BANCO BPM

Consolidated interim financial report

as at 30 June 2023

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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 2023: € 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 2023

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Deputy Chairman	Maurizio Comoli
Chief Executive Officer	Giuseppe Castagna
Directors	Mario Anolli
	Paolo Boccardelli
	Paolo Bordogna
	Nadine Farida Faruque
	Paola Ferretti
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	Manuela Soffientini
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Chairman	Marcello Priori
Standing Auditors	Elbano de Nuccio
	Maurizio Lauri
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Alternate Auditors	Sara Antonelli
	Marina Scandurra
	Mario Tagliaferri
	General Management
Co-General Manager	Domenico De Angelis
Co-General Manager	Edoardo Maria Ginevra
	Manager responsible for preparing the Company’s financial reports
	Gianpietro Val
	Independent Auditors
	PricewaterhouseCoopers S.p.A.

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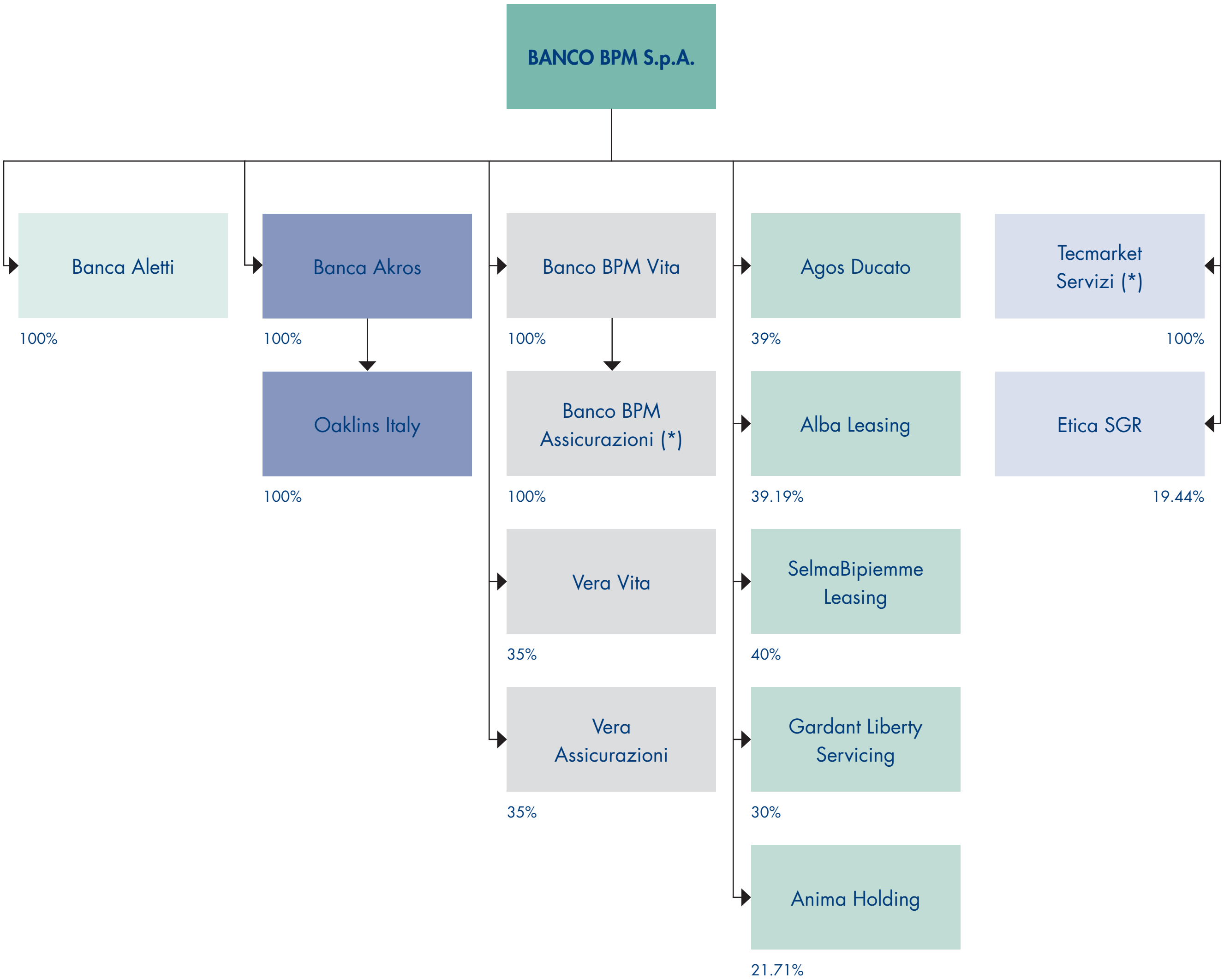
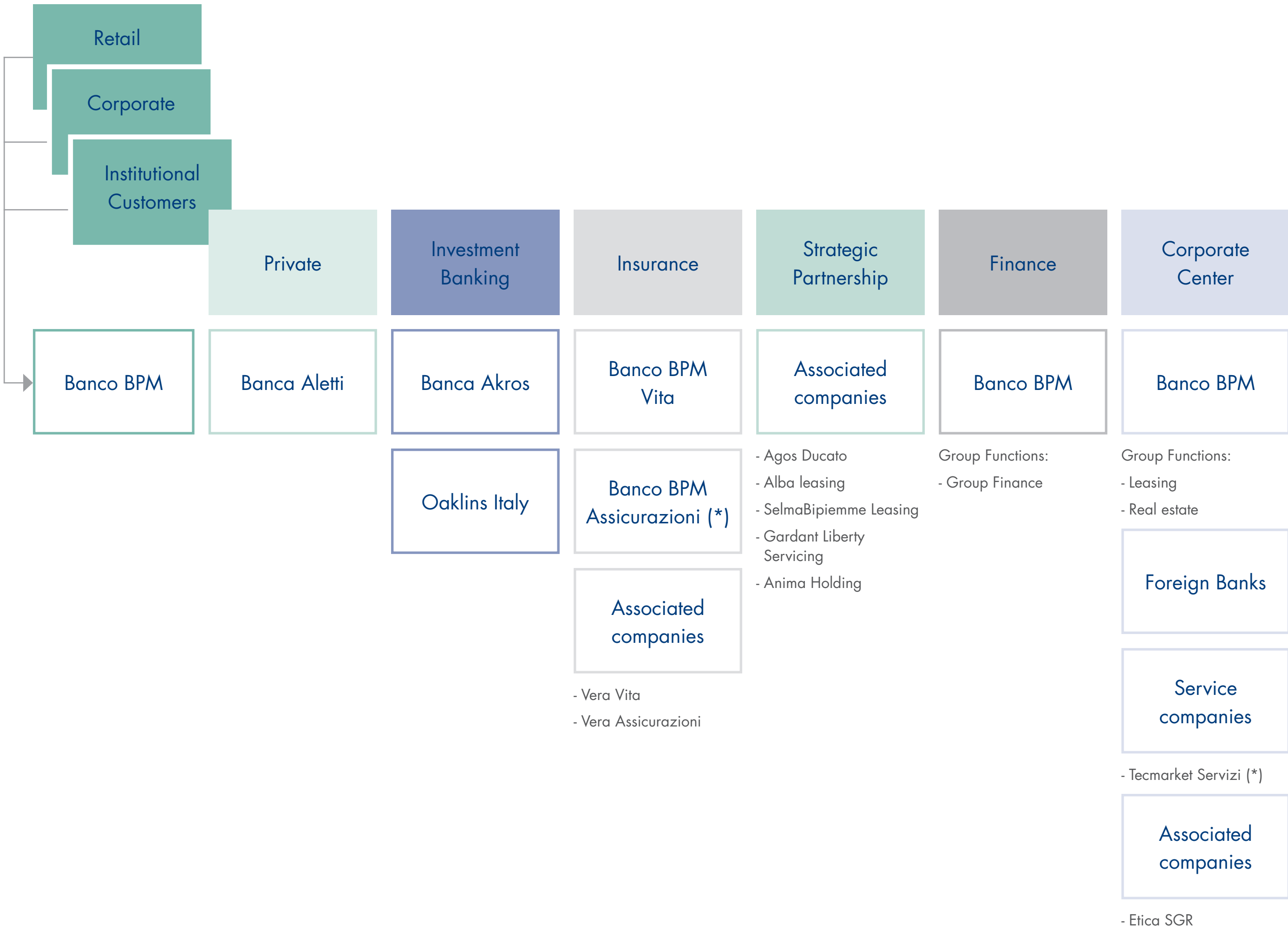


