against which drawdowns for refunds to customers of 337 million were made.
As at 31 December 2021, the provision amounted to 67.9 million; during 2022, drawdowns for refunds of 19.3 million were made, and a further provision of 4.4 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 which 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 c) represents the provision allocated against risks associated with certain guarantees granted to the buyer at the time of disposals of interests, assets and groups of assets which have already been completed and as part of partnership agreements signed, as better specified below.

To this end, we can note that, in the context of the contracts signed at the time of the disposal of interests 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 (the agreements of which were significantly revised in the course of 2021) 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.

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 2021 an important agreement was entered into which revised the terms and methods of continuation of the partnership. Please refer to the "Interests in associates and joint ventures - Item 70" section of these Notes for a more complete disclosure regarding the put and call option agreements relating to the transfer of interests. As regards business targets, the new agreement establishes the waiver of all claims concerning the period 2018-2020 and introduces a new system of penalties and additional commissions for the period between 1 January 2021 and the quarter prior to the transfer of the interests.
Since the option exercise prices (described in the "Interests in associates and joint ventures - Item 70" section of these Notes) were calculated taking into consideration amounts that - at the date on which the new agreements were entered into (March 2021) - would be due to Cattolica, it is deemed that the provision of 12.5 million in place as at 31 December 2021 should continue to be maintained as at 30 June 2022 as well, as implicitly included in the new contractual terms.

As concerns commitments relating to the new sales targets set forth in the new agreements, as at 30 June 2022 the objectives were deemed reachable and as a result the use of financial resources for the payment of penalties/indemnities is not expected.

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 2022 and previous years.

Disclosure on provisions for employee severance pay and pension funds

Items/Components	Total 30/06/2022	Total 31/12/2021
Provisions for severance pay	273,540	320,303
Company pension funds	106,263	124,879
Total	**379,803**	**445,182**

Below is an illustration of the main changes that occurred in employee severance pay (balance sheet item 90) and in the pension funds (included in balance sheet item 100 "Provisions for risks and charges", the details of which were illustrated in point 10.1 above).

The provisions for employee severance pay is equal to 273.5 million; 320.3 million was the balance at the end of last year. The negative change is mainly to be found in payments made (14.5 million) and in the changes to some of the actuarial assumptions listed below which resulted in an overall decrease in the provision of 33.3 million, attributable to:
- changes in financial assumptions of -45.2 million. In detail, these are losses relating to the change in the discount rate by 51.6 million and gains relating to the change in the inflation rate of 6.4 million;
- the other actuarial assumptions of 11.8 million attributable to the differences between the previous demographic actuarial assumptions used and what actually occurred.

Pension funds amounted to 106.3 million compared to 124.9 million at the end of last year; also for these provisions, the negative change is mainly due to payments made (4.4 million) and changes in the actuarial assumptions which resulted in an overall decrease in the provision of 14.5 million, attributable to:
- changes in financial assumptions of -14.7 million. In detail, these are losses relating to the change in the

discount rate by 19.0 million and gains relating to the change in the inflation rate of 4.3 million;
- the other actuarial assumptions of 0.2 million attributable to the differences between the previous demographic actuarial assumptions used and what actually occurred.

The changes due to modifications in actuarial assumptions set forth above, which overall amount to 47.9 million, are recognised as a balancing entry to the relative valuation reserve of shareholders' equity "Actuarial gains (losses) on defined benefit plans" and are reported in the statement of comprehensive income. Net of the tax effect, the increases in this reserve amount to 37.9 million.

The main actuarial assumptions used by the Group as at 30 June 2022, compared with those used as at 31 December 2021, are given below:

Main actuarial assumptions for measuring provisions for employee severance pay		
Demographic assumptions	**30/06/2022**	**31/12/2021**
Employee mortality rate	IPS55 with Age-Shifting. Demographic basis for annuity insurance	
Frequency and amount of advances on employee severance pay	0.5%	0.5%
Frequency of turnover	1.50%	1.50%

Financial assumptions	**30/06/2022**	**31/12/2021**
Yearly discounting rate (*):	weighted average of the rates in the Eur Composite AA curve depending on the duration of the plan	
	from 2.79% to 3.70%	from 0.43% to 1.27%
Yearly inflation rate (**)	weighted average of the rates in the European Zero-Coupon Inflation-Indexed Swap curve:	
	2.70%	2.20%

(*) 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).

Main actuarial assumptions used for the valuation of pension funds		
Demographic assumptions	**30/06/2022**	**31/12/2021**
Employee mortality rate	IPS55 with Age-Shifting.	
Financial assumptions	**30/06/2022**	**31/12/2021**
Yearly discounting rate (*):	weighted average of the rates in the Eur Composite AA curve depending on the plan	
	from 2.21% to 2.71%	from 0.14% to 0.53%
Yearly inflation rate (**)	weighted average of the rates in the European Zero-Coupon Inflation-Indexed Swap curve:	
	3.00%	2.30%

(*) 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).

Information on amounts, timing and uncertainties of cash flows

As required under IAS 19, a sensitivity analysis was performed for the obligations relative to provisions for employee severance pay and pension funds, with the hypothesis of a 50 basis point increase or decrease in the discount rate and the inflation rate. The purpose of the analysis is to identify how much the liability would vary in relation to reasonably possible fluctuations in this actuarial assumption.

	Change in employee severance pay in absolute terms (*)	Change in employee severance pay in percentage terms
Change in actuarial assumption:		
- Discount rate:		
+0.5%	(9,409)	-3.44%
-0.5%	9,937	3.63%
- Inflation rate:		
+0.5%	6,504	2.38%
-0.5%	(6,319)	-2.31%

**) the amounts in parentheses indicate a decrease in the provision.*

	Changes in defined benefit funds in absolute terms (*)	Changes in defined benefit funds in percentage terms
Change in actuarial assumption:		
- Discount rate:		
+0.5%	(3,515)	-3.31%
-0.5%	3,767	3.55%
- Inflation rate:		
+0.5%	2,292	2.16%
-0.5%	(2,175)	-2.05%

(*) the amounts in parentheses indicate a decrease in the fund

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

13.1 “Share capital” and “Own shares”: breakdown

As at 30 June 2022, share capital was 7,100 million, consisting of 1,515,182,126 ordinary shares subscribed and fully paid up.

The “own shares” item is represented by 6,207,721 shares of the Parent Company, fully held by the same, for a book value of 18.4 million.

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

	Ordinary	Other
A. Outstanding shares at the beginning of the year	**1,515,182,126**	**-**
- fully paid-up	1,515,182,126	-
- not fully paid-up	-	-
A.1 Own shares (-)	(3,569,511)	-
A.2 Shares in issue: opening balances	**1,511,612,615**	**-**
B. Increases	**1,944,430**	**-**
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	1,944,430	-
B.3 Other changes	-	-
C. Decreases	**(4,582,640)**	**-**
C.1 Cancellation	-	-
C.2 Purchase of own shares	(4,582,640)	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares in issue: closing balances	**1,508,974,405**	**-**
D.1 Own shares (+)	6,207,721	-
D.2 Outstanding shares at the end of the year	1,515,182,126	-
- fully paid-up	1,515,182,126	-
- not fully paid-up	-	-

Item B.2 includes shares assigned during the period to employees, implementing remuneration and incentive policies.
Item C.2 refers to the shares purchased by the Parent Company in February, in execution of the resolution of the Ordinary Shareholders' Meeting of Banco BPM S.p.A. of 15 April 2021, in connection with the share-based compensation plans implemented by the Parent Company.
For further details, please refer to Part I of these Explanatory Notes.

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

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

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

As at 30 June 2022, no convertible bond instruments issued by the bank were in circulation.

Equity instruments: breakdown

Equity instruments outstanding as at 31 December 2021 amounted to 1,390.2 million (1,092.8 million at the end of the previous year) and were represented by four 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, the third, in January 2021, for a nominal amount of 400 million and the last one concluded in April 2022 for another 300 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"). In the first half of 2022, shareholders' equity decreased by 27.8 million, as a result of the payment of the coupons net of the related tax effect.

For further details on the above-mentioned transactions, refer to the paragraph entitled "Other significant aspects relating to Group accounting policies" contained in "Part A - Accounting Policies" of these Notes.

Valuation reserves: breakdown

The following table shows the breakdown of valuation reserves.

(thousands of euro)	30/06/2022	31/12/2021
Financial assets measured at fair value through other comprehensive income	(476,825)	66,536
Property, plant and equipment	372,871	375,335
Foreign investment hedges	(1,259)	(603)
Cash flow hedges	(26,390)	(16,416)
Exchange rate differences	15,793	13,998
Financial liabilities designated at fair value through profit and loss (changes to its own credit risk)	23,778	(5,609)
Actuarial gains/(losses) on defined benefit pension plans	(65,942)	(100,693)
Share of valuation reserves related to interests in associates and joint ventures carried at equity	(143,327)	6,498
Special revaluation laws	-	2,314
Total	**(301,301)**	**341,360**

The changes in the valuation reserve relating to financial assets measured at fair value through other comprehensive income and in the share of valuation reserves of interests in associates and joint ventures carried at equity recorded during the half-year can be attributed to strong fluctuations in prices observed in the period, a consequence of financial market tensions.

Reserves: other information

Group Reserves recognised under item 150 of the Balance sheet liabilities amount to a total of 4,253.9 million, classified as follows:

- profit reserves of 3,916.6 million;
- other reserves of 337.3 million.

Please refer to the Statement of Changes in Consolidated Shareholders' Equity for information on the evolution of the Reserves during the first half of 2022.

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.

PART C – INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

Interest – Items 10 and 20

1.1 Interest and similar income: breakdown

Items/Technical forms	Debt securities	Loans	Other transactions	Total I half 2022	Total I half 2021
1. Financial assets at fair value through profit and loss:	7,439	1,684	40	9,163	14,627
1.1 Financial assets held for trading	5,251	-	-	5,251	9,041
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	2,188	1,684	-	3,872	3,768
2. Financial assets measured at fair value through other comprehensive income	45,618	-	X	45,618	74,459
3. Financial assets at amortised cost:	122,970	894,114	-	1,017,084	1,004,831
3.1 Loans to banks	5,897	30,972	X	36,869	22,447
3.2 Loans to customers	117,073	863,142	X	980,215	982,384
4. Hedging derivatives	X	X	(46,809)	(46,809)	(70,823)
5. Other assets	X	X	15,906	15,906	5,741
6. Financial liabilities	X	X	X	232,899	183,734
Total	**176,027**	**895,798**	**(30,863)**	**1,273,861**	**1,212,569**
of which: interest income on impaired financial assets	-	39,427	-	39,427	49,707
of which: interest income on finance leases	X	7,766	X	7,766	9,420

Item "6. Financial liabilities" refers for 193.3 million to interest accrued relating to the TLTRO III financing transactions with the ECB (165.5 million as at 30 June 2021); for the relative accounting treatment, refer to the paragraph entitled "Other significant aspects relating to Group accounting policies" contained in Part A - "Accounting Part A - Accounting Policies" of these Notes.

1.3 Interest and similar expense: breakdown

Items/Technical forms	Payables	Securities	Other transactions	Total I half 2022	Total I half 2021
1. Financial liabilities at amortised cost	(58,583)	(123,994)	X	(182,577)	(177,430)
1.1 Due to central banks	-	X	X	-	-
1.2 Due to banks	(28,465)	X	X	(28,465)	(19,960)
1.3 Due to customers	(30,118)	X	X	(30,118)	(29,941)
1.4 Debt securities in issue	X	(123,994)	X	(123,994)	(127,529)
2. Financial liabilities held for trading	(645)	-	-	(645)	(7,021)
3. Financial liabilities designated at fair value	-	(45)	-	(45)	(1,664)
4. Other liabilities and provisions	X	X	(621)	(621)	(96)
5. Hedging derivatives	X	X	26,287	26,287	23,301
6. Financial assets	X	X	X	(85,049)	(43,803)
Total	**(59,228)**	**(124,039)**	**25,666**	**(242,650)**	**(206,713)**
of which: interest expense relating to lease payables	(3,726)	X	X	(3,726)	(3,794)

Fees and commissions – Items 40 and 50

2.1 Fee and commission income: breakdown

Service type/Amounts	Total I half 2022	Total I half 2021 (*)
a) Financial instruments	59,953	63,475
1. Placement of securities	9,432	11,631
1.1 With underwriting commitments and/or on the basis of an irrevocable commitment	-	-
1.2 Without irrevocable commitment	9,432	11,631
2. Receipt and transmission of orders and execution of orders for customers	33,665	35,048
2.1 Receipt and transmission of orders for one or more financial instruments	21,223	23,097
2.2 Execution of orders for customers	12,442	11,951
3. Other fees and commissions relating to activities associated with financial instruments	16,856	16,796
of which: own account trading	-	-
of which: individual portfolio management	14,302	13,617
b) Corporate Finance	5,462	4,854
1. Merger and acquisition advisory services	4,433	3,434
2. Treasury services	1,029	1,420
3. Other fees and commissions with corporate finance services	-	-
c) Investment advisory activities	522	450
d) Offsetting and settlement	-	-
e) Collective portfolio management	-	-
f) Custody and administration	4,852	6,103
1. Custodian bank	-	-
2. Other fees and commissions related to custody and administration activities	4,852	6,103
g) Central administrative services for collective portfolio management	-	-
h) Trust activities	911	916
i) Payment services	279,073	233,882
1. Current accounts	128,664	126,607
2. Credit cards	13,164	7,012
3. Debit cards and other payment cards	37,583	13,791
4. Bank transfers and other payment orders	95,932	85,987
5. Other fees and commissions relating to payment services	3,730	485
j) Distribution of third party services	413,957	423,606
1. Collective portfolio management	281,529	315,316
2. Insurance products	72,320	67,444
3. Other products	60,108	40,846
of which: individual portfolio management	690	906
k) Structured finance	85	610
l) Servicing for securitisation transactions	-	405
m) Commitments to disburse funds	-	-
n) Financial guarantees given	42,239	39,786
of which: credit derivatives	-	-
o) Financing operations	73,290	53,399
of which: for factoring transactions	-	-
p) Foreign currency trading	1,877	1,964
q) Commodities	-	-
r) Other fee and commission income	149,839	179,004
of which: for management of multilateral trading facilities	-	-
of which: for management of organised trading facilities	-	-
Total	**1,032,060**	**1,008,454**

(*) The balances as at 30 June 2021 have been restated with respect to what was originally published, in order to guarantee a uniform comparison with those as at 30 June 2022, constructed on the basis of the breakdown by product details introduced by the 7th update of the Circular no. 262 of 29 October 2021. In particular, it should be noted that fee and commission income relating to the use of e-money and the disbursement and management of loans, previously included in the residual sub-item of other services, is now represented in dedicated items.

2.2 Fee and commission expense: breakdown

Services/Amounts	Total I half 2022	Total I half 2021 (*)
a) Financial instruments	(10,270)	(9,171)
of which: financial instrument trading	(5,286)	(5,485)
of which: placement of financial instruments	(4,984)	(3,686)
of which: individual portfolio management	-	-
- Own	-	-
- Delegated to third parties	-	-
b) Offsetting and settlement	-	-
c) Collective portfolio management	-	-
1. Own	-	-
2. Delegated to third parties	-	-
d) Custody and administration	(6,016)	(5,924)
e) Collection and payment services	(28,267)	(15,577)
of which: credit cards, debit cards and other payment cards	(23,791)	(11,249)
f) Servicing for securitisation transactions	-	-
g) Commitments to receive funds	-	-
h) Financial guarantees received	(16,942)	(5,716)
of which: credit derivatives	-	-
i) Off-site offer of financial instruments, products and services	(2,549)	(4,140)
l) Foreign currency trading	(3)	(4)
m) Other fee and commission expense	(10,418)	(21,621)
Total	**(74,465)**	**(62,153)**

(*) The balances as at 30 June 2021 have been restated with respect to what was originally published, in order to guarantee a uniform comparison with those as at 30 June 2022, constructed on the basis of the breakdown by product details introduced by the 7th update of the Circular no. 262 of 29 October 2021.

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 assets held for trading	**27,647**	**117,043**	**(174,731)**	**(124,165)**	**(154,206)**
1.1 Debt securities	980	94,364	(19,196)	(26,886)	49,262
1.2 Equity instruments	26,188	21,383	(152,824)	(96,811)	(202,064)
1.3 UCIT units	1	45	(2,672)	(404)	(3,030)
1.4 Loans	478	-	(39)	-	439
1.5 Other	-	1,251	-	(64)	1,187
2. Financial liabilities held for trading	**140,386**	**22,186**	**(468)**	**(21,904)**	**140,200**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	5,455	14,207	(431)	(4,530)	14,701
2.3 Other	134,931	7,979	(37)	(17,374)	125,499
Financial assets and liabilities: exchange rate differences	**X**	**X**	**X**	**X**	**57,534**
3. Derivative instruments	**3,027,741**	**2,279,886**	**(2,936,817)**	**(2,220,920)**	**118,929**
3.1 Financial derivatives:	3,023,808	2,271,020	(2,936,566)	(2,211,846)	115,455
- On debt securities and interest rates	2,592,485	1,356,107	(2,402,663)	(1,379,906)	166,023
- On equity instruments and share indices	387,623	642,802	(490,349)	(560,600)	(20,524)
- On currencies and gold	X	X	X	X	(30,961)
- Other	43,700	272,111	(43,554)	(271,340)	917
3.2 Credit derivatives	3,933	8,866	(251)	(9,074)	3,474
of which: natural hedges connected with the fair value option	X	X	X	X	-
Total	**3,195,774**	**2,419,115**	**(3,112,016)**	**(2,366,989)**	**162,457**

Fair value gains/losses on hedging derivatives – Item 90

5.1 Fair value gains/losses on hedging derivatives: breakdown

Income components/Amounts	Total I half 2022	Total I half 2021
A. Income relating to:		
A.1 Fair value hedging derivatives	1,634,928	250,120
A.2 Hedged financial assets (fair value)	183,330	109,221
A.3 Hedged financial liabilities (fair value)	823,372	107,870
A.4 Cash flow hedging derivatives	-	191
A.5 Assets and liabilities in foreign currency	1,029	195
Total gains on hedging derivatives (A)	**2,642,659**	**467,597**
B. Charges relating to:		
B.1 Fair value hedging derivatives	(823,162)	(120,721)
B.2 Hedged financial assets (fair value)	(1,823,167)	(338,099)
B.3 Hedged financial liabilities (fair value)	(1,930)	(6,026)
B.4 Cash flow hedging derivatives	-	-
B.5 Assets and liabilities in foreign currency	(1,029)	(664)
Total losses on hedging derivatives (B)	**(2,649,288)**	**(465,510)**
C. Fair value gains/losses on hedging derivatives (A - B)	**(6,629)**	**2,087**
of which: gains/losses of hedging on net positions	-	-

The increase in the fair value of hedging derivatives and the relative hedged items recorded during the half year is attributable to the sharp fluctuations in prices observed in the period, a consequence of financial market tensions.