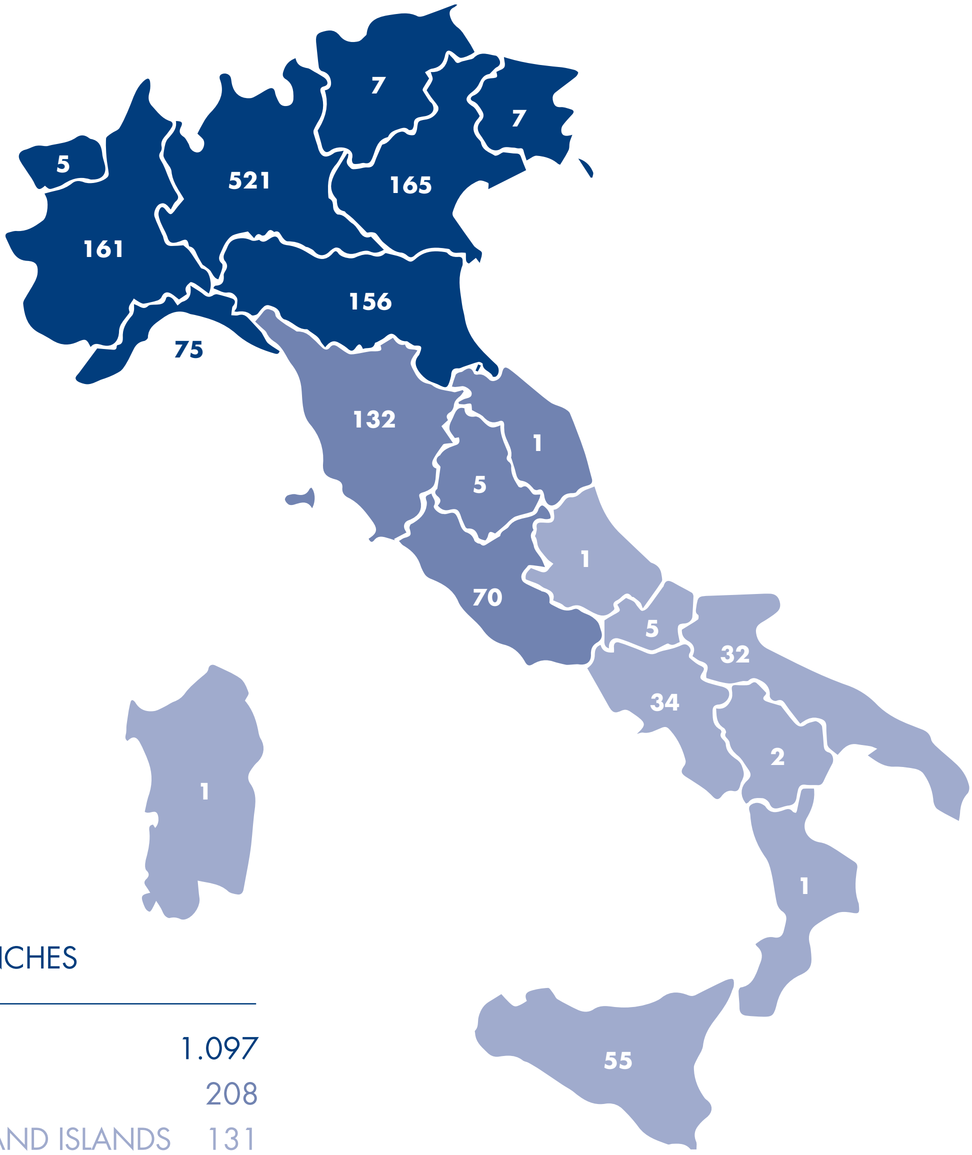
(*) Company held for sale pursuant to IFRS 5.