Gains (losses) on disposal/repurchase – Item 100

6.1 Gains (losses) on disposal/repurchase: breakdown

Items/Income components	Total I half 2022			Total I half 2021		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets						
1. Financial assets at amortised cost	199,221	(244,185)	(44,964)	265,348	(410,206)	(144,858)
1.1 Loans to banks	-	-	-	-	-	-
1.2 Loans to customers	199,221	(244,185)	(44,964)	265,348	(410,206)	(144,858)
2. Financial assets measured at fair value through other comprehensive income	32,131	(69,306)	(37,175)	19,656	(6,272)	13,384
2.1 Debt securities	32,131	(69,306)	(37,175)	19,656	(6,272)	13,384
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**231,352**	**(313,491)**	**(82,139)**	**285,004**	**(416,478)**	**(131,474)**
Financial liabilities at amortised cost	-	-	-	-	-	-
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities in issue	(445)	(1,584)	(2,029)	9,467	(10,197)	(730)
Total liabilities (B)	**(445)**	**(1,584)**	**(2,029)**	**9,467**	**(10,197)**	**(730)**

The result shown alongside item “1.2 Loans to customers” includes profits of 127.1 million relating to debt securities, 126.8 million of which refers to sale transactions.
Net of this component, the net loss of that item is 172.1 million, impacted for 176.5 million by the disposal of the “Argo” portfolio of bad and unlikely to pay loans.
For further details on the disposal of HTC securities and the “Argo” project, refer to the paragraph entitled “Other significant aspects relating to Group accounting policies” contained in Part A - “Accounting Policies” of these Notes.

Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss – Item 110

7.1 Net change in value of other financial assets and liabilities measured at fair value through profit and loss: breakdown of financial assets and liabilities designated at fair value

Transactions/Income components	Capital gains (A)	Gains on disposal (B)	Capital losses (C)	Losses on disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-
1.2 Loans	-	-	-	-	-
2. Financial liabilities	**89,218**	**155**	**-**	**(1,263)**	**88,110**
2.1 Debt securities in issue	89,218	155	-	(1,263)	88,110
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	**89,218**	**155**	**-**	**(1,263)**	**88,110**

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	**30,860**	**2,527**	**(167,650)**	**(21,395)**	**(155,658)**
1.1 Debt securities	32	2,357	(8,067)	-	(5,678)
1.2 Equity instruments	4,899	1	(97,378)	(20,447)	(112,925)
1.3 UCIT units	23,885	169	(37,315)	(35)	(13,296)
1.4 Loans	2,044	-	(24,890)	(913)	(23,759)
2. Financial assets in foreign currency: exchange rate differences	**X**	**X**	**X**	**X**	**11,959**
Total	**30,860**	**2,527**	**(167,650)**	**(21,395)**	**(143,699)**

Net credit impairment losses/recoveries – Item 130

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

Transactions/ Income components	Impairment losses (1)						Recoveries (2)				Total I half 2022	Total I half 2021
	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	**(779)**	**(494)**	**-**	**-**	**-**	**-**	**119**	**7**	**-**	**-**	**(1,147)**	**(1,043)**
- Loans	(243)	(1)	-	-	-	-	4	7	-	-	(233)	(810)
- Debt securities	(536)	(493)	-	-	-	-	115	-	-	-	(914)	(233)
B. Loans to customers	**(2,713)**	**(3,484)**	**(14,667)**	**(434,546)**	**(357)**	**(27,954)**	**1,336**	**13,450**	**324,306**	**11,741**	**(132,888)**	**(246,148)**
- Loans	(483)	(3,398)	(14,667)	(434,546)	(357)	(27,954)	1,229	13,425	324,306	11,741	(130,704)	(247,981)
- Debt securities	(2,230)	(86)	-	-	-	-	107	25	-	-	(2,184)	1,833
Total	**(3,492)**	**(3,978)**	**(14,667)**	**(434,546)**	**(357)**	**(27,954)**	**1,455**	**13,457**	**324,306**	**11,741**	**(134,035)**	**(247,191)**

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 I half 2022	Total I half 2021
	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	(2,725)	-	-	-	-	-	516	-	-	-	(2,209)	(262)
B. Loans	-	-	-	-	-	-	-	-	-	-	-	-
- To customers	-	-	-	-	-	-	-	-	-	-	-	-
- To banks	-	-	-	-	-	-	-	-	-	-	-	-
Total	**(2,725)**	**-**	**-**	**-**	**-**	**-**	**516**	**-**	**-**	**-**	**(2,209)**	**(262)**

Other operating expenses/income – Item 230

16.1 Other operating expenses: breakdown

	Total I half 2022	Total I half 2021
Expenses on leased assets	(12,661)	(13,152)
Other	(17,905)	(21,773)
Total	**(30,566)**	**(34,925)**

16.2 Other operating income: breakdown

	Total I half 2022	Total I half 2021
Income on current accounts and loans	3,213	2,757
Tax recoveries	133,228	135,771
Expense recoveries	8,090	11,217
Rental income on real estate	17,913	19,236
Other	41,133	52,850
Total	**203,577**	**221,831**

Gains (losses) on disposal of investments – Item 280

During the half year, gains from the sale of property, plant and equipment of 1.5 million were recorded; in the same period of the previous year, losses of 0.5 million were recognised.

Earnings per Share

	30/06/2022		30/06/2021	
	Basic EPS	**Diluted EPS**	**Basic EPS**	**Diluted EPS**
Weighted average of ordinary shares (number)	1,506,457,156	1,506,457,156	1,509,575,680	1,509,575,680
Attributable profit (loss) (thousands of euro)	383,943	383,943	361,317	361,317
EPS (euro)	**0.255**	**0.255**	**0.239**	**0.239**

Please note that, as at 30 June 2022, the Basic EPS matched the Diluted EPS given that there were no financial instruments with potential dilution effects.

PART E – INFORMATION ON RISKS AND RELATED HEDGING POLICIES

Introduction

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

Risk profile and risk management and measurement systems

During the first quarter of 2022, 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)" and "Significant Transactions (ST)".

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 2022, the ESG (Environmental, Social and Governance) area was reinforced further through the introduction, for each risk area, of new RAF indicators, 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, establishing the issue of a prior opinion even for 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 - also with reference to the SME portfolio - and when classified from greater to lesser risk and vice versa. The scope of MST and ST in the credit sector is undergoing further expansion, aimed at including the assessments relating to "Real Estate Finance" transactions (in particular Real Estate Development- RED - and Income Producing Real Estate - IPRE), which will be implemented in the second half of 2022.

The Group also provides specific and dedicated training activities and courses with a view to spread and promote 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. The courses also continued in the first half of 2022, with training sessions dedicated to the SAS and Python programming languages.

In continuity with the "ESG Action Plan" launched in 2021, in 2022 a training programme was defined aimed at spreading the corporate culture in the Credit sector, and raising the awareness of the functions concerned in the integration of climate and environmental (ESG) aspects in the RAF, with specific indicators, and in Credit Policies.

During the first half of 2022, the Group was also engaged in carrying out the Climate Risk Stress Test 2022, performed by the ECB on the entire European banking sector. This test, the first on climate issues, represents a "learning exercise" for both banks and the Regulator, and aims to collect qualitative and quantitative information from banks, to assess the sector's degree of preparation in the management of climate risk and gather best practices to address it. The aggregated results for the year were published by the ECB on 8 July 2022.

Monitoring and reporting activities

The risk monitoring and control activities performed by the Risk Function seek to ensure, at Group and individual Legal Entity level, the harmonised supervision of risks, by guaranteeing appropriate and timely information to the Corporate bodies and organisational units involved in managing said risks as well as ensuring the development and continuous improvement of the methods and models adopted for their measurement.

To this end, the Parent Company prepares periodic reports for the Corporate Bodies in line with the Group's internal policies. As part of integrated risk reporting prepared at Group and individual Legal Entities level, the Risk Function analyses the main risks to which the Group and the individual Legal Entities are exposed, and conducts a periodic assessment of the risk profile of the RAF indicators by comparing it with the thresholds defined in the framework, providing historic and detailed analyses that explain the trends, the areas that need attention and the areas for improvement. Furthermore, at least on a quarterly basis an update is provided in integrated reporting on Recovery Plan indicator trends; this analysis is prepared by the "Recovery & Resolution Plans" Function, with the support of the Risk Function.
Positioning analyses (benchmarks) provide the Corporate Bodies of the Parent Company and top management with an at least six-monthly update on the Group's positioning, representing different comparisons on the main indicators with respect to the banking system identified by the EBA Risk Dashboard, or a significant European sample comparable with the Banco BPM Group, making use of the main findings and the risk metrics reported in the EBA Risk Dashboards 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.
From the analyses conducted in the first half of 2022, no significant gaps in risk measurement emerged.

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, stimulating the various interested parties, including Banco BPM, to consequently take proactive steps 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 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.
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.
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 loan portfolio of Banco BPM Group is exposed to have to be identified, making it possible to integrate such factors also within the definition and assessment of customer creditworthiness and in loan origination, monitoring and pricing processes. The environmental and climate-related risk components must also be adequately considered in processes for defining business continuity plans and in the implementation of operational, reputational, market and liquidity risk management frameworks.
4. Disclosure: Banco BPM is required to publish the information and results related to climate-related and environmental risks deemed relevant by developing reporting in line with the expectations established by specific legislation on the subject.

From January to July 2022, the ECB conducted the first Climate Stress Testing exercise which saw the overall participation of 104 European banks with a different level of involvement based on the principle of proportionality. This test was conceived as a learning exercise, which enabled Banco BPM to further consolidate and test its ESG skills and strategy, thanks to the collection and processing of granular data to measure climate-related risk and the development of specific climate stress testing methods. Considering the systemic importance of the Group, Banco BPM was called upon to also develop the bottom-up projections expressly described in the third analysis module, thus guaranteeing full participation in all areas of in-depth analysis required. The exercise formally ended on 8 July 2022 with the publication by the ECB of the aggregate results and the valuation methodologies followed. The overall documentation is available for consultation on the Supervisory Authority's website.

In January 2022, the European Central Bank also announced the start of a specific thematic review process of the risk management strategies, governance and frameworks related to the climate and the environment (Thematic Review). This activity is aimed at verifying the level of bank compliance with ECB expectations in the "climate" arena and the progress they have achieved with respect to the self-assessments and operational plans sent last year. Banco BPM sent the requested update by the deadline (18 March 2022), presenting the progress made by the Group with respect to questionnaires A and B completed in 2021, based on the results relating to the overall "ESG Programme" and the specific strategies included in the 2021-2024 Business Plan. The verification activity, still in progress, envisaged a subsequent phase of discussion with the Supervisory Authority, during which the Bank participated in a series of meetings on various areas of analysis, simultaneously conducting specific case studies aimed at evaluating the impact of climate-related and environmental factors on the Group's credit and operational risks. The final result of the Thematic Review will be provided by the ECB in the third quarter of the year and will be qualitatively included in the overall 2022 Supervisory Review and Evaluation Process (SREP), which will also take into account the results of the 2022 Climate Stress Testing exercise, with any only indirect potential impact on the Second Pillar requirements.

The main initiatives implemented in the first half of 2022

In the first half of 2022, Banco BPM continued the development and implementation activities of the many project initiatives aimed at analysing and managing climate and environmental risks, both with regard to the specific ESG Programme and in response to the expectations of the ECB Guide on the subject, in line with the detailed operational plans defined by the Group and recently updated as part of the overall thematic review process (Thematic Review).

In more detail, the activities launched by Banco BPM and/or still in the completion phase mainly concern 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 2022, with a particular focus on the Risk & Credit Area, is provided below. For more details on the overall ESG Project and the initiatives already finalised by the Group, please refer to the Non-Financial Statement.

As part of the specific "Climate Transparency" initiative, Banco BPM further analysed the potential physical and transition risks of its loan portfolio, by mapping all of its exposures and the relative real estate guarantees with a view to precisely assessing such 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. This allowed the Bank to carry out an initial integration, as a sensitivity analysis, of these risk factors within the Group's internal capital adequacy assessment process (ICAAP) by leveraging, specifically with reference to credit risk, the methodology defined by the ECB as part of the "climate stress test 2022".

With regard to the "RAF" initiative, in line with the specific projects followed by the Group and with the main targets set out in the 2021-24 Strategic Plan, Banco BPM's overall 2022 Risk Appetite Framework was significantly strengthened in the ESG area with the introduction of adequate KPIs defined on three different levels of analysis (strategic, operational and early warning) that range over the different risk areas under examination.

With regard to the Market risk initiative, an initial materiality analysis of climate-related risks on the Group's proprietary portfolios (both trading and banking book) was completed and the assessment and selection of an adequate supporting data provider was concluded (rating and ESG score). The Group has also completed the assessment of the potential impacts of climate-related and environmental factors on liquidity and funding risks.

At the same time, the Banco BPM Group has taken steps to strengthen the methodology currently used for the quantification of reputational risk in order to also include, in the economic capital estimates, the possible deterioration of its image, perceived by its various stakeholders, due to the potential emergence of specific ESG risk factors.

With regard to the Group's lending policies, the Bank has gone into further detail on the analyses quantifying environmental risk, aimed at fully defining the reference policies for the controversial sectors (Credit Strategies "lending policies" initiative). The project activities planned as part of the future implementation of the "EU Taxonomy" also continued, with the aim of measuring the eligibility and alignment of financed counterparties with this regulation.

Finally, it should be noted that Banco BPM published the Group's first Non-Financial Statement in the first half of 2022, aligned with the standards set forth by the Task Force on Climate-Related Financial Disclosures. In March 2022, the Bank also successfully concluded an issue of Green Covered Bonds, for a total amount of 750 million, aimed at financing a specific portfolio of "green" loans. Furthermore, the rating assigned to the Group by the Carbon Disclosure Project for the year 2021 improved and is equal to A-, aligning with the rating attributed to the main peers in the Italian banking sector.

Credit risk

Banco BPM Group pursues lending policy objectives that seek to:

- support the growth of business activities in the areas it operates in, with the goal of overseeing and managing the development of the Group's positioning, in line with RAF policies and budget and business plan objectives, focusing on the support and development of customer relationships;
- diversify its portfolio, limiting loan concentration on single counterparties/groups and on single sectors of economic activity or geographical areas;
- adopt a uniform and unique credit management model based on rules, methods, processes, IT procedures and internal regulations harmonised and standardised for all Group banks and companies.

To optimise credit quality and minimise the global cost of credit risk for the Group and the individual companies, under the organisational model the Parent Company's Loans Function is in charge of lending policy guidelines for both the banks and companies of the Group.
Guidelines have also been set at Group level, defining conduct with respect to assuming credit risk, to avoid excessive concentrations, limit potential losses and guarantee credit quality. In particular, in the loan approval phase, the Parent Company exercises the role of management, direction and support for the Group.
The above Function monitors the loan portfolio, and focuses on analysing the risk profile performance of economic sectors, geographical areas, customer segments and types of credit lines granted, as well as on other dimensions of analysis, which enable any corrective actions to be defined at a central level.
The role of the Parent Company's Risk Function is to support Top Management in planning and controlling the risk of exposure and capital absorption, in order to maintain the stability of the Group, verifying forward-looking capital adequacy and under stressed conditions, as well as compliance with the RAF thresholds, the Group's risk limits and its risk appetite. In particular, the Function's task is to develop, manage and optimise internal rating models (Pillar I), the loan portfolio model (Pillar II) over time, and to supervise - as part of second level controls - the calculation of risk-weighted assets using advanced methods.
Portfolio risk monitoring is based on a default model that is applied on a monthly basis to credit exposures of Banco BPM Group.
Banco BPM Group has also implemented the EBA 2020/07 Guidelines regarding exposures subject to the measures applied in response to the Covid-19 crisis (legislative and non-legislative moratoria as well as new loans guaranteed by the State or other Public entity).
For further details and information, please refer to the content of the specific paragraph entitled "Information on exposures subject to legislative and non-legislative moratoria on newly originated exposures subject to public guarantee schemes" contained in the document "Disclosure to the Public by Entities (Pillar III)" of Banco BPM, published on a quarterly basis by the Group.

For an examination of the main initiatives and adjustments made to factor the impacts deriving from the Russia-Ukraine conflict and the Covid-19 pandemic into models for determining the expected loss, please refer to the section "Methods for measuring IFRS 9 expected losses for financial reporting purposes" as well as the Annual Financial Report as at 31 December 2021.

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.
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 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.
Starting from the beginning of 2022, this same logical scheme has been applied to identify and support vulnerable customers following the crisis generated by the war in Ukraine and the increase in energy and raw material prices.