GROUP STRUCTURE: BUSINESS LINES



(*) Company held for sale pursuant to IFRS 5.

GROUP TERRITORIAL NETWORK



N° BRANCHES

NORTH	1.097
CENTRE	208
SOUTH AND ISLANDS	131
TOTAL	1.436

Banco BPM Group Branches in Italy	Number
Banco BPM	1,382
Banca Aletti	53
Banca Akros	1
Total	**1,436**

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 financial 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.
When using the aforementioned measures, 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 are taken into consideration.
In this regard, it should also be noted that for each APM, evidence of the calculation method has been provided and, unless otherwise specified, the figures used can be inferred from the information contained in the following tables and/or in the reclassified financial statements provided in the "Results" section of this Report.
These statements were prepared on the basis of the financial statements set forth in Bank of Italy Circular no. 262/2005 and subsequent updates, following the same aggregation and reclassification criteria adopted in the previous year, with the additions needed to reflect the application of IFRS 17 Insurance contracts.

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

(millions of euro)	**I half 2023**	**I half 2022 (*)**	**% Change**
Income statement figures			
Financial margin	1,613.5	1,097.3	47.0%
Net fee and commission income	948.2	966.9	(1.9%)
Operating income	2,577.2	2,272.7	13.4%
Operating expenses	(1,274.7)	(1,256.7)	1.4%
Profit (loss) from operations	1,302.5	1,015.9	28.2%
Profit (loss) before tax from continuing operations	1,015.6	654.6	55.2%
Profit (loss) after tax from continuing operations	698.5	423.6	64.9%
Parent Company's profit (loss) for the period	624.4	351.0	77.9%

(*) The figures relating to the previous period have been restated following the retrospective application of IFRS 17 by the Group's insurance companies, as well as IFRS 9 for associates.

(millions of euro)	**30/06/2023**	**31/12/2022 Restated (*)**	**% Change**
Balance sheet figures			
Total assets	198,490.1	189,808.1	4.6%
Loans to customers (net)	108,157.8	109,455.0	(1.2%)
Financial assets and hedging derivatives	44,112.4	43,093.5	2.4%
Group shareholders' equity	13,387.6	13,015.8	2.9%
Customers' financial assets			
Direct bank funding	121,154.8	120,639.1	0.4%
Direct funding without repurchase agreements with certificates	*124,704.6*	*123,449.5*	*1.0%*
Indirect funding	104,027.2	95,029.1	9.5%
Indirect funding without protected capital certificates	*99,642.7*	*91,327.8*	*9.1%*
- Asset management	60,463.8	59,408.7	1.8%
- Mutual funds and SICAVs	40,973.6	39,916.6	2.6%
- Securities and fund management	4,130.1	3,969.4	4.0%
- Insurance policies	15,360.1	15,522.7	(1.0%)
- Administered assets	43,563.5	35,620.4	22.3%
- Administered assets without protected capital certificates	*39,178.9*	*31,919.1*	*22.7%*

(*) The figures relating to the previous year have been restated following the retrospective application of IFRS 17 by the Group's insurance companies, as well as IFRS 9 for associates.