Credit quality

Banco BPM Group uses an elaborate set of instruments to grant and manage credit and to monitor portfolio quality.
Rating plays a key role in loan granting, credit product disbursement, monitoring and performance management processes. In particular, it plays a role in defining guidelines for credit policies, in deciding which bodies are competent to approve loans, as well as on the mechanism for the automatic renewal of uncommitted credit facilities, and it contributes to determining automatic interception of the monitoring and management process (Watchlist).
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.

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 "Models for measuring credit risk for prudential purposes".
For other exposures - other than performing loans with ordinary and financial resident customers - risk is controlled through the use of supervisory regulatory metrics (Standard).

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 has been 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 already 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 - was 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 enable the new tools to be tried out in the field and to progressively monitor the impacts on the portfolio.
In the phase activated in 2022, the following steps are being implemented:

- 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 (ECL) of performing loans 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 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 forecasted future cash flows, on an essentially discretionary basis and together with other pieces of information.

Models for measuring credit risk for prudential purposes

When measuring the credit risk of portfolios, the Bank uses an econometric model for management purposes, supported by an extensive set of data and risk variables, known as the Portfolio Model.
The model allows for, through the use of Credit-VaR metrics, the definition of the probability distribution of losses in the loan portfolio. This distribution is used to measure the maximum potential loss over a yearly time period and with a specific level of confidence.
More specifically, in order to obtain this distribution, the model's processing engine uses a Monte Carlo simulation approach, which simulates a sufficiently high number of scenarios so as to provide a good empirical approximation of the theoretical distribution of loan portfolio losses.
The calculation of the maximum potential loss, which can be broken down into the classic measures of Expected Loss and Unexpected Loss (Economic Capital), is affected by concentration risk and systematic risk, respectively.
Concentration risk derives from large exposures to single counterparties - name concentration - or types of peer counterparties in terms of industries, whose credit risk depends on one or more systematic factors - industry concentration. On the other hand, systematic risk derives from the impact of unexpected changes in macroeconomic factors on risk parameters (PD and LGD) of the single accounts, using the elasticity estimated using satellite models capable of linking PD and LGD of peer counterparties and accounts and a set of (international and domestic) economic-financial factors.
Lastly, the portfolio model periodically undergoes stress testing to evaluate the credit risk sensitivity of the Group's portfolio to extreme changes in economic and financial factors.
As at 30 June 2022, 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 0.42% 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, the last figure available) amounted to 2.17% 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 use of PD satellite models based on sector default rate projections, cited at the beginning of the "Impacts resulting from the Covid-19 pandemic" section, concepts which are taken up again in the "Changes due to Covid-19" section, were accordingly incorporated within the methodological framework of operational measures through the portfolio model.

Outcomes of internal validation activities

In order to calculate capital requirements against Credit Risk and only on the scope of the Parent Company, Banco BPM Group adopts internal estimates of PD and of LGD for Corporate and Private Customer portfolios. Also with reference to the EAD parameter, the use of values estimated internally on the entire loan portfolio is planned, particularly for the Corporate segment as of the first quarter of this year.
The comparison between estimates and empirical data is made separately for PD, LGD and CCF, by means of backtesting conducted by the Internal Validation function.

With reference to the PD models, Banco BPM Group adopts performance measurements to check the accuracy ratio (AR) of the estimates and calibration tests ("classical" binomial tests on a multi-period and single period basis) to compare the default rates (DRs) recorded over an annual time horizon with the estimated PD values.
Regarding the Corporate segment, the latest backtesting showed a good accuracy ratio of models, both in terms of single modules and final integrating ratings, which produced values comparable and at times superior to those obtained during the development phase. With regard to the calibration, satisfactory values were found for all models.
Overall, the model performed well for the Private customer segment. In several modules, the performance was better than that obtained in the development phase. With regard to calibration, the results of the binomial tests were satisfactory.

With regard to the LGD parameter, testing was conducted on both the performing and in default components. Internal Validation did not detect significant problems with the estimates generated for the private and corporate models.

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

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

Methods for measuring IFRS 9 expected losses for financial reporting purposes

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.

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:

[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.

- 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.

As already illustrated in previous years, in order to appropriately factor in the effects of the Covid-19 pandemic, 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 enables 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.

Lastly, it should be noted that for the determination of the SICR, an additional quantitative rule is considered, 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 to counterparties that between the disbursement and the reference dates 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 use 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 fact, with this communication, the ECB invited banks to consider, among other things, the opportunity to adopt an increase equal to or greater than 300% of the annualised lifetime PD as an indicator of the existence of an SICR.

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;
- lack of rating at the origination date, save for the case where the counterparty was assigned a rating on the measurement date that classifies the exposure in the "Low", "Medium-low" or "Medium" risk band, as illustrated above.

[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".

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 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 June 2022.
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.

The table below shows the percentage breakdown of exposures allocated to Stage 2 on the basis of various classification triggers, which shows 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[2]	**Stage 2**	**of which: Large Corporate**	**of which: Mid Corp.Plus**	**of which: Mid Corporate**	**of which: Small Businesses**	**of which: SFO**	**of which: Private Individuals**	**of which: Banks**	**of which: unrated counterparties**
Quantitative criteria	50.29%	38.25%	63.25%	49.61%	44.90%	53.87%	59.72%	100.00%	0.00%
Qualitative criteria	49.43%	61.75%	35.84%	50.24%	54.89%	46.13%	40.12%	0.00%	99.41%
Exposures over 30 days past due	0.28%	0.00%	0.92%	0.15%	0.21%	0.00%	0.17%	0.00%	0.59%
Total Stage 2	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

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

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;
- 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, Banco BPM included the government measure in its ECL calculation. The method adopted therefore enabled the share of exposure covered by these guarantees with relation to the total exposure of the transaction to be identified. The LGD associated with the transaction was therefore eliminated on said portion and a "Stato Italia" (Italian State) average coverage assigned.

[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 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 a percentage of moratoria were granted (measured in their phase of greater incidence on the loan portfolio and that is in 2021) below the portfolio average, 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;
- the determination of future PiT migration matrices for the first three years following the reporting date, obtained on the basis of the PIT migration matrices conditioned on the basis of macroeconomic scenarios, through the application of shocks deriving from forward-looking sector-based rates of default through non-proprietary satellite models that make it possible to evaluate the particularly diversified consequences of the pandemic on individual sectors of the Italian economy: these models are supplemented by internal PD satellite models applied to certain sectors impacted to a limited extent by the moratoria, and the effects deriving from credit support measures (new loans covered by state guarantees); the latter are capable of expressing the sensitivity of PD levels with respect to changes in the main economic variables and consider within them the mitigation measures and, in particular, the various liquidity decrees issued by the Italian Government;
- obtaining cumulative PDs by rating class and scenario, via a matrix product (Markov chain techniques) of the future PiT migration matrices for the first three years, as previously calculated, while from the fourth year onwards so-called smoothed matrices are used, which allow for the gradual smoothing with the TTC migration matrix;
- the generation of the cumulative lifetime PD curve as the average of the cumulative PD curves of each selected macroeconomic scenario weighted by the respective probability of occurrence.

Refer to the paragraph "Inclusion of forward-looking factors", below, for more details on the method of constructing the PD.

Estimating the LGD parameter

LGD values are assumed to be equal to the regulatory recovery rates calculated through the economic cycle (TTC) and suitably adjusted in order to remove some of the prudential elements established by the regulatory models, which are represented by indirect costs, 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.

EAD Estimation

For on-balance sheet exposures, the EAD is represented, at each future payment date, by the remaining payable based on the repayment plan, plus any unpaid and/or past due instalments.
For off-balance sheet exposures, represented by guarantees and irrevocable or revocable commitments to disburse funds, the EAD is equal to the nominal value weighted by a specific credit conversion factor (CCF), determined in compliance with the previously validated internal models and using the standardised approach for the remaining exposures. 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.

Inclusion of forward-looking factors

In accordance with IFRS 9, when estimating expected losses it is necessary to take forward-looking information into account, conditioning the risk parameters according to the different macroeconomic scenarios in which it is expected to operate.
In this sense, it is necessary to first state that the impact on the macroeconomic framework and on the relative variables of the Russia-Ukraine conflict, which exploded at the beginning of the year, was very significant, interrupting the global economic recovery and forecasting GDP growth of 2.2% in Italy for 2022, a sharp slowdown compared to the growth recorded in 2021: +6.6%.
With a view to overcoming potential inconsistencies in the results determined by the satellite models ordinarily used, as already previously illustrated in the forward-looking[2] approach applied to calculate ECL, in line with IFRS 9, already in previous years 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 2020, the Bank 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 the course of 2021, a new proprietary sector-based satellite model was also developed, which partially replaced the sector-based satellite model acquired from third parties which, on the other hand, continues to be used to calculate the effects on the risk parameters of the business sectors that benefited most from the moratoria introduced by the Italian government following the pandemic crisis[3].
Lastly, to calculate the ECL as at 30 June 2022, the macroeconomic scenarios and the relative probabilities of occurrence were updated, based on the analyses conducted by the Scenario Council[4], in line with the processes already in use in previous years. To this end, the macroeconomic forecasts supplied by the leading provider, available in March 2022, were considered with reference to three different scenarios: "baseline", "adverse" and

[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%.
[2] 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.)
[3] 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.
[4] 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, the Chief Lending 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.

"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 to how the Russia-Ukraine conflict will develop and the associated energy crisis in Europe, 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 "severe (already extreme)" negative scenario, which the Bank did not consider precisely because it considered it extreme. The probabilities of occurrence of the three macroeconomic scenarios considered are indicated below:

- "Baseline": 50%;
- "Adverse": 30%;
- "Favourable": 20%.

Please note that the model for the governance of the process of updating the macroeconomic scenarios establishes that the macroeconomic scenarios are 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[1] has been surpassed.

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 2022-2025 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	2022	2023	2024	2025
adverse	GDP Italy	1.46	1.81	1.52	1.45
baseline	GDP Italy	2.24	2.53	1.94	1.77
favourable	GDP Italy	2.94	3.74	2.18	1.83
adverse	Unemployment rate	10.09	10.68	10.52	10.40
baseline	Unemployment rate	9.91	9.94	9.10	8.41
favourable	Unemployment rate	9.75	8.97	7.23	6.03
adverse	Index of residential property prices	3.16	2.27	1.48	1.42
baseline	Index of residential property prices	3.43	2.85	2.26	2.20
favourable	Index of residential property prices	3.08	3.00	2.81	2.90
adverse	Household consumption	1.16	1.13	1.18	1.38
baseline	Household consumption	1.84	2.10	1.97	2.08
favourable	Household consumption	2.75	3.64	2.69	2.76
adverse	Construction investments	5.7	3.56	1.56	1.51
baseline	Construction investments	8.1	5.54	3.34	3.14
favourable	Construction investments	9.2	8.96	5.28	4.31
adverse	3-month Euribor	-0.33	0.19	0.59	0.82
baseline	3-month Euribor	-0.22	0.31	0.71	0.95
favourable	3-month Euribor	-0.15	0.47	0.88	1.11
adverse	ECB rate	0.10	0.66	1.07	1.24
baseline	ECB rate	0.20	0.76	1.17	1.34
favourable	ECB rate	0.25	0.91	1.33	1.49
adverse	Return on Italian 10-year government bonds	2.86	3.61	3.49	3.39
baseline	Return on Italian 10-year government bonds	2.69	3.36	3.21	3.11
favourable	Return on Italian 10-year government bonds	2.71	3.48	3.42	3.42
adverse	BTP/Bund Spread	2.02	2.12	1.92	1.88
baseline	BTP/Bund Spread	1.77	1.72	1.48	1.43
favourable	BTP/Bund Spread	1.70	1.53	1.31	1.34
adverse	Italian consumer price index	5.28	2.44	1.56	1.36
baseline	Italian consumer price index	5.05	1.85	1.86	1.68
favourable	Italian consumer price index	4.37	1.84	2.08	1.98

[1] Threshold established as a change in GDP of over 0.5%.

Scenario	Macroeconomic indicators	2022	2023	2024	2025
adverse	Imports	4.2	2.6	2.7	3.2
baseline	Imports	5.5	5.2	4.5	4.3
favourable	Imports	6.4	9.0	6.3	5.8
adverse	Exports	3.8	4.1	3.6	3.9
baseline	Exports	4.5	5.1	3.9	3.5
favourable	Exports	4.8	6.7	3.8	3.0
adverse	Public administration expenditure	1.3	-0.20	-0.27	-0.15
baseline	Public administration expenditure	1.3	-0.07	-0.29	-0.14
favourable	Public administration expenditure	1.5	-0.01	-0.25	-0.13

The recovery of the global economy, which is growing strongly thanks both to measures to combat the effects of the pandemic and the substantial repressed demand, has been interrupted since the Russia-Ukraine conflict began at the end of February. The direct exposure of Europe and Italy in terms of trade with Russia and Ukraine is reduced but the weight of raw materials imported from the two countries is very significant, primarily gas from Russia, fundamental production inputs for many production chains. This is joined by the new dysfunctions that the war has caused in global supply chains, fuelling and exacerbating pre-existing inflationary pressures, also generated by widespread supply constraints in the face of the rapid and vigorous recovery in demand. This is precisely while in various countries, especially in South-East Asia, the pandemic has regained strength, causing further friction and disruptions in the same aforementioned supply networks. The scarcity of raw materials has lastly overheated domestic consumer prices, prompting central banks to start raising official policy rates in an attempt to prevent an adaptation of inflation expectations to the new framework.

The "baseline" scenario expects that the difficulties in supplying production input, primarily energy, will impact European and Italian growth already in the first half of 2022, first of all hitting manufacturing sectors, with more pronounced effects on the energy-intensive sectors. Indeed, qualitative indicators have already shown a sharp deterioration in the confidence of households and businesses as early as in the first quarter. The baseline scenario assumes a very limited quarterly GDP growth trend in the current year, which is in any case consistent with growth of 2.2% for the whole of 2022 by virtue of the "acquired growth" at the start of the year (2.6%). The inflationary impact of input procurement difficulties, together with the risk of political instability in Italy, are considered the two main elements capable of compromising the implementation of the NRRP. In this context, the more restrictive stance of the monetary policy adopted by the ECB risks increasing, first, and then fuelling tensions on the government bond market, in light of the high level of public debt. The evolution of the above factors in the baseline scenario would correspond to the following:

- Italy's GDP, after a slowdown in the first quarter, is expected to recover in both the second and third quarters, but to slow down again in the fourth, due to both political instability and the potential resumption of Covid-19. This will not prevent the consolidation of the year with average growth of +2.2%, a rate of economic growth which in any case is very close to the average expected in the Eurozone; growth for 2023 is expected with a similar profile close to the Eurozone average, while for 2024 the progress of Italian GDP would surpass the Eurozone average;
- the unemployment rate rises to 9.91% in 2022, growing again to 9.94% in 2023 to then decrease to 9.10% in 2024;
- inflation jumps to 5.05% in 2022 and then returns below 2021 levels, marking progress of 1.85% and remaining around this level until the end of the forecast period and reacting to the increase in policy interest rates, which will return above 1% in 2024;
- the yield on Italian government bonds jumps to 2.69% in 2022 and further increases to 3.36% in 2023, consolidating at around 3.21 in 2024, with the BTP-Bund spread also rising, to 1.77 on average in 2022, and more stable, around 1.72, in 2023 also thanks to the actions of the ECB.

As regards the "adverse" scenario, it is assumed that the Russia-Ukraine conflict will continue for a long time, prolonging both supply chain tensions and the dramatic rise in the price of raw materials, primarily energy. Scarce supplies and high costs, especially of energy, would gradually halt the growth of European and, to a lesser extent, Italian manufacturing. The transfer of tensions on prices to production first and then to consumption, compressing household disposable incomes, would negatively affect the general climate of confidence and therefore economic development, with negative impacts on political risk. The implementation of the NRRP would therefore be made very difficult in the face of rising prices of production inputs, shortages and the greater political risk that would be generated. This new phase would see the Italian economy grow at a slightly faster rate than that of the Eurozone even if penalised by a rising unemployment rate, which holds back consumption. More specifically, the following is expected:

- Italian GDP experiencing a more limited recovery in 2022, at +1.46%, and below 2% in subsequent years despite the fiscal impulse generated by the NRRP, with a trend that sees the Italian economy grow to a greater extent, albeit by not much more, than the Eurozone;
- appreciable increase in the unemployment rate, higher and progressively diverging with respect to the "Baseline" scenario until reaching a positive differential of about 2% in 2025;
- dynamics of private investment spending reduced by about 70% on average over the forecast period (mainly machinery, the slowdown for construction would be less intense) also as a result of a difficult and partial implementation of the NRRP;
- the lower growth and greater political risk would be reflected in an increase in 10-year BTP yields of around 20 bps over the entire forecast horizon. Correspondingly, the 10Y BTP-Bund spread also rises above 2% in the 2022/23 two-year period and then falls back below this threshold in the following two-year period. Nonetheless, the rise of the German ten-year yields, exceeding 1.5% as of 2024, also on the basis of the permanent underlying tensions on the single European currency, influenced by growth difficulties and the associated political risk of the most fragile partners.

Finally, the "favourable" scenario assumes a stable solution to the conflict in a short time and the absence of new waves of infections from Covid-19. Despite the problems created in the early months of 2022 by the surge of inflation and supply chain bottlenecks, the confidence of businesses and consumers would receive a strong boost from these favourable developments, capable of significantly stimulating consumption and investments. The climate of optimism would also favour a constructive debate within the European Union oriented towards growth policies, particularly with regard to the delicate issue of the possible reform of the Stability and Growth Pact. This would favour Italy in particular and facilitate the process of reducing public debt, even in the presence of much less expansionary monetary policies. Specifically:

- GDP up by 2.94% in 2022, which accelerates to 3.74% the following year and then gradually declines in the following two years;
- unemployment rate which, after a slight rise in 2022, begins to decline very rapidly, reaching, at the end of the forecast horizon, the minimum levels previously recorded only in 2007;
- yield on 10-year Italian government bonds which gradually rises only as a result of the normalisation of market rates (Bund on positive yields from 2022), in the presence of a constantly contracting BTP-Bund spread, with values that however remain higher than the averages recorded in 2021.

<u>Use of post model adjustments and management overlays</u>

In consideration of the further "joint" emergence of numerous factors of uncertainty linked to the continuation of the Russian invasion of Ukraine, downstream of the ECL calculation when drafting the consolidated condensed interim financial statements as at 30 June 2022, it was deemed appropriate to apply additional "post model adjustments/management overlays".
In greater detail, greater value adjustments were recognised for performing credit exposures for a total of 105.3 million, justified by:

- sterilisation of the positive effect deriving from the updating of the macroeconomic scenarios for the Real Estate and Construction sectors. This adjustment follows the expected improvement at system level of the rates of default of the above-mentioned industrial sectors compared to the forecast underlying the macroeconomic scenarios of December 2021 that the Bank has decided to sterilise given the current uncertain macroeconomic context;
- treatment with "lifetime" parameters of credit exposures attributable to "vulnerable sectors" also identified by a list of "NACE codes" provided by the European Commission. In particular, these are counterparties included in the recent "Energy and raw materials" campaign as well as belonging to the sectors most exposed to rising raw material and energy costs. The real estate initiatives financed based on WIP were also included (with amounts not used for more than 6 months and unfinished construction sites, surveys in progress) as were counterparties belonging to the "energy trading" sector, i.e. active in the marketing and distribution of energy and gas;
- adoption of the EBA guidelines published at the end of June through which banks are asked to remove the distorting effects on risk parameters deriving from the pandemic and the ensuing government measures to support household and business liquidity.

Downstream of the application of the adjustments described above, taking into account the evolution of the main forward-looking economic variables that can be inferred from the most recent macroeconomic projections available as well as the further "joint" emergence of numerous factors of uncertainty such as the recent political tensions in Italy that resulted in the fall of the Draghi government, a widespread resumption of the Covid-19 pandemic and the persistent rise in raw material prices, an additional margin of prudence of approximately 35 million was applied.

This management overlay, which effectively neutralises the positive economic impacts that would otherwise have occurred, is mainly justified by the fact that the estimation models applied may not capture all phenomena relevant for the determination of expected loss.

Sensitivity analysis of expected losses

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 described in "Part A - Accounting policies", the inclusion of forward-looking factors for the measurement of expected losses 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 expected losses resulting from the selection of different macroeconomic scenarios and in compliance with ESMA recommendations, most recently set forth in the document of 13 May 2022, specific sensitivity analyses are provided below in terms of ECL as well as stage allocation. These analyses were performed by attributing 100% weighting to each individual macroeconomic scenario ("baseline", "adverse", "favourable") 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% is 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.

The selection of a multi-factor sensitivity, obtained by varying more than one parameter simultaneously and implicit in the decision to consider alternative macroeconomic scenarios, 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 reference perimeter for calculating the sensitivity analyses is that of the ECL relating to the Group's total credit exposures, represented by loans and unsecured loans, in the amount of 335 million. In particular, this is the ECL determined on the basis of the models in use, and therefore does not include the post model adjustment/management overlays described in the previous paragraph. In fact, it is believed that these adjustments are not susceptible to sensitivity analyses, since they are subjective adjustments made by management to take into account certain factors not adequately considered by the models.

In light of what has been described, the main results of the sensitivity analyses are summarised below:

- assignment of a 100% probability of occurrence to the adverse scenario: in this case, the ECL would increase by +33.4 million with respect to that calculated by adopting the multi-scenario approach (around +10% in percentage terms), against an increase in the percentage of exposures classified in Stage 2 of +0.71%. In this scenario, the average percentage coverage of performing credit exposures would increase by 3 bps;
- assignment of a 100% probability of occurrence to the baseline scenario: in this case, the ECL amount would decrease by -2.7 million with respect to the amount of ECLs calculated by adopting the multi-scenario approach (around -1% in percentage terms), against a decrease in the percentage of exposures

classified in Stage 2 of -0.05%. In this scenario, 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, the ECL amount would decrease by -39.5 million with respect to the amount of ECLs calculated by adopting the multi-scenario approach (around -12% in percentage terms), against a decrease in the percentage of exposures classified in Stage 2 of -0.66%. In this scenario, the average percentage coverage of performing credit exposures would decrease by -3 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" in the consolidated financial statements as at 31 December 2021. 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 condensed interim financial statements", contained in "Part A - Accounting policies", the determination of the expected losses on non-performing loans is based on a priority basis on concrete elements available to the bank, with specific reference to the estimate of flows deemed recoverable and the related recovery timing. On an alternative and residual basis, statistical parameters are used deriving from the historical recovery obtained by the Group for the individual types of exposure.

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 and the effects of the international geopolitical situation, may result in the recognition of additional, even significant, losses, in relation to those considered based on the conditions existing at the reporting date.

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.

Counterparty Risk

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

As of June 2021 the new standard SA-CCR methodology entered into force for calculating exposure to counterparty risk on transactions in derivatives (Ref. EU Regulation 2019/876).
The new standard method replaces the previous Market Value approach, and makes it possible to calculate capital requirements which better reflect the risks linked to transactions in derivatives.

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

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

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

As regards this type of risk, for management purposes and to provide support for capital adequacy assessment processes (ICAAP process), the Parent Company and Banca Akros also use an internal method to estimate exposures to the risk of possible default of counterparties in OTC derivative transactions subject to Collateral Agreements (CSA).
The above-mentioned simplified simulative method, or "Shortcut Method" estimates exposures on the basis of possible changes of the Mark to Market of the individual contracts underlying the same reference CSA, on a time horizon given by the "risk margin period" that characterises each contract. The measurement is also implemented in the Parent Company and Banca Akros lending process chain, together with a daily monitoring and reporting system.
For the remainder of the exposures to derivatives, the exposure is estimated using the standard methodology which is also used for Supervisory reporting purposes.

Furthermore, the Group has met the obligation envisaged by European Legislation ((EU) Delegated Regulation 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.

Financial risks

Impacts resulting from the Russia-Ukraine war

The conflict in Ukraine has generated greater market volatility across all asset classes (equities, interest rates, foreign exchange and commodities), and therefore amplified daily variations in market parameters. As a result, risk measures in general have become more volatile, although, with appropriate derisking by the trading desks, no significant increases were recorded. However, there was an increase in backtesting overruns, for the Parent Company in particular, for which reference should be made to the specific section on the Trading book.

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.

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

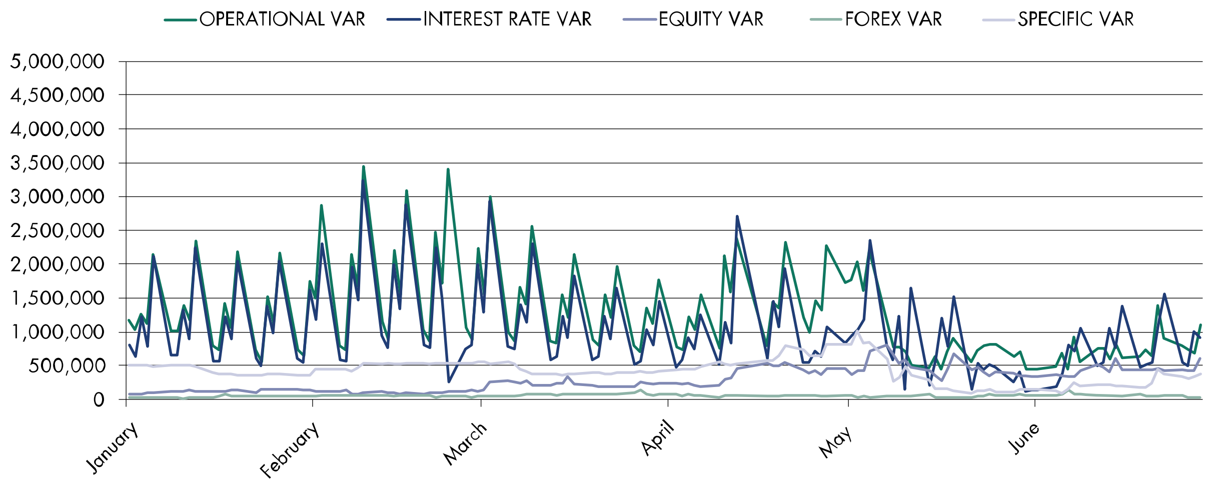
The task of controlling the financial risk management, with a view to identifying the different types of risk, defining the methods to measure the same, to controlling limits at strategic level and verifying the consistency between the operations of the same and the risk/return targets assigned, is centralised in the Parent Company under the responsibility of the Risk Function for all Group banks.
Risk analyses of the Trading 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 given level of confidence.
With respect to the scope of Banco BPM and Banca Akros, risk capital estimates under the VaR approach are made using the historical simulation method and considering a time horizon of one working day and a statistical confidence interval of 99%. VaR is calculated by applying a Lambda coefficient (decay factor) of 0.99, so as to render the estimate more reactive to the most recent changes in market parameters, and by equal-weighting historic observations. The latter is used, if higher than the VaR calculated with the cited decay factor, in order to estimate the risk.
In addition to the Regulatory VaR calculated under current conditions, a Regulatory VaR under stressed conditions (Stressed VaR) is calculated, which adopts the period between June 2011 and June 2012 for Banca Akros (August 2011 - August 2012 for the Parent Company) as the most severe scenario. The period of stress is monitored with a frequency and a method defined by internal regulations, which enable it to be promptly identified when changes in the composition of the portfolio occur, at the same time guaranteeing a certain degree of stability.
As envisaged by prudential requirements, that model is used to calculate the capital requirement for market risk, as well as for operational purposes.
The operational Value at Risk (VaR) measurement considers the interest rate risk, equity risk, foreign exchange risk and credit spread risk, as well as the benefit of correlation between the risks. Correlation risk and dividend risk are also considered, measured through stress testing techniques, with the benefit of diversification with respect to the first risk group cited.
The capital requirement for supervisory purposes is measured with an internal validated model, for equity risk, exchange rate risk, general interest rate risk and specific credit risk (from November 2020), while it is measured with the standard method for other risk factors (exchange risk of the banking book and commodity risk).

The performance graph and a table containing the operational VaR figures are shown below for the first half of 2022, referring to the regulatory trading book of Banco BPM.

Regulatory trading book *(in millions of euro)*	**1st half 2022**			
	30 June	**Average**	**Maximum**	**Minimum**
Interest Rate Risk	0.916	*1.015*	*3.236*	*0.111*
Exchange Rate Risk	0.028	*0.055*	*0.133*	*0.016*
Equity Risk	0.603	*0.287*	*0.802*	*0.081*
Dividend and Correlation Risk	0.161	*0.061*	*0.161*	*0.000*
Specific Debt Securities Risk	0.388	*0.417*	*1.008*	*0.089*
Total uncorrelated	*2.096*			
Diversification effect	-1.002			
Combined risk (*)	*1.094*	*1.243*	*3.444*	*0.442*

(*) Overall operational VaR

Daily VaR and VaR by risk factor
Banco BPM Group: Trading book



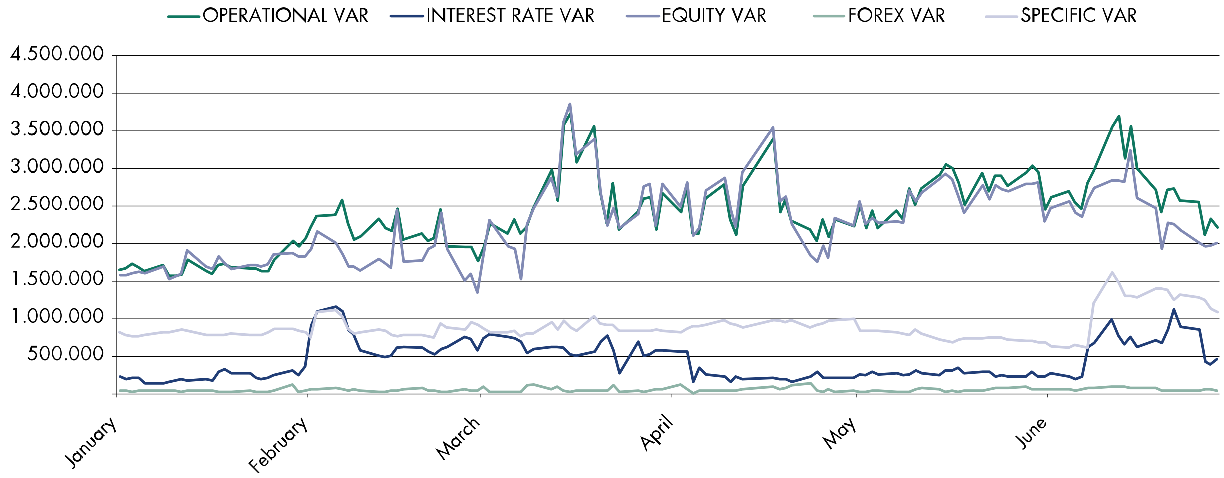
The prevalent risk component in the first half of 2022 is that relating to interest rate risk, largely due to the Parent Company's repo positions, the main cause of the variability of the interest VaR component and of the operational VaR.

The performance graph and a table containing the operational VaR figures are shown below for the first half of 2022, referring to the regulatory trading book of Banca Akros.

Regulatory trading book *(in millions of euro)*	**1st half 2022**			
	30 June	**Average**	**Maximum**	**Minimum**
Interest Rate Risk	0.459	0.439	1.155	0.135
Exchange Rate Risk	0.047	0.048	0.135	0.010
Equity Risk	2.010	2.257	3.862	1.339
Dividend and Correlation Risk	0.888	0.829	1.178	0.644
Specific Debt Securities Risk	1.081	0.886	1.613	0.612
Total uncorrelated	4.484			
Diversification effect	-2.262			
Combined risk (*)	2.222	2.391	3.741	1.572

(*) Overall operational VaR

Daily VaR and VaR by risk factor
Banca Akros: Trading book

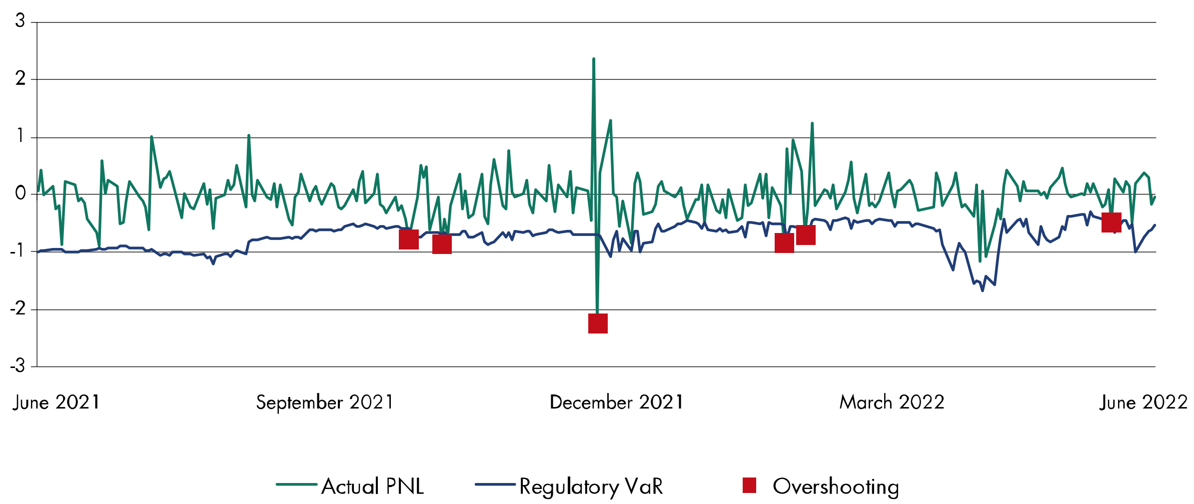


From the analysis of the graph, the preponderance of equity risk can be noted (with reference to both the delta component and the vega component), deriving from positions in equity instruments, both derivatives and cash. The specific risk component on debt securities also increased in June, due to the introduction of new penalising scenarios for the calculation of the Operational VaR.

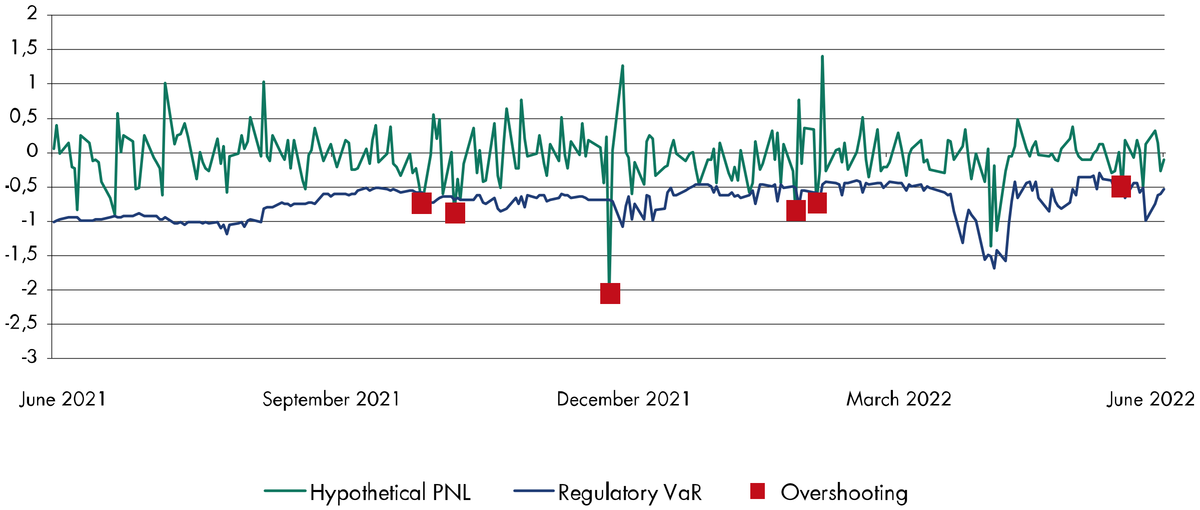
In line with the validation of the internal model for the calculation of the capital requirement relating to market risks, backtesting is conducted on a daily basis, with a view to verifying the solidity of the VaR model adopted. These tests are conducted on the regulatory trading book of Banco BPM and 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 applying a decay factor used in operational approaches.