	30/06/2023	**31/12/2022**	**Absolute change**
Information on the organisation			
Average number of employees and other staff (*)	19,096	19,278	(182)
Number of bank branches	1,436	1,504	(68)

(*) 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

	30/06/2023	31/12/2022 Restated (*)
Profitability ratios (%)		
Financial margin / Operating income	62.61%	52.43%
Net fee and commission income / Operating income	36.79%	40.66%
Operating expenses / Operating income	49.46%	54.14%
Operational productivity figures (thousands of euro)		
Loans to customers (net) per employee (1)	5,663.8	5,677.6
Annualised operating income per employee (euro) (1) (**)	269.9	242.4
Annualised operating expenses per employee (euro) (1) (**)	133.5	131.3
Credit risk ratios (%)		
Net bad loans / Loans to customers (net)	0.66%	0.66%
Net unlikely to pay / Loans to customers (net)	1.22%	1.44%
Net bad loans / Shareholders' equity	5.31%	5.54%
Texas ratio (2)	17.02%	19.82%
Other ratios		
Financial assets and hedging derivatives / Total assets	22.22%	22.70%
Total derivatives / Total assets	1.82%	2.34%
- trading derivatives / total assets	1.16%	1.44%
- hedging derivatives / total assets	0.66%	0.90%
Net trading derivatives (3) / Total assets	0.07%	0.03%
Loan to deposit ratio (net loans/direct funding)	89.27%	90.73%
Regulatory capitalisation and liquidity ratios		
Common equity tier 1 ratio (CET1 capital ratio) (4)	14.25%	12.84%
Tier 1 capital ratio (4)	16.61%	15.16%
Total capital ratio (4)	19.51%	18.04%
Liquidity Coverage Ratio (LCR)	179%	191%
Leverage ratio	4.85%	4.75%
Banco BPM stock		
Number of outstanding shares	1,515,182,126	1,515,182,126
Official closing prices of the stock		
- Final	4.250	3.334
- Maximum	4.295	3.630
- Minimum	3.403	2.268
- Average	3.878	2.877

(*) The figures relating to the previous year have been restated following the retrospective application of IFRS 17 by the Group's insurance companies, as well as IFRS 9 for associates.

(**) 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 2023 were calculated by including the interim profit at the end of the first half of 2023 net of the portion that is expected to be distributed as a dividend based on the specific applicable legislation. The capital ratios as at 31 December 2022 were restated with respect to those published in the 2022 Annual Financial Report following the retrospective application of IFRS 17 by the Group subsidiary and associated insurance companies, and IFRS 9 for associates, as well as to reflect the different classification for prudential reasons of a complex transaction for the restructuring of non-performing credit exposures as described in the section of this report on credit quality.