Banco BPM backtesting

Actual PNL

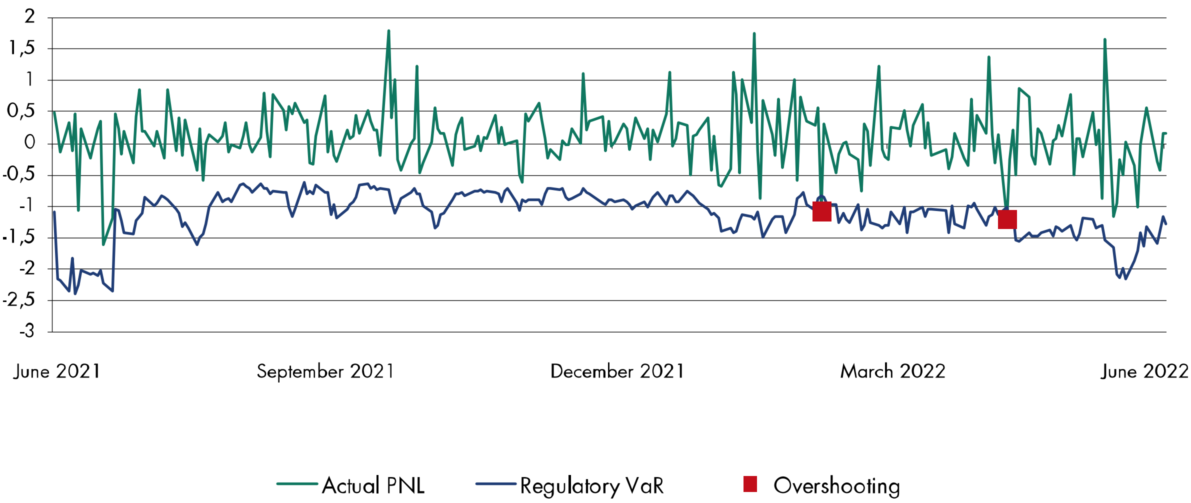


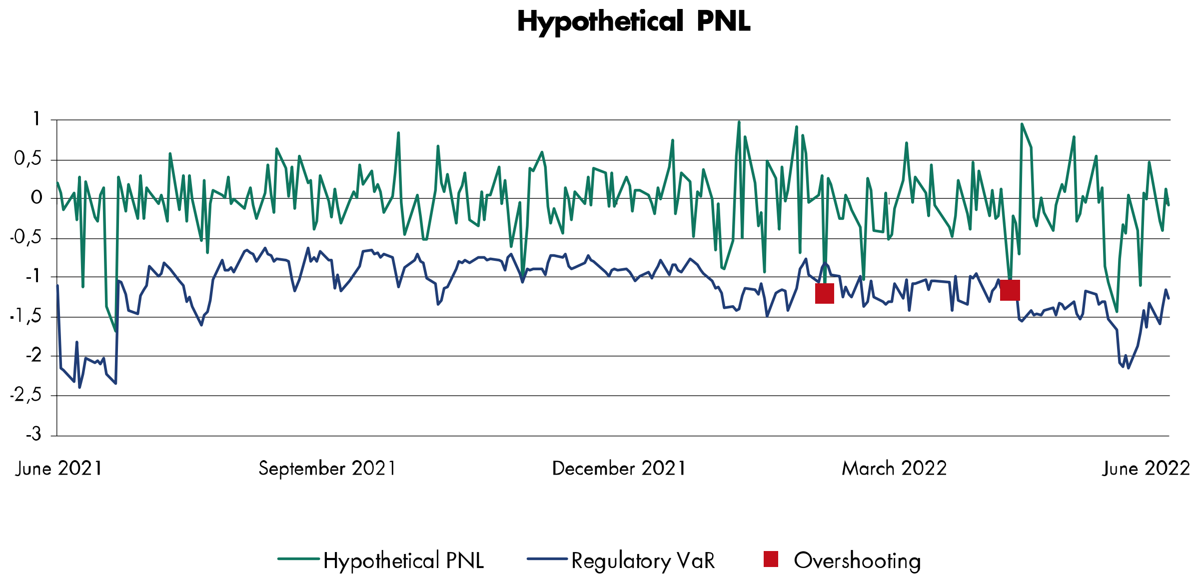
Hypothetical PNL



Banca Akros backtesting

Actual PNL





FRTB (Fundamental Review of the Trading Book)

In recent years, bank regulation regarding the assessment of market risk is undergoing a thorough review. In this regard, in 2012, the Basel Committee launched a consultation process to review the risk framework of the trading book (Fundamental Review of the Trading Book - "FRTB"). The consultation ended with the adoption by the Basel Committee on Banking Supervision ("BCBS"), of the "Minimum capital requirements for market risk" (January 2019). On 7 June 2019, the "Banking Package" was published in the Official Journal of the European Union, represented by the CRR2, CRD5, BRRD2 and SRMR2, which, inter alia, incorporate the initial rules for the implementation of the FRTB defined by the Basel Committee. The package came into force on 27 June 2019. On 27 October 2021, the European Commission published the package of legislation for implementing Basel 3 Reforms, also known as Basel 4, which marks the last step in the process of implementation of the changes to capital standards through the Capital Requirements Regulation (CRR) III and the Capital Requirements Directive (CRD) VI. With this package, the European Union has set two main objectives: to implement the proposals of the Basel Committee on Banking Supervision (BCBS) with a view to strengthening the financial stability of the system and to supporting the European Union to ensure that banks are able to continue to finance the economy.
To guarantee an adequate level of capitalisation of banks against market risk and to take a structured approach to resolving several shortcomings of current legislation that emerged during the crisis, the FRTB Framework has therefore set out the following objectives:

- clear definition of the distinction between the prudential portfolios (trading and banking book) with more stringent restrictions on movement between portfolios;
- radical change of the metrics to measure the capital requirement for market risk according to a more prudent and risk-sensitive approach, distinguishing, inter alia, between the Standardised Approach - SA and the Internal Model Approach - IMA, subject to the approval of the Regulator. Note that the banks authorised to adopt the IMA are required, in any event, to calculate the capital requirement with the SA model; therefore the IMA should be considered complementary to the SA and not an alternative;
- at regulatory level, boosting the monitoring and the management of market risk at trading desk level.

Lastly, the Regulator has set September 2021 as the reporting date for the calculation of market risk according to the SA, preliminary to the actual future calculation of the SA capital requirement according to that envisaged by the new FRTB regulation. In 2020, Banco BPM Group therefore launched a project on the Fundamental Review of the Trading Book ("FRTB"), with the assistance of an external consulting company. The organisation of the project, established at Group level, (the project manager is the head of the Risk Models function) and which also encompasses representatives from Banca Akros, envisages 4 main areas of focus (Standardised Model, Internal Model, Operating Model, Reporting) as well as some across-the-board activities (IT implementations and activities that fall within the scope of the Internal Validation and Audit functions). Activities continued in 2021 and 2022 and the main bodies involved in the exchange of information are represented by the Steering Committee (members include the CFO, Head of Risks, Finance, Organisation, IT, MD of Banca Akros, other first-line managers, and the external consulting company), which is tasked with identifying strategic decisions, as well as Project / Focus Area and internal

alignment Committees, the purpose of which is to report on the state of progress of the project / work and to address priorities at various levels. The aim of this project organisation is to ensure robust governance, which guarantees continuous monitoring and alignment between the functions involved and an activity plan with clear allocation of ownership. The regulatory timeline for FRTB implementation covers a time horizon that is likely to end in 2025 (Pillar 1 absorption with FRTB requirements from January 2025, as per the CRR3 proposal of 27 October 2021), with the first important regulatory deadline for reporting obligations according to the standardised approach, defined in the third quarter of 2021. For said deadline and therefore also for the subsequent quarters, the reports on FRTB-SA requirements were sent.
As regards the Standard model, note that the Supervisory Authority has asked Banco BPM Group to submit a formal application to request authorisation to use its own method to calculate sensitivities, insofar as different to that envisaged by the law, even though it is more accurate (it considers changes in parameters, both downwards and upwards). Banco BPM Group therefore submitted the formal application for authorisation to use its own method to calculate operational sensitivities. The process of submitting the application, which started on 31 May 2021, was finalised when the report of the control functions was sent in November. The documentation sent met the requirements and was considered complete, in fact, in a letter received from the European Central Bank on 7 October 2021, the application was approved.

Outcomes of internal 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 horizons for Banca Akros and the Parent Company. The results of the analysis showed that the model has a good ability to predict the number of backtesting overruns, also taking into account market trends.
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.
On a periodic basis Internal Validation also verifies the robustness of the non-modelled risk framework (RNIME), as required by supervisory regulations.
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.

Banking book

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.
During 2022, the usual periodic maintenance and updating activities were carried out on the internal models, with the transition to the measurement of economic value without a spread in the RAF (previously monitored monthly for management purposes).
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 operational 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.

In these analyses, the TLTRO III take-ups were modelled in the course of 2022 as one-coupon variable rate transactions indexed to ECB rates partially already established and including a cap, valid from June 2020 to June 2022, on the overall rate of -1%.
In the first half of 2022, interest rate risk exposure, from income and capital perspectives, continuously remained within the Risk Appetite Framework and operational risk limits.

The table below shows exposure to interest rate risk at the end of the first half of 2022 in accordance with operational risk measures.

Risk ratios (%)	**2022**				**2021**	
	30 June	**average**	**maximum**	**minimum**	**30 June**	**average**
For shift + 100 bps						
Financial margin at risk/ Financial margin	22.0%	21.5%	26.0%	19.2%	26.9%	23.0%
For shift - 100 bps (EBA floor)						
Financial margin at risk/ Financial margin	-24.4%	-16.4%	-9.5%	-24.4%	-6.2%	-5.8%
For shift + 100 bps						
Economic value at risk/ Economic value of capital	-3.1%	-2.3%	-1.4%	-3.1%	-1.8%	0.3%
For shift - 100 bps (EBA floor)						
Economic value at risk/ Economic value of capital	-1.0%	-0.2%	3.1%	-2.5%	1.1%	0.8%

Outcomes of internal validation activities

The Banco BPM Group adopts behavioural models in order to capture idiosyncratic elements of customer segments and produce rate risk estimates that are more appropriate to the characteristics of the banking book. In this context, Internal Validation carries out reperforming, benchmarking and backtesting analyses in order to verify the robustness of rate risk estimates. The latest analyses carried out in the first half of 2022 did not highlight any particular aspects of improvement.

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 CRR (EU Regulation no. 575/2013) for the TSA, as well as those envisaged by the above-mentioned AMA method 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 an adequate risk management in the relevant areas.

Impacts resulting from the Russia-Ukraine war

From the operational risk perspective, the Russia-Ukraine war has led to a potential increase in the emergence of cyber security & IT risk which, however, the Bank adequately oversees and monitors thanks to its internal control systems. In this regard, information relating to the cyber attacks suffered by the Bank was shared with the system (CERTFin). The phase of accessing the bank's online systems has been strengthened since, although there have been no such attacks against Banco BPM to date, the threat seems credible, since similar attacks have been reported on some Italian institutional sites, including that of the Bank of Italy.

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 managerial 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 the first half of 2022, 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 the first half of 2022 was also respected, and always considered adequate.

Liquidity Risk

Impacts resulting from the Russia - Ukraine war

The Group's liquidity and funding risk profile did not record any impacts directly attributable to the Russia-Ukraine conflict, and remains at levels well above both regulatory and internal thresholds (Risk Appetite Framework and operational limits), showing extensive availability of liquidity reserves and stable funding.

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; the liquidity and funding risk profiles benefited from the positive trend in customer funding.

General aspects, management procedures 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. Liquidity risk is usually broken down into two types of risk: (1) liquidity and funding risk, namely the risk that the Group is unable, in the short-term (liquidity) and in the long-term (funding) to meet its payment commitments and its obligations in an efficient manner; (2) market liquidity risk, namely the risk that the Group is not able to liquidate an asset without incurring losses on the capital account due to the poor depth of the reference market and/or due to the timing with which the transaction must be performed.
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 its Liquidity risk profile. 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 operational 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 the first half of 2022, the liquidity and funding profile of the new Banco BPM Group was found to be adequate, complying with both internal and regulatory risk limits.

Outcomes of internal validation activities

The Internal Validation Function conducts qualitative and quantitative analyses to assess the soundness and accuracy of liquidity risk estimates. Furthermore, as regards ILAAP, the Function expresses an opinion on the regular functioning, on the predictive capacity, on the performance and on the prudence of the internal methodologies for measuring liquidity and funding risks. The latest analyses carried out in the first half of 2022 did not highlight any particular aspects of improvement.

Covered bond transactions and securitisations

Traditional securitisations acting as originator

New transactions during the period

On 16 June 2022, the securitisation was completed ("Project Argo") of a portfolio of UTP (50%) and bad (50%) loans for a gross amount of 673.2 million at the cut-off date, of which roughly 72% were represented by secured loans.
The securitisation was completed through the issue, by the special purpose entity "Tevere SPV S.r.l.", of the following classes of unrated securities (ABS - Asset-Backed Securities):

- Senior notes equal to a nominal value of 104.7 million. The senior securities will have a fixed 2% coupon;
- M1 senior mezzanine notes equal to a nominal value of 22.4 million which will have a coupon equal to 3M Euribor + a spread of 6% and a detachable coupon of 3%;
- M2 lower mezzanine notes equal to a nominal value of 11.2 million which will have a coupon equal to 3M Euribor + a spread of 9% and a detachable coupon of 3%;
- Junior J notes are equal to a nominal value of 18.7 million, initially subscribed for 11.2 million, which will have a variable yield.

Banco BPM subscribed 100% of the senior notes and 5% of the other classes of notes (M1, M2 and J). 95% of the Mezzanine and Junior securities were purchased by companies controlled by Elliott funds.

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

In addition, in March 2022 Banco BPM sold to the special purpose entity BPL Mortgages S.r.l. a new portfolio of mortgage, landed, agricultural and other loans, disbursed in favour of small and medium-sized enterprises for an overall residual debt of approximately 2.5 billion, carrying out a new securitisation called "BPL Mortgages 8".

To finance the purchase of the loans, on 27 April 2022 the special purpose entity issued two classes of limited recourse Asset Backed securities: (i) Class A Notes ("Senior Notes"), legal maturity 25 October 2064, rated ("A2" by the rating agency Moody's Investors Services and "A" by the rating agency DBRS) and listed on the ExtraMOT PRO segment of the Italian Stock Exchange for a nominal value of 1.8 billion and (ii) Class J Notes ("Junior Notes"), legal maturity 25 October 2064, unrated and unlisted, for a nominal value of approximately 656.4 million. All classes of securities have been subscribed by Banco BPM and the Senior Class A Notes are used by Banco BPM for refinancing operations with the European Central Bank.

Other significant events during the period

In March 2022, with the signing of the relative contracts, Banco BPM (i) as part of the BPM CBB1 Programme, sold to the special purpose entity BPM Covered Bond S.r.l. a new portfolio of residential mortgages, including disbursements to Group employees, and of commercial mortgages ("Fourth Banco BPM Portfolio") for a total residual debt of 419 million (ii) as part of the BPM CBB2 Programme, sold to the special purpose entity BPM Covered Bond 2 S.r.l. a new portfolio of eligible residential mortgages, excluding disbursements to Group employees ("Seventh Banco BPM Portfolio") with a total residual debt of approximately 1.75 billion and (iii) repurchased "en bloc" the positions present in all three Banco BPM Covered Bank Bond issue programmes which, as at 28 February 2022, were classified as bad loans.

In March 2022, (i) the special purpose entities BPM Covered Bond S.r.l. and BPM Covered Bond 2 S.r.l. paid the purchase price for the new portfolios by using the respective subordinated credit lines available at Banco BPM and (ii) Banco BPM settled the consideration for the repurchase of bad loans in favour of the special purpose entities.

As part of the BPM CBB2 programme, on 15 March 2022, Banco BPM issued the Seventh Series of CBBs, placed with institutional investors, for a nominal value of 750 million, coupon at a fixed rate of 0.75% per annum, maturity 15 March 2027. This is the first Green Covered Bond issue, issued under the Green, Social and Sustainability Bond Framework published by the Bank last July, aiming to refinance a selected portfolio of green residential mortgages disbursed to private customers for the purchase of highly energy efficient homes ("Green Eligible" projects as set forth in the Prospectus).

With reference to the BP CBB1 Program, the Ninth Series of CBB was fully repaid for a nominal value of 1 billion on the maturity of the security on 31 March 2022. On the same date, the Covered Bond Swap agreement in place between the special purpose entity BP Covered Bond S.r.l. and UBS was also closed.

Furthermore, the subordinated loan granted by Banco BPM to the special purpose entity BPM Covered Bond S.r.l. was repaid for 230 million on the Guarantor Payment Date of 17 January 2022 and for 160 million on the Guarantor Payment Date of 15 April 2022, while the subordinated loan granted by Banco BPM to the special purpose entity BPM Covered Bond 2 S.r.l. was repaid for 230 million on the Guarantor Payment Date of 18 January 2022 and on 19 April 2022.

With regard to the "BPL Mortgages 5" securitisation, on 24 February 2022 the rating agency DRBS increased the rating of the A1, A2 and A3 Senior Securities from "AH" to "AA".

Regarding the "Profamily SPV" securitisation transaction, on 22 February 2022 the rating agency DBRS increased the rating of the Senior Class A Security from "AH" to "AA".

In March 2022, following the liquidation process, the special purpose entity Italfinance Securitisation Vehicle S.r.l was removed from the relevant Companies' Register.

Significant events after the end of the interim period

On the occasion of the Guarantor Payment Dates in July 2022, the special purpose entities BPM Covered Bond S.r.l. and BPM Covered Bond 2 S.r.l. repaid the subordinated loan to Banco BPM for 235 million and 230 million respectively.

Synthetic securitisations acting as originator

Significant events during the period

As part of the synthetic securitisations finalised in previous years with the European Investment Fund (EIF), concerning loans disbursed to Italian SMEs, during the half-year no significant events occurred.
Similarly, there are no significant elements to report in relation to the synthetic securitisation transaction completed in December 2021 with a market investor, concerning loans granted to companies belonging to the Corporate segment.

Significant events after the end of the interim period

No significant events to report.

Investments in traditional securitisations acting as sponsor

The Group is 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 entity SUN SPV S.r.l. established pursuant to Italian Law 130/1999, as illustrated below.

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).
Banco BPM subscribed 100% of the Senior security and 5% of the Mezzanine and Junior securities, for a total value of 43.0 million. The securitisation is currently in the revolving phase and the investment as at 30 June 2022 is equal to 41.1 million.

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).
Banco BPM subscribed 100% of the Senior security and 5% of the Mezzanine and Junior securities, for a total value of 26.4 million, of which 15.7 million already paid as at 30 June 2022.

Investments in traditional securitisations

During 2021, on behalf of institutional customers of Banco BPM (supervised entities and financial intermediaries), the Group structured three credit securitisation transactions in which 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. As at 30 June there are still positions present on these tranches.

SPV Project 2011 S.r.l.

The transaction regarded several Project Finance loans disbursed to companies operating in the wind power and photovoltaic sector.
Banco BPM originally subscribed a nominal amount of 15.7 million of the senior tranche. The securitisation is currently in the security repayment phase and the residual investment as at 30 June 2022 amounts to 4.4 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.

Banco BPM subscribed part of the senior tranche. As at 30 June 2022 the securitisation ramp-up phase was completed and the investment amounts to 51.7 million.

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.
Banco BPM subscribed a nominal amount of 35.0 million of the senior tranche. The securitisation is currently in the ramp-up phase and the investment as at 30 June 2022 is equal to 11.2 million.

PART G – BUSINESS COMBINATIONS REGARDING COMPANIES OR DIVISIONS

Transactions carried out during the period

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

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

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

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

Business combinations after the reporting period

As detailed in the section dedicated to the significant events that occurred during the period of the Interim Report on Operations, on 12 April, the Board of Directors resolved to exercise the option for the purchase from the partner Covéa Coopération SA of 81% of the share capital of Bipiemme Vita S.p.A., an insurance company operating in the life sector, in which Banco BPM already holds a 19% interest. In turn, Bipiemme Vita holds the entire share capital of Bipiemme Assicurazioni S.p.A., operating in the non-life sector.
The price of the call exercise referred to 81% of the share capital of Bipiemme Vita is based on the corresponding level of Unrestricted Tier 1 as at 30 June 2021.

After obtaining the legal authorisations from the competent authorities, on 22 July 2022, Banco BPM completed its acquisition from Covéa Coopérations SA of 81% of Bipiemme Vita S.p.A.'s share capital, for a sum of 309.4 million.

Therefore, the two entities over which control has been acquired will enter the scope of consolidation starting from the second half of 2022.

The transaction is classified as a business combination, according to what is set forth in the IAS/IFRS international accounting standards and in particular IFRS 3, which requires the application of the purchase method. Pursuant to IFRS 3, the acquiring entity must allocate the cost of the combination to the assets acquired and liabilities assumed, including contingent ones, which are measured at fair value ("Purchase Price Allocation" - "PPA"); any unallocated positive/negative difference represents the goodwill to be recognised in the statement of financial position or the "bargain purchase" to be credited to the income statement as profit realised with the acquisition, respectively.

This Purchase Price Allocation process, which pursuant to IFRS 3 must be definitively completed within one year of the acquisition date, will be carried out during the second half of 2022.

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 millions of euro):

Company name	Transaction date	(1)	(2)	(3)	(4)
Bipiemme Vita (*)	22 July 2022	309.4	81%	59.4	6.5

(*) Please recall that Bipiemme Vita holds full control over Bipiemme Assicurazioni.
(1) Transaction cost
(2) Percentage of interests acquired with voting right in the ordinary shareholders' meeting
(3) Total group revenues (represents the total net operating income as at 30 June 2022 of the two acquired companies)
(4) Group net profit/loss (represents the IAS net profit as at 30 June 2022 of the two companies)

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

No business combination transactions between companies in the Group were completed after the end of the half-year.

Retrospective adjustments

It was not necessary to recognise any retrospective adjustments.

PART H – TRANSACTIONS WITH RELATED PARTIES

In accordance with the requirements established by accounting standard IAS 24, the paragraphs below illustrate the criteria applied by Banco BPM Group to identify related parties, expressed in specific company regulations:

a) companies subject to significant influence and joint control: namely the entities in which the Parent Company Banco BPM or the Subsidiary entities exercise significant influence pursuant to IAS 28 or joint control pursuant to IFRS 11. In particular, these are the "Investments in companies subject to joint control and subject to significant influence" indicated under Part B - "Interests in associates and joint ventures - Item 70" of these Explanatory Notes;
b) executives with strategic responsibilities: the members of the Board of Directors, the acting members of the Board of Statutory Auditors, the General Manager and the Co-General Managers of the Parent Company and the Group companies are classified as such, as well as the top operations and management executives of Banco BPM, identified by a dedicated board resolution, the Manager responsible for preparing the Company's financial reports, the Head of the Compliance function, the Head of the Internal Audit function of Banco BPM, any additional structure heads identified by the Board of Directors of Banco BPM and any extraordinary liquidators;
c) close family members of executives with strategic responsibilities: only family members that are able to influence (or be influenced by) the party concerned in the relationship between the latter and Banco BPM or Group companies. The following are presumed to be as such, unless otherwise declared in writing by the executive, under the latter's own responsibility and containing adequate and analytical justification of the reasons that exclude any possible influence: spouses, common law spouses (including cohabitants whose status is not indicated in the family status certificate), offspring of the party, of the spouse or common law spouse, individuals dependent on the party, the spouse or common law spouse. Any other individual, which the party believes may influence them (or be influenced by them) in their dealings with Banco BPM or the other Group companies, is also a related party;
d) equity interests attributable to executives with strategic responsibilities and their close relatives: the following entities are considered to be related parties, those in which executives with strategic responsibilities or their close relatives have control pursuant to Art. 2359, paragraph 1 of the Italian Civil Code, or joint control or exercise significant influence which is presumed when they hold, directly or indirectly, at least 20% of the voting rights which can be exercised during ordinary shareholders' meetings, or 10% if the company has shares listed on organised markets;
e) Group pension funds: the Pension Funds for employees of the Group and of any other related entity;
f) holders of a significant interest: shareholders and the relative corporate groups (legal entities which are parent companies, subsidiaries or subject to joint control) which control the Parent Company, even jointly, or which exercise significant influence over Banco BPM, are considered related parties. As a minimum, a situation of significant influence is deemed to exist when the shareholder holds an interest with voting rights exceeding 10% of the share capital of Banco BPM. Parties not belonging to the Group who hold an interest in other Group companies greater than 20% of the voting rights that may be exercised in the ordinary shareholders' meeting, or 10% if the company has shares listed in organised markets, are also considered to be related parties;
g) parties who themselves are in a position to appoint members of the Board of Directors by virtue of the articles of association or shareholders' agreements.

Financial and commercial transactions between subsidiaries and companies subject to significant influence and joint control

Financial and commercial transactions with related parties fall within the sphere of ordinary operations and have been conducted as arm's length transactions.

The tables below indicate the balance sheet and income statement transactions as at 30 June 2022 with the companies subject to significant influence, joint ventures, management with strategic responsibilities (which include audit bodies) and other related parties.

(thousands of euro)	Entities exercising significant influence (1)	Associated companies	Joint ventures	Executives with strategic responsibilities	Other related parties	Total	% of consolidated total
Financial assets held for trading	-	6,260	-	-	300	6,560	0.11%
Financial assets measured at fair value through other comprehensive income	-	8,430	-	-	-	8,430	0.08%
Loans to customers	-	2,851,116	-	8,830	87,612	2,947,558	2.71%
Other asset items	-	5,824	-	-	-	5,824	0.01%
Due to customers	-	536,580	-	12,652	70,317	619,549	0.56%
Debt securities in issue	-	-	-	196	2,063	2,259	0.02%
Financial liabilities held for trading	-	1,402	-	-	540	1,942	0.01%
Financial liabilities designated at fair value	-	-	-	19	-	19	0.00%
Other liability items	-	1,593	-	86	36	1,715	0.02%
Guarantees given and commitments	-	278,892	-	1,896	88,179	368,967	0.66%

(1) Authorised parties who possess a shareholding greater than 10% of the share capital.

(thousands of euro)	Entities exercising significant influence (1)	Associated companies	Joint ventures	Executives with strategic responsibilities	Other related parties	Total	% of consolidated total
Net interest income	-	8,947		26	1,194	10,167	0.99%
Net fee and commission income	-	306,427	-	4	434	306,865	32.05%
Administrative expenses/recoveries of expenses	-	758	-	(6,901)	(33)	(6,176)	0.45%
Other costs/revenues	-	(2,239)	-	-	-	(2,239)	0.87%

(1) Authorised parties who possess a shareholding greater than 10% of the share capital.

Other related party transactions

The table below discloses other transactions (supplies of goods and services and transactions on real estate) entered into with the related parties shown in the above table under "executives with strategic responsibilities" and "other related parties".

	Purchases and sales of goods and services	Rental income	Rental expense
a) Directors	-	-	-
b) Executives with strategic responsibilities	-	-	-
c) Close family members of the parties in letters a) and b)	-	-	-
d) Subsidiary, associated company or subject to significant influence by the parties in letters a) and b)	97	106	-

Other information

In regard to paragraph 8 of art. 5 "Disclosures to the public on related party transactions" of the CONSOB Regulation containing provisions for related party transactions (adopted by CONSOB with resolution no. 17221 of 12 March 2010 as amended), the following paragraphs illustrate the most important transactions conducted in the first half of 2022, as well as those that are less important yet particularly significant.

Issuing of certificates by Banco BPM for 2022, to be placed through the Parent Company and Banca Aletti Network. Renewal of the framework resolution for 2022, regarding the fee and commission flow relating to the outsourcing to Banca Akros of the structuring of the certificates issued by Banco BPM and the management, by Banca Akros, of the full hedging of the financial risks resulting from the issue of the certificates by Banco BPM.
Renewal of the framework resolution for 2022 regarding the fee and commission flow for issues and placements of certificates by Banco BPM through the Parent Company and Banca Aletti Network

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 1.1 billion for the January-December 2022 period (of which 1 billion distributed through the Network of Banco BPM and 100 million distributed through the network of Banca Aletti); (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, for 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%; (iii) to proceed with the placement, through the Parent Company and Banca Aletti Network, of the certificates issued by Banco BPM, recognising in favour of Banca Aletti, for the January-December 2022 period, for the placement activities, in the form of a framework resolution, a total amount of up to 1.7 million, set as a 1.75% commission.
Please note that for the January-June 2022 period, certificates were issued by Banco BPM for a total of 611.4 million, which generated for placement activities fees and commissions in favour of Banca Aletti equal to 23 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 9.0 million and by Banca Aletti for 0.4 million.

Framework resolution for the fee and commission flows in 2022 relating to the placement and management of Banca Aletti's asset portfolios by Banco BPM

The Board of Directors, in its meeting of 14 December 2021, approved, with reference to the placement of Banca Aletti's asset portfolios by Banco BPM with Banco BPM's retail customers, the payment for 2022, and specifically for the January-December 2022 period, of a maximum fee and commission flow to the Parent Company of 0.4 million. For the January-June 2022 period, Banca Aletti paid fees and commissions of 0.2 million to Banco BPM.

Renewal of the framework resolution for 2022 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 and Banca Akros

On 14 December 2021, the Board of Directors approved: (i) the renewal of the Framework Resolution for which Banco BPM estimates to pay for 2022, and specifically for the January-December 2022 period, a maximum fee and commission flow of 14 million in favour of Banca Akros 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 for which Banca Aletti estimates to pay for 2022, and specifically for the January-December 2022 period, a maximum fee and commission flow of 3.3 million in favour of Banca Akros 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-June 2022 period the fee and commission flow recognised by Banco BPM was 5.0 million, while that recognised by Banca Aletti S.p.A. amounted to 1 million.

Issue of Banca Akros Investment certificates to be placed on third-party networks and 2022 funds for the relative bond issues of Banco BPM, subscribed by Banca Akros and intended for the use of the ensuing liquidity

At its meeting on 27 January 2022, the Board of Directors approved funds for the issue by Banco BPM, during the year 2022, of bonds for a maximum of 200 million, which will be offered for subscription entirely to Banca Akros in order to be able to manage the liquidity ensuing from the placement of certificates. Please note that for the January-June 2022 period, bonds totalling 0.1 million were issued.

Initiatives as part of the Group's Covered Bank Bond ("CBB") issue programmes: proposal for (i) the sale of new portfolios of eligible assets as part of the BPM CBB1 and BPM CBB2 issue programmes; (ii) determination of annual funds with maturity on 31 December 2022 for the periodic repurchase of assets sold

At its meeting held on 1 March 2022, the Board of Directors approved: (i) the sale by Banco BPM to the entity BPM Covered Bond of the New BPM CBB1 Portfolio of eligible assets consisting of residential and commercial mortgages, in the amount of approximately 810 million; (ii) the sale by Banco BPM to the entity BPM Covered Bond 2 Srl of the New BPM CBB2 Portfolio of eligible assets consisting exclusively of residential mortgages in the amount of approximately 1.8 billion euro; (iii) the determination of annual funds up to a maximum of 100 million each with maturity on 31 December 2022 for each bond issue programme, in order to carry out, on the basis of the criteria established in the relative programmes, periodic repurchases of the loans sold to the entities BP Covered Bond, BPM Covered Bond and BPM Covered Bond 2; please note that for the January-June 2022 period the above-mentioned annual funds were used to the extent of 8.9 million, 10.2 million and 7.3 million, respectively.

Proposal to review the credit facilities granted to the company BPL Mortgages

At its meeting held on 29 March 2022, the Board of Directors approved the revision as at 31 March 2023 of the credit facilities granted to the company BPL Mortgages and in particular the granting (i) of new banking book lines for a total of 2.5 billion, with maximum maturity at 31 December 2064, for the purchase of new bonds issued as part of the structuring of a new securitisation called BPL 8 approved at the Board of Directors meeting of 14 December 2021, (ii) of a new subordinated loan of 75 million, with maximum maturity at 31 December 2064, in order to increase the cash reserve required by rating agencies to cover any liquidity shortfalls throughout the duration of the above-mentioned securitisation transaction.

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, 37th update of 24 November 2021, 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 guide their behaviour 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 2022 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 2022 Policy continues in the direction taken in previous years, further strengthens the correlation between the variable remuneration of management and staff and strategic actions relating to environmental issues, aspects regarding health and safety and human resource management, with regard to which an inclusive and gender neutral corporate culture is becoming increasingly important. Banco BPM's remuneration policy for staff is gender neutral.
In accordance with the 2022 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, consisting of indicators of capital adequacy and adequacy of liquidity and profitability. Following verification of the gateways, but prior to any disbursements, the amount of economic resources actually available is determined based on the income statement results achieved (financial adjustment factor) as well as qualitative indicators of a non-financial nature (non-financial adjustment factor). In both cases, conditions are included and monitored, in line with the Group Risk Appetite Framework.
The incentive for identified staff[1] established in the year 2022, is paid over a period of six or five years, and is divided into an *up-front* portion and five or four annual deferred portions, conditional to the fulfilment of future conditions.

The up-front portion, regardless of beneficiary, amounts to:

- 60% of the incentive awarded, in cases where the annual individual variable remuneration is less than 435 thousand euro;
- 40% of the incentive awarded, in cases where the annual individual variable remuneration is equal to or greater than 435 thousand euro.

The figure of 435 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].

[1] Parties whose professional activity has or may have a significant impact on the Group's risk profile.
[2] See Part One, Title IV, Chapter 2, Section III, Paragraph 2: "Particularly high variable remuneration amount means the lower of: i) 25 percent 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".

50% of the up-front portion of the incentive is awarded in Banco BPM ordinary shares.
The deferred portions consist of:

- five annual instalments of the same amount deferred in the five-year period following the year of vesting of the up-front portion, for 55% in Banco BPM ordinary shares, for the senior identified staff, regardless of the amount of the annual individual variable remuneration awarded, and for the heads of the main business lines of Banca Akros or Banca Aletti who report directly to the Chief Executive Officer or senior management of Banca Akros or Banca Aletti[1], in the event that the amount of the annual individual variable remuneration paid is equal to or greater than 435 thousand euro;
- four annual instalments of the same amount, deferred in the four-year period following the year of vesting of the up-front portion, for 50% in Banco BPM ordinary shares, for identified staff not included in the previous point.

As required by the Supervisory Provisions of the Bank of Italy, in cases where the annual individual variable remuneration is lower than or equal to the significance threshold of 50 thousand euro, and, at the same time, lower than or equal to one third of the total annual individual remuneration, the relative amount awarded is paid out in cash and in a lump sum.