Interim report on operations

ECONOMIC SCENARIO

The international scenario

In the first half of 2023, global economic growth slowed appreciably compared to the average growth rate of 2022, although it did exceed the initial, more pessimistic expectations. High inflation, rising interest rates, a reduction in productive investments in a range of Western economies and the obstacles that the Russian invasion of Ukraine continues to pose, represent the main impediment on its path of growth. In particular, in the United States and the Eurozone, the resoluteness of monetary policies is gradually being transmitted to the real economy, causing tighter lending conditions. Furthermore, the prospects for a more robust global economic recovery in the first half of the year weakened due to the factors mentioned above and growing uncertainty, as well as the increasingly severe impact of climate change and structural macroeconomic challenges, which remain largely unresolved. Specifically, global GDP growth is expected to reach 2.1% in 2023 (World Bank), the lowest annual rate since the Great Financial Crisis of 2008/09, except for the pandemic period. This figure is also underpinned by an uneven distribution between advanced economies (+0.7%) and emerging and newly industrialised economies (+4.0%), which once again this year will drive global development.
In detail, overall the US economy maintained a good pace of development in the half-year - albeit full of mixed signals - also thanks to the residual savings accumulated during the pandemic period, which supported consumption, and the tax measures adopted at the end of 2022 (for 1.7 trillion USD). In the first quarter, growth stood at an annualised +2.0% (down from 2.6% in the final quarter of 2022), exceeding analyst expectations. The main contributors to this result were: personal consumption expenditure, annualised +4.2% (+1.0% in the final quarter of 2022) and robust public spending, +5.0%, despite the tense debates on the US public debt ceiling that took place throughout the half-year. On the other hand, the decline in gross private investments (-11.9%) made a negative contribution, although investments in operating properties (+15.8%) bucked this trend. In particular, businesses reduced their spending on plant and equipment during the period by -8.9%. Overall, economic activity recorded an excellent trend in the second quarter: GDP increased at an annualised rate of 2.4% (preliminary estimate) in real terms. The growth in GDP reflected the increase in consumption (annualised +1.6%), non-residential fixed investments (+7.7%), state and local government spending (+3.6%), investments in private stocks and federal government spending (+0.9%), which were partially offset by the decrease in exports (-10.8%) and residential fixed investments (-4.2%). Lastly, imports decreased (-7.8%). The labour market remains tense, although elements of restructuring are emerging: in June, non-farm employees (Non-Farm Payrolls) grew by 209 thousand units, while the growth in average hourly wages is at +0.4% on a quarterly basis (from +0.3% in May, but from +0.5% in April) and +4.4% yoy (same level as April). Inflation in June remains above the FED target: the "core" CPI component is very sticky, at +4.8% yoy, but headline inflation (overall) has started to decline, +3.0% yoy (+6.5% in December 2022), the lowest rate of the last two years. Finally, trade tensions with China in the technology sector were exacerbated during the period.
In China, the lifting of Zero-Covid restrictions freed up repressed demand for services in the first two quarters of 2023 and put an end to supply chain disruptions, boosting revenues in the sectors hardest hit by the lockdowns, such as food service, tourism and entertainment. On the contrary, the consumption of goods, which continued even during the lockdowns, remained weak. Specifically, GDP rose sharply in the first quarter: +4.5% yoy during the period (+2.2% QoQ), marking the highest growth since the first quarter of last year. Retail sales increased by 10.6% in March with the contribution of online sales of physical goods. Industrial production increased by 3.9%. In the second quarter, the momentum of GDP growth reached 6.3% yoy, against expectations of +7.3%. The difficult conditions of the Chinese real estate market continued to hold back growth during the period: real estate investments decreased by 7.9% in the first six months of 2023. In June, home prices remained stable on a monthly basis (+0.1% in May). The non-manufacturing purchasing managers index fell to 53.2 in June from 54.5 in May; the services sub-index fell to a six-month low of 52.8 in June. Lastly, exports, reflecting weak global demand, decreased by -12.4% yoy in June. Consumption remains held back by relatively high unemployment rates, especially among young people, with the majority of university graduates having difficulties finding a job. For 2023, the government has set a growth target of around 5% (5.5% in 2022). Consumer price inflation reached its low of the last 18 months: consumer prices unchanged in June (against +0.2% in May), maintaining a weak tone despite the recovery in domestic demand.
For the Japanese economy, growth in the first half of the year was essentially driven by domestic demand. In detail, for the first quarter, real GDP grew by 0.4% on a quarterly basis (annualised quarterly +2.7%), thanks to an increase in domestic demand, annualised quarterly +1.2% (private component at +1.0%). Non-residential private

investments, or capital expenditure, increased by 1.4%, higher than the government's initial estimates (+0.9%). The less lively tone of the global economy, on the other hand, slowed down the growth in foreign demand: exports of goods and services -4.2% and imports -2.3% thanks to the downturn in raw material prices. Encouraging signs emerged in the second quarter. Manufacturing activity grew in a more defined manner: the Manufacturing PMI stood at 50.6 in May, after 6 months of results around the threshold of 50.

With regard to some of the main emerging or industrialising economies, at the start of the year India recorded an acceleration in GDP growth, +2.0% QoQ (+6.1% yoy) in the first quarter, compared to the end of 2022, also benefiting from its geopolitical role, which tends to be neutral, making it an appealing country ("Friendshoring") for the establishment of new western industrial plants looking to work in the East. In June inflation reached 4.8%, down compared to +5.7% at the start of the year (January), a figure consistent with the expectation of a slowdown in prices to +5.0% for the entire year 2023 (+10.6% in 2022). On the other hand, Brazil recorded stabilisation of growth: the rebound of +1.9% in GDP in the first quarter of 2023 indeed reflects the strong contraction in imports.

Global trade remains under pressure due to geopolitical tensions, weakening global demand and tighter monetary policies. The volume of global trade in goods and services is expected to grow by 1.7% in 2023 (World Bank), well below the pre-pandemic trend. Global inflation recorded a reduction in pressures on the prices of raw materials, especially energy. This slowed down the growth of consumer prices in most economies, although food and service prices continued to rise rapidly. Core inflation therefore remains stubbornly high in many cases.

The economy in Europe and Italy

In the first half of the year, the Eurozone economy was influenced by opposing economic factors: on one hand, the Area managed to get through the winter avoiding both energy shortages and the serious recession feared by many, indeed receiving a boost to growth - obviously relative - from the drop in gas prices, which provided partial relief to consumers; on the other hand, inflation, which negatively affected growth due to the lower real disposable incomes of European households. In detail, the first quarter recorded a marginally negative change in GDP, -0.1% quarterly, for the second consecutive quarter (+1.0% yoy). The relative weakness of domestic demand was partially offset by the positive contribution, +0.7%, of the foreign component - in contrast to the global context - resulting from nearly stable exports and a significant drop in imports (on which the energy trade balance had an impact to a significant extent). Private consumption fell by -0.3% QoQ (+0.8% yoy), public spending declined by -1.6% (-0.9%), while gross private investments grew by +0.6% (+1.9%). However, the individual member states recorded contrasting trends: the Area's negative result is in fact mainly reflected in the recession in Germany (-0.3% QoQ in the first quarter of 2023), while Spain, France and Italy saw an expansion, stimulated above all by construction and services.

In the second quarter, economic activity marked an improvement: the Eurozone GDP (preliminary estimate) increased by +0.3% quarter on quarter and by +0.6% yoy. The figure is better than expected and was favoured, in particular, by very strong growth in Ireland. However, the differences between the countries are considerable: the German and Italian economies continued to suffer. Two countries that have manufacturing sectors that are larger than the average of Area partners, while the demand for goods remains on the decline. However, Germany recorded flat economic growth in GDP after two quarters of negative growth. On the contrary, France and Spain continued to record good results: French GDP accelerated from +0.1% in the first quarter to +0.5% in the second. Spain saw growth decelerate from +0.5% to +0.4%. The change in Eurozone GDP in the second quarter is compatible with annual growth of +0.7% for the whole of 2023. The labour market continued to prosper, stabilising consumer spending: the unemployment rate was confirmed at 6.5% in May (from 6.6% in December 2022). Although the wage trend is strengthening and in some countries the trade union requests for increases in the contract renewal phase are substantial, in the area as a whole, the risks of a wages-prices-wages upward spiral remain limited. Inflation, although still high, showed a gradual and significant slowdown: in July it fell for the seventh consecutive month (except for the increase of one decimal point in April) to 5.3% (9.2% in December 2022), reflecting the sharp slowdown in energy prices. The core component continued to grow until March (5.7%), supported by the acceleration in the prices of services, and then began to decline slowly to 5.5% in July.

In terms of fiscal policies to support growth, in the first quarter of the current year the European Commission, as part of the Recovery and Resilience Facility, distributed funds of approximately 15 billion (13 in grants and 2 in loans), bringing disbursements to over 150 billion since the start of the programme. The total resources raised to support Next Generation EU (NGEU) exceeded 360 billion. In particular, since the beginning of the year, the Commission has raised around 100 billion on the capital market. In February, the European plan to reduce energy dependence on Russia and accelerate the green transition (REPowerEU) obtained final approval from the EU Council. Lastly, in May, the Commission confirmed that the general safeguard clause of the Stability and Growth Pact will be deactivated at the end of 2023, providing specific recommendations in terms of limiting net primary expenditure.

The average deficit/GDP ratio in the Eurozone was 4.7% at the end of 2022 - the latest available figure - while the debt/GDP ratio had fallen to 91.6% (93% at the end of the third quarter of 2022). The European Commission estimates a Deficit/GDP ratio of -3.2% and a Debt/GDP ratio of 90.8% for the whole of 2023 (from 93.1% in 2022).

At the beginning of the year, expectations regarding the Italian economy were mainly based on the assumption that a recession