To support the 2021-2024 Strategic Plan and align the interests of the management and shareholders, remunerating the Group's strategic resources based on medium-long term value creation, the Group has introduced the Long Term Incentive (LTI) plan relating to performance to be achieved in the 2022-2024 three-year period, which joins the 2021-2023 LTI plan launched in 2021, for which, without any additional expense, the objectives at 2023 have been made more challenging.
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, including the Chief Executive Officer and executives with strategic responsibilities of the Parent Company.
The incentive correlated with the LTI Plan (LTI incentive) is fully assigned in Banco BPM ordinary shares, is awarded at the end of the three-year performance period and is proportional to the level of achievement of the conditions and performance objectives.
For the 2021-2023 LTI incentive, the provisions in force at the time of its adoption are applied and the method of allocation envisaged in the 2021 Policy over six or four years remains confirmed, divided into an up-front share equal to 40% and five or three annual deferred portions, depending on the staff, subject to the successful fulfilment of future conditions. The 2022-2024 LTI incentive is paid in an up-front portion of 40% and in annual deferred portions of the same amount, in accordance with the provisions of the 2022 Short Term Incentive Plan, subject to the successful fulfilment of future conditions.

For both the Short Term Incentive and Long Term Incentive Plans, for vested shares (up-front and deferred), a one-year retention period (selling restriction) is established, which starts from the time of their vesting; the transfer of ownership to the beneficiary takes place at the end of this period.
Both the up-front portions and the deferred portions are subject to malus and claw-back mechanisms, as set forth in the Policy.

Aside from the Banco BPM S.p.A. Share-based compensation plans relating to the 2022 Short Term Incentive plan and the 2022-2024 Long Term Incentive plan and the raising of the achievement levels of the performance objectives of the 2021-2023 Long Term Incentive plan to the more challenging 2023 objectives of the Strategic Plan, the Ordinary Shareholders' Meeting of Banco BPM held on 7 April 2022 approved:

- the 2022 remuneration policy – Section I of the Policy-on-remuneration report and payouts awarded of Banco BPM Banking Group's staff – 2022;
- the report on payouts awarded - Section II of the Policy-on-remuneration report and payouts awarded of Banco BPM Banking Group's staff – 2022 (advisory vote);

[1] Senior identified staff refers to the members with executive profile of the Management Body of the Parent Company, Banca Akros and Banca Aletti (i.e. the Chief Executive Officer of the Parent Company, the Chief Executive Officer of Banca Akros, the Chief Executive Officer of Banca Aletti), the members of the senior management of the Parent Company, Banca Akros and Banca Aletti (i.e. the General Manager, where appointed, the Co-General Managers, the Chief Lending Officer, the Chief Financial Officer of the Parent Company, the General Manager, the Co-General Manager and the Deputy General Manager, where appointed, of Banca Akros and Banca Aletti), the heads of the main business lines of the Parent Company (i.e., the Sales Manager, the Corporate Manager, the Finance Manager).

- 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: 2022 Policy-on-remuneration report and payouts awarded of Banco BPM Banking Group's staff (Section I and Section II), the Information Document on the Banco BPM Share-based compensation plan - 2022 Short Term Incentive Plan, Information Document on the Banco BPM Share-based compensation plan - 2021-2022-2023 Long Term Incentive Plan and Information Document on the Banco BPM Share-based compensation plan - 2022-2023-2024 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 1 March 2022, the Banco BPM Board of Directors acknowledged the vesting in the year 2022 of the equity component of the deferred short and long-term incentives referring to the share-based compensation plans currently valid and approved on the basis of previous shareholders' resolutions.

In relation to the equity components attributable to years preceding the founding of the Banco BPM group, the number of ordinary shares of the former Banca Popolare di Milano awarded was converted into Banco BPM shares – by virtue of the merger with the former Banco Popolare - based on the value established for the share swap of 1 Banco BPM share for every 6.386 shares of the former Banca Popolare di Milano.

For more details on the procedures and the terms for the allocation of the shares under the above-illustrated Plans, please refer to the respective information documents drawn up in accordance with art. 84-*bis* of the Issuers' Regulations, deposited at the registered office, at Borsa Italiana S.p.A. and also available to the general public on Banco BPM S.p.A.'s website at www.gruppo.bancobpm.it (from 2017: Corporate Governance — Remuneration Policy section; for previous years: Corporate Governance — Shareholders' Meetings — Pre-Merger Shareholders' Meeting section).

1.3 Amounts for early termination of employment

In compliance with regulations in force over time, the Parent Company has the unilateral right to agree — subject to the conditions and in accordance with the methods defined in the Policy — possible amounts for the early termination of employment (for 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" as at 1 January 2022, entirely held by the Parent Company Banco BPM, consisted of 3,569,511 ordinary shares of Banco BPM.
During the first half of 2022 - in implementation of the remuneration policy - a total of 1,944,430 ordinary shares of Banco BPM S.p.A. were delivered to 94 beneficiaries.

1.1 Own share purchase programme to service the share allocation plans for Banco BPM Group's identified staff

Please recall that the Ordinary Shareholders' Meeting of Banco BPM S.p.A. of 15 April 2021 approved, inter alia, the request for the authorisation to purchase and dispose of own shares to service the share-based compensation plans and that - based on the authorisation issued by the European Central Bank in accordance with the applicable provisions of Regulation (EU) no. 575/2013 and Delegated Regulation (EU) no. 241/2014 - Banco BPM implemented its own share purchase programme to support all short- and long-term incentive plans in place, which make provision for deferred portions.

In particular, please note that, in accordance with the press releases distributed most recently on 24 February 2022, as part of the above share purchase programme, Banco BPM purchased a total of 4,582,640 own shares (equal to 0.30% of the ordinary shares outstanding) on the Euronext Milan Market during the period from 15 to 24 February 2022, inclusive, at an average unit price of 3.491437, for a total value of 16 million.

Following the above-mentioned transactions and taking into account the previous stock of own shares in addition to the share deliveries made during the first half of 2022 which took place as part of the implementation of the remuneration and incentive policies, as at 30 June 2022 Banco BPM directly owns 6,207,721 own shares.

2. Other information

With reference to the resolution passed by the Banco BPM Board of Directors on 1 March 2022 with regard to the share-based compensation plan approved by the Ordinary Shareholders' Meeting in 2021, a total of 1,345,934 shares were granted to 73 beneficiaries, of which (i) 736,732 relating to the vested up-front portion and (ii) 609,202 relating to the deferred portions, as appropriate, in the three or five years after 2022, the vesting 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 1,159,630 shares, of which 626,261 shares relating to the vested up-front portion and 533,369 shares relating to the deferred portions as indicated above.

The same resolution also determined the vesting of deferred portions relating to previous years (2016, 2017, 2018, 2019, 2020 and 2017-2019 LTI) for a total of 882,919 Banco BPM shares to 81 beneficiaries, of which 744,252 shares vested in favour of Banco BPM beneficiaries.

2.1 Economic impact in 2022

With regard to the share-based incentive systems for identified staff in the first half of 2022, the Group allocated 2.5 million, the most significant amounts are attributable to the 2021-2023 and 2022-2024 long-term plans for 2.0 million and 0.7 million, respectively, and the difference is due to the negative adjustment of the short-term plans of previous years.
It should be noted that the amount attributable to the Parent Company, for these Incentive Systems, is 2.3 million euro.

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 2022, 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 and the former Release, now incorporated into Banco BPM.

The following tables provide detailed income statement and balance sheet figures by segment as at 30 June 2022 compared with the first half of 2021 and 31 December 2021 respectively.

Segment results - income statement figures

I half 2022	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Net interest income	1,039,133	521,478	239,734	25,584	(2,140)	21,240	(1,489)	7,666	227,060
Gains (losses) on interests in associates and joint ventures carried at equity	91,114	-	-	-	-	-	90,079	-	1,035
Financial margin	**1,130,247**	**521,478**	**239,734**	**25,584**	**(2,140)**	**21,240**	**88,590**	**7,666**	**228,095**
Net fee and commission income	966,863	749,823	136,798	21,451	50,239	25,769	-	-	(17,217)
Other net operating income	31,693	2,959	27	3,441	2	388	-	(395)	25,271
Net financial result	176,796	(3,594)	(14,108)	(448)	(167)	3,786	-	-	191,327
Other operating income	**1,175,352**	**749,188**	**122,717**	**24,444**	**50,074**	**29,943**	**-**	**(395)**	**199,381**
Operating income	**2,305,599**	**1,270,666**	**362,451**	**50,028**	**47,934**	**51,183**	**88,590**	**7,271**	**427,476**
Personnel expenses	(813,204)	(524,745)	(38,748)	(6,944)	(27,998)	(15,039)	(980)	(2,613)	(196,137)
Other administrative expenses	(318,203)	(350,113)	(61,827)	(14,370)	(8,425)	(28,302)	(340)	(10,767)	155,941
Net value adjustments to property, plant and equipment and intangible assets	(125,297)	(45,634)	(2,078)	(370)	(1,768)	(186)	(18)	(263)	(74,980)
Operating expenses	**(1,256,704)**	**(920,492)**	**(102,653)**	**(21,684)**	**(38,191)**	**(43,527)**	**(1,338)**	**(13,643)**	**(115,176)**
Profit (loss) from operations	**1,048,895**	**350,174**	**259,798**	**28,344**	**9,743**	**7,656**	**87,252**	**(6,372)**	**312,300**
Net adjustments to loans to customers	(303,681)	(218,739)	(50,659)	(3,641)	452	107	-	(28,866)	(2,335)
Fair value gains (losses) on property, plant and equipment	(40,845)	-	-	-	-	-	-	-	(40,845)
Net adjustments to securities and other financial assets	(5,540)	-	-	-	-	(70)	-	-	(5,470)
Net provisions for risks and charges	(12,734)	(11,362)	(1,357)	(18)	107	(26)	-	-	(78)
Gains (losses) on interests in associates and joint ventures and other investments	1,466	-	-	-	-	-	-	(1)	1,467
Profit (loss) before tax from continuing operations	**687,561**	**120,073**	**207,782**	**24,685**	**10,302**	**7,667**	**87,252**	**(35,239)**	**265,039**
Taxation charge related to profit or loss from continuing operations	(231,019)	(42,364)	(69,122)	(8,053)	(3,457)	(2,458)	927	7,546	(114,038)
Profit (loss) after tax from continuing operations	**456,542**	**77,709**	**138,660**	**16,632**	**6,845**	**5,209**	**88,179**	**(27,693)**	**151,001**
Charges related to the banking system, net of taxes	(74,567)	(49,492)	(6,432)	(6,276)	(203)	(2,530)	-	-	(9,634)
Change in own credit risk on Certificates issued by the Group, net of taxes	25,654	-	-	-	-	-	-	-	25,654
Purchase Price Allocation net of taxes (*)	(15,663)	(12,181)	61	(14)	(1,235)	-	-	242	(2,536)
Profit (loss) for the period attributable to non-controlling interests	109	-	-	-	-	-	-	-	109
Parent Company's profit (loss) for the period	**383,943**	**16,036**	**132,289**	**10,342**	**5,407**	**2,679**	**88,179**	**(27,451)**	**156,462**

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

I half 2021	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Net interest income	1,019,196	526,202	239,019	23,563	(194)	26,079	(2,551)	11,628	195,450
Gains (losses) on interests in associates and joint ventures carried at equity	98,079	-	-	-	-	-	96,883	-	1,196
Financial margin	**1,117,275**	**526,202**	**239,019**	**23,563**	**(194)**	**26,079**	**94,332**	**11,628**	**196,646**
Net fee and commission income	950,074	751,782	109,912	19,430	49,837	25,596	-	(362)	(6,121)
Other net operating income	39,918	2,491	32	47	2	407	-	(10,211)	47,150
Net financial result	216,260	1,370	2,417	(108)	(149)	5,852	-	-	206,878
Other operating income	**1,206,252**	**755,643**	**112,361**	**19,369**	**49,690**	**31,855**	**-**	**(10,573)**	**247,907**
Operating income	**2,323,527**	**1,281,845**	**351,380**	**42,932**	**49,496**	**57,934**	**94,332**	**1,055**	**444,553**
Personnel expenses	(844,039)	(534,746)	(37,755)	(6,363)	(29,309)	(19,063)	(968)	(3,161)	(212,674)
Other administrative expenses	(308,033)	(378,374)	(60,057)	(14,991)	(8,692)	(30,350)	(255)	(13,071)	197,757
Net value adjustments to property, plant and equipment and intangible assets	(123,453)	(55,370)	(2,367)	(359)	(1,552)	(168)	(96)	(681)	(62,860)
Operating expenses	**(1,275,525)**	**(968,490)**	**(100,179)**	**(21,713)**	**(39,553)**	**(49,581)**	**(1,319)**	**(16,913)**	**(77,777)**
Profit (loss) from operations	**1,048,002**	**313,355**	**251,201**	**21,219**	**9,943**	**8,353**	**93,013**	**(15,858)**	**366,776**
Net adjustments to loans to customers	(472,578)	(252,157)	(202,517)	(6,587)	(604)	(4)	-	(3,216)	(7,493)
Fair value gains (losses) on property, plant and equipment	(36,889)	-	-	-	-	-	-	(17,421)	(19,468)
Net adjustments to securities and other financial assets	528	-	-	-	-	(10)	-	-	538
Net provisions for risks and charges	(12,805)	(5,338)	(3,609)	(130)	(134)	369	-	1,741	(5,704)
Gains (losses) on disposal of interests in associates and joint ventures and other investments	(437)	-	-	-	-	-	-	92	(529)
Profit (loss) before tax from continuing operations	**525,821**	**55,860**	**45,075**	**14,502**	**9,205**	**8,708**	**93,013**	**(34,662)**	**334,120**
Taxation charge related to profit or loss from continuing operations	(133,326)	(21,037)	(15,448)	(4,884)	(3,108)	(2,603)	1,272	6,867	(94,385)
Profit (loss) after tax from continuing operations	**392,495**	**34,823**	**29,627**	**9,618**	**6,097**	**6,105**	**94,285**	**(27,795)**	**239,735**
Charges related to the banking system, net of taxes	(78,553)	(39,769)	(4,729)	(4,551)	(176)	(3,813)	-	-	(25,515)
Impact of the realignment of tax values to book values	79,220	28,425	1,746	642	228	-	-	-	48,179
Change in own credit risk on Certificates issued by the Group, net of taxes	(11,920)	-	-	-	-	-	-	-	(11,920)
Purchase Price Allocation net of taxes (*)	(20,037)	(14,271)	89	(20)	(1,329)	-	-	376	(4,882)
Profit (loss) for the period attributable to non-controlling interests	112	-	-	-	-	-	-	-	112
Parent Company's profit (loss) for the period	**361,317**	**9,208**	**26,733**	**5,689**	**4,820**	**2,292**	**94,285**	**(27,419)**	**245,709**

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

The following tables provide details of the fee and commission income for the first half of 2022 and the corresponding period of the previous year, disaggregated by type of service provided and defined with an operating outlook, and by IFRS 8 operating segment, in line with the disclosure requirements introduced by IFRS 15.

I half 2022 Service type/Amounts	**Group**	**Retail**	**Corporate**	**Institutional**	**Private**	**Investment Banking**	**Strategic Partnerships**	**Leases**	**Corporate Centre**
Savings products	**374,867**	**322,556**	**629**	**2,873**	**51,426**	**-**	**-**	**-**	**(2,617)**
of which:									
Indirect upfront - Network	*129,785*	*125,192*	*78*	*713*	*3,802*	-	-	-	-
Administered	7,392	6,990	16	28	358	-	-	-	-
Portfolio management and funds	100,140	96,842	62	624	2,612	-	-	-	-
Life	22,253	21,360	-	61	832	-	-	-	-
Indirect running - Network	*241,854*	*197,364*	*551*	*2,160*	*47,624*	-	-	-	*(5,845)*
Administered	27,388	28,265	129	730	4,109	-	-	-	(5,845)
Portfolio management and funds	192,034	150,607	399	1,343	39,685	-	-	-	-
Life	22,432	18,492	23	87	3,830	-	-	-	-
Indirect non-Commercial Network	*3,228*						-	-	*3,228*
Investment Banking	**42,159**					42,159	**-**	**-**	-
Insurance protection	**26,779**	26,600	10	25	55	-	-	-	89
Other fees and commissions	**597,523**	**445,114**	**143,476**	**19,778**	**803**	**-**	**-**	**-**	**(11,648)**
Fee and commission income	**1,041,328**	**794,270**	**144,115**	**22,676**	**52,284**	**42,159**	**-**	**-**	**(14,176)**
Fee and commission expense	**(74,465)**	**(44,447)**	**(7,317)**	**(1,225)**	**(2,045)**	**(16,390)**	**-**	**-**	**(3,041)**
Net fee and commission income	**966,863**	**749,823**	**136,798**	**21,451**	**50,239**	**25,769**	**-**	**-**	**(17,217)**

I half 2021 Service type/Amounts	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Savings products	**405,842**	**349,178**	**535**	**2,741**	**51,018**	**-**	**-**	**-**	**2,370**
of which:									
Indirect upfront - Network	166,422	160,102	56	824	5,440	-	-	-	-
Administered	3,346	3,216	30	23	77	-	-	-	-
Portfolio management and funds	144,152	138,761	25	758	4,608	-	-	-	-
Life	18,924	18,125	1	43	755	-	-	-	-
Indirect running - Network	229,887	189,076	479	1,917	45,578	-	-	-	(7,163)
Administered	25,375	27,762	125	688	3,963	-	-	-	(7,163)
Portfolio management and funds	182,767	143,096	326	1,133	38,212	-	-	-	-
Life	21,745	18,218	28	96	3,403	-	-	-	-
Indirect non-Commercial Network	9,533	-	-	-	-	-	-	-	9,533
Investment Banking	**40,589**	**-**	**-**	**-**	**-**	**40,589**	**-**	**-**	**-**
Insurance protection	**27,056**	**26,884**	**11**	**29**	**38**	**-**	**-**	**-**	**94**
Other fees and commissions	**538,740**	**407,283**	**113,584**	**17,074**	**561**	**-**	**-**	**6**	**232**
Fee and commission income	**1,012,227**	**783,345**	**114,130**	**19,844**	**51,617**	**40,589**	**-**	**6**	**2,696**
Fee and commission expense	**(62,153)**	**(31,563)**	**(4,218)**	**(414)**	**(1,780)**	**(14,993)**	**-**	**(368)**	**(8,817)**
Net fee and commission income	**950,074**	**751,782**	**109,912**	**19,430**	**49,837**	**25,596**	**-**	**(362)**	**(6,120)**

The following tables provide the details of the item "Other fees and commissions" for the first half of 2022 and for the same period of the previous year, broken down by the type of service provided:

Other fees and commissions I half 2022	**Group**	**Retail**	**Corporate**	**Institutional**	**Private**	**Investment Banking**	**Strategic Partnerships**	**Leases**	**Corporate Centre**
Keeping and management of current accounts, Credit Availability Fee (CDC)	254,840	216,373	30,491	7,419	529	-	-	-	28
of which:									
Credit Availability Fee (CDC)	120,750	98,191	20,501	1,949	109	-	-	-	-
Keeping and management of current accounts	134,090	118,182	9,990	5,470	420	-	-	-	28
Commission on loans (including consumer credit) and unsecured loans Italy	124,594	45,708	76,651	3,270	62	-	-	-	(1,097)
of which:									
Commission on loans	72,590	9,415	63,772	2,182	3	-	-	-	(2,782)
Commission on unsecured loans	22,676	8,984	12,879	1,087	48	-	-	-	(322)
Consumer Credit	29,328	27,309	-	1	11	-	-	-	2,007
Abroad (including unsecured loans)	42,356	17,239	22,804	244	65	-	-	-	2,004
Collection and payment services, e-money	175,650	166,660	13,612	8,967	729	-	-	-	(14,318)
of which:									
Collection and payment services	89,559	72,427	10,223	6,013	368	-	-	-	528
E-money	86,091	94,233	3,389	2,954	361	-	-	-	(14,846)
Other services	83	(866)	(82)	(122)	(582)	-	-	-	1,735
of which:									
Commercial refunds	(2,247)	(1,213)	(260)	(123)	(582)	-	-	-	(69)
Other	2,330	347	178	1	-	-	-	-	1,804
Total other fees and commissions	**597,523**	**445,114**	**143,476**	**19,778**	**803**	**-**	**-**	**-**	**(11,648)**

Other fees and commissions I half 2021	Group	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Keeping and management of current accounts, Credit Availability Fee (CDC)	**252,773**	**220,150**	**26,274**	**5,725**	**538**	**-**	**-**	**-**	**86**
of which:									
Credit Availability Fee (CDC)	*125,778*	102,097	21,531	2,001	95	-	-	-	*54*
Keeping and management of current accounts	*126,994*	118,053	4,743	3,724	443	-	-	-	*31*
Commission on loans (including consumer credit) and unsecured loans Italy	**97,585**	**36,579**	**55,261**	**2,599**	**40**	**-**	**-**	**-**	**3,106**
of which:									
Commission on loans	*55,091*	*9,262*	*43,808*	*1,901*	*3*	-	-	-	*117*
Commission on unsecured loans	*20,099*	*8,505*	*11,453*	*696*	*28*	-	-	-	*(583)*
Consumer Credit	*22,395*	18,812	-	2	9	-	-	-	*3,572*
Abroad (including unsecured loans)	**37,862**	**15,038**	**20,239**	**229**	**101**	**-**	**-**	**-**	**2,255**
Collection and payment services, e-money	**152,505**	**137,065**	**12,250**	**8,607**	**607**	**-**	**-**	**-**	**(6,024)**
of which:									
Collection and payment services	*82,250*	*65,421*	*9,587*	*6,463*	*313*	-	-	-	*466*
E-money	*70,254*	*71,644*	*2,663*	*2,144*	*294*	-	-	-	*(6,491)*
Other services	**(1,985)**	**(1,549)**	**(440)**	**(86)**	**(725)**	**-**	**-**	**6**	**809**
of which:									
Commercial refunds	*(3,293)*	*(1,872)*	*(477)*	*(90)*	*(725)*	-	-	-	*(129)*
Other	*1,308*	*323*	*37*	*4*	-	-	-	*6*	*938*
Total other fees and commissions	**538,740**	**407,283**	**113,584**	**17,074**	**561**	**-**	**-**	**6**	**232**

Segment results - balance sheet figures

30/06/2022	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Loans to customers:	131,644,816	63,676,903	31,264,615	6,794,339	492,561	1,760,656	-	1,215,249	26,440,493
• loans to customers	108,660,736	63,676,903	31,120,253	6,668,663	492,561	1,760,656	-	1,215,249	3,726,451
• debt securities	22,984,080	-	144,362	125,676	-	-	-	-	22,714,042

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

30/06/2022	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Direct funding	123,906,715	82,093,623	10,265,325	12,189,616	3,046,468	1,534,129	-	-	14,777,554

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

30/06/2022	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Interests in associates and joint ventures	1,537,747	-	-	-	-	-	1,518,691	-	19,056

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

Note that most of the activities and operating income are achieved in Italy, confirming the deep roots throughout the country, considered to be the main area of action of the Group. The weight of activities and operating income achieved abroad is significantly lower than the threshold of 5%.

Certification of the consolidated condensed interim financial statements pursuant to art. 81-ter of Consob Regulation no. 11971 of 14 May 1999 and subsequent amendments and additions

CERTIFICATION OF THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AND ITS SUBSEQUENT AMENDMENTS AND SUPPLEMENTS

1. The undersigned, Giuseppe Castagna, as Chief Executive Officer of Banco BPM S.p.A. and Gianpietro Val, as Manager responsible for preparing the company's financial reports of Banco BPM S.p.A. hereby certify, also in consideration of the provisions of art. 154-bis, paragraphs 3 and 4, of Italian Legislative Decree no. 58 dated 24 February 1998:
   - the adequacy in relation to the characteristics of the company and
   - the effective application

   of the administrative and accounting procedures for the formation of the consolidated condensed interim financial statements in the first half of 2022.

2. The assessment of the adequacy and the verification of the effective application of the administrative and accounting procedures for the formation of the consolidated condensed interim financial statements as at 30 June 2022 were based on an internal model set in place by Banco BPM S.p.A., developed on the basis of the "Internal Control – Integrated Framework (COSO)" and, for the IT component, the "Control Objectives for IT and related Technology (COBIT)", which represent the standard for the internal audit system generally accepted at international level.

3. We also hereby certify that:

   3.1 the consolidated condensed interim financial statements as at 30 June 2022:
   a) were drawn up in compliance with the applicable international accounting standards recognised in the European Community as per EC Regulation no. 1606/2002 of the European Parliament and Commission, dated 19 July 2002;
   b) comply with the results of the accounting records and journal entries;
   c) are suitable for providing a true and fair view of the balance sheet, income statement and financial situation of the issuer and of all the companies included within the scope of consolidation.

   3.2 The interim report on operations includes a reliable analysis of the important events, which occurred during the first six months of the year, and their impact on the consolidated condensed interim financial statements, together with a description of the main risks and uncertainties for the remaining six months of the year. The interim report on operations also includes a reliable analysis of the information on significant transactions with related parties.

Milan, 3 August 2022

Signed by
Giuseppe Castagna
Chief Executive Officer

Signed by
Gianpietro Val
Manager responsible for preparing
the company's financial reports

Independent Auditors' Report

Review report on consolidated condensed interim financial statements

To the shareholders of
Banco BPM SpA

Foreword

We have reviewed the accompanying consolidated condensed interim financial statements of Banco BPM SpA and its subsidiaries (Banco BPM Group) as of 30 June 2022, comprising the balance sheet, income statement, statement of comprehensive income, statement of changes of shareholders' equity, cash flow statement and related explanatory notes. The directors of Banco BPM SpA are responsible for the preparation of the consolidated condensed interim financial statements in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these consolidated condensed interim financial statements based on our review.

Scope of review

We conducted our work in accordance with the criteria for a review recommended by Consob in Resolution No. 10867 of 31 July 1997. A review of consolidated condensed interim financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than a full-scope audit conducted in accordance with International Standards on Auditing (ISA Italia) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the consolidated condensed interim financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated condensed interim financial statements of Banco BPM Group as of 30 June 2022 are not prepared, in all material respects, in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Milan, 8 August 2022

PricewaterhouseCoopers SpA

Signed by

Pierfrancesco Anglani
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

Attachments

Reconciliation between the items in the consolidated income statement and the reclassified consolidated income statement schedule for the first half of 2022

I half 2022	Income statement	Reclassifications		Reclassified income statement
Net interest income				**1,039,133**
10. Interest and similar income	1,273,861	7,922	(a)	
20. Interest and similar expense	(242,650)			
Gains (losses) on interests in associates and joint ventures carried at equity				**91,114**
250. Gains (losses) of associates and joint ventures		91,114	(b)	
Financial margin				**1,130,247**
Net fee and commission income				**966,863**
40. Fee and commission income	1,032,060	9,268	(c)	
50. Fee and commission expense	(74,465)	-		
Other net operating income				**31,693**
230. Other operating expenses/income	173,011	(141,134)	(d)	
		(184)	(e)	
Net financial result				**176,796**
70. Dividends and similar income	36,259			
80. Net trading income	162,457	(9,268)	(c)	
		(38,324)	(f)	
90. Fair value gains/losses on hedging derivatives	(6,629)			
100. Gains (Losses) on disposal or repurchase	(84,168)	172,058	(g)	
110. Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss	(55,589)			
Other operating income				**1,175,352**
Operating income				**2,305,599**
Personnel expenses				**(813,204)**
190 a) Personnel expenses	(812,286)	(1,102)	(h)	
190 b) Other administrative expenses		184	(e)	
Other administrative expenses				**(318,203)**
190 b) Other administrative expenses	(570,916)	1,102	(h)	
		141,134	(d)	
		110,477	(i)	
Net value adjustments to property, plant and equipment and intangible assets				**(125,297)**
210. Depreciation and impairment losses on property, plant and equipment	(83,647)	-		
220. Amortisation and impairment losses on intangible assets	(57,126)	15,476	(a)	
230. Other operating expenses/income				
Operating expenses				**(1,256,704)**
Profit (loss) from operations				**1,048,895**
Net adjustments to loans to customers				**(303,681)**
130 a) Net credit impairment losses/recoveries relating to financial assets at amortised cost	(134,035)	233	(l)	
		914	(m)	
		2,184	(n)	
		(172,058)	(g)	
140. Gains (losses) from contractual modification without derecognition	(919)			
Fair value gains (losses) on property, plant and equipment				**(40,845)**
260. Fair value gains (losses) on property, plant and equipment and intangible assets	(40,845)			

I half 2022	Income statement	Reclassifications		Reclassified income statement
Net adjustments to securities and other financial assets				**(5,540)**
130 b) Net credit impairment losses/recoveries relating to financial assets measured at fair value through other comprehensive income	(2,209)	(233)	(l)	
		(914)	(m)	
		(2,184)	(n)	
Net provisions for risks and charges				**(12,734)**
200. Net provisions for risks and charges	(12,734)	-		
Gains (losses) on interests in associates and joint ventures and other investments				**1,466**
250. Gains (losses) of associates and joint ventures	91,114	(91,114)	(b)	
280. Gains (losses) on disposal of investments	1,466			
Profit (loss) before tax from continuing operations				**687,561**
Taxation charge related to profit or loss from continuing operations				**(231,019)**
300. Taxation charge related to profit or loss from continuing operations	(200,044)	(35,910)	(i)	
		(7,735)	(a)	
		12,670	(f)	
Profit (loss) after tax from continuing operations		**64,576**		**456,542**
Charges related to the banking system, net of taxes		(74,567)	(i)	**(74,567)**
Goodwill impairment				**(8,132)**
270. Value adjustments to goodwill	(8,132)			
Change in own credit risk on Certificates issued by the Group, net of taxes		25,654	(f)	**25,654**
Purchase Price Allocation net of taxes		(15,663)	(a)	**(15,663)**
Profit (loss) for the period attributable to non-controlling interests				**109**
340. Profit (loss) for the period attributable to non-controlling interests	109			
Parent Company's profit (loss) for the period	**383,943**	**-**		**383,943**

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 7.9 million (a), classified within the reclassified income statement item "Purchase Price Allocation net of taxes";
- the item **"Gains (losses) on interests in associates and joint ventures carried at equity"** shows the portion of profits (losses) pertaining to investee companies carried at equity (included in item 250) totalling 91.1 million (b), and together with the net interest income, the aggregate is 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 (9.3 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 141.1 million (d), which for the purpose of the reclassification, are shown net of "Other administrative expenses", and of the recovery of training costs of 0.2 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 9.3 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 38.3 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 172.1 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 1.1 million (h), recognised in the financial statements under item 190 b) "Other administrative expenses" and by the recovery of training costs of 0.2 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 141.1 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 1.1 million (h). "Banking industry" charges totalling 110.5 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 15.5 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 134.0 million), the negative result of disposals of loans, amounting to 172.1 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 2.2 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 1.1 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 1.1 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 2.2 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 91.1 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 35.9 million (i), the PPA of 7.7 million (a) and the impact of the change in credit risk on Certificates issued of 12.7 million (f);
- the item **"Charges related to the banking system, net of taxes"** includes charges for a total of 110.5 million (i) recognised in the accounts in item 190 b) of the official income statement, net of the related tax effect, amounting to 35.9 million (i);
- the item "**Goodwill impairment**" corresponds to item 270 of the official income statement;
- the item "**Change in own credit risk on Certificates issued by the Group, net of taxes**" shows the economic impact of a change in own credit risk related to the issue of Certificates, recognised in the accounts in item 80 of the official income statement for 38.3 million (f), net of the related tax effect, amounting to -12.7 million (f);
- lastly, the item "**Purchase Price Allocation net of taxes**" includes the effects of the PPA relating to loans, amounting to -7.9 million (a) and the client relationship, amounting to -15.5 million (a), net of the relative tax effects, amounting to 7.7 million (a).

Reconciliation between the items in the consolidated balance sheet and the reclassified consolidated balance sheet as at 30 June 2022

Asset items ***(thousands of euro)***		**30/06/2022**
10.	Cash and cash equivalents	33,109,414
	Cash and cash equivalents	**33,109,414**
40. a)	Financial assets at amortised cost: loans to banks	10,778,617
	minus: debt securities due to banks at amortised cost	(1,047,047)
	Loans at AC: loans to banks	**9,731,570**
40. b)	Financial assets at amortised cost: loans to customers	131,644,816
	plus: senior securities from sales of non-performing loans	2,147,628
	minus: debt securities due to customers at amortised cost	(22,984,080)
	Loans at AC: loans to customers	**110,808,364**
20.	Financial assets at fair value through profit and loss	7,474,032
50.	Hedging derivatives	1,011,804
	Financial assets and hedging derivatives at FV through Profit and Loss	**8,485,836**
30.	Financial assets measured at fair value through other comprehensive income	10,594,239
	Financial assets at FV through OCI	**10,594,239**
	plus: debt securities due to banks and customers at amortised cost	24,031,127
	minus: senior securities from sales of non-performing loans	(2,147,628)
	Financial assets at AC	**21,883,499**
70.	Interests in associates and joint ventures	1,537,747
	Interests in associates and joint ventures	**1,537,747**
90.	Property, plant and equipment	3,192,497
	Property, plant and equipment	**3,192,497**
100.	Intangible assets	1,202,985
	Intangible assets	**1,202,985**
110.	Tax assets	4,581,900
	Tax assets	**4,581,900**
120.	Non-current assets and disposal groups held for sale	102,802
	Non-current assets and disposal groups held for sale	**102,802**
60.	Fair value change of financial assets in macro fair value hedge portfolios (+/-)	(262,165)
130.	Other assets	3,693,314
	Other asset items	**3,431,149**
	Total assets	**208,662,002**

Liability items *(thousands of euro)*		30/06/2022
10. b)	Financial liabilities at amortised cost: due to customers	111,377,387
	minus: lease payables due to customers	(672,292)
10. c)	Financial liabilities at amortised cost: debt securities in issue	13,190,778
30.	Financial liabilities designated at fair value	1,774,417
	minus: protected capital certificates	(1,763,575)
	Direct funding	**123,906,715**
10. a)	Financial liabilities at amortised cost: due to banks	46,230,401
	minus: lease payables due to banks	(6,760)
	Due to banks	**46,223,641**
	plus: lease payables due to banks	6,760
	plus: lease payables due to customers	672,292
	Lease payables	**679,052**
20.	Financial liabilities held for trading	14,874,526
	plus: protected capital certificates	1,763,575
40.	Hedging derivatives	610,185
	Other financial liabilities designated at fair value	**17,248,286**
90.	Provisions for employee severance pay	273,540
100.	Provisions for risks and charges	747,840
	Liability provisions	**1,021,380**
60.	Tax liabilities	287,370
	Tax liabilities	**287,370**
50.	Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	(754,167)
80.	Other liabilities	7,239,994
	Other liability items	**6,485,827**
	Total liabilities	**195,852,271**
190.	Non-controlling interests (+/-)	1,402
	Non-controlling interests	**1,402**
120.	Valuation reserves	(301,301)
140.	Equity instruments	1,390,153
150.	Reserves	4,253,943
170.	Share capital	7,100,000
180.	Own shares (-)	(18,409)
200.	Profit (loss) for the period (+/-)	383,943
	Group shareholders' equity	**12,808,329**
	Total liabilities and shareholders' equity	**208,662,002**

Address
Banco BPM S.p.A.
Piazza F. Meda, 4 - 20121 Milano - Italia
Piazza Nogara, 2 - 37121 Verona - Italia

Investor Relations
tel. +39-02.77002057 | +39-045.8675537
investor.relations@bancobpm.it
www.bancobpm.it
www.gruppo.bancobpm.it

Layout
Galli Thierry stampa s.r.l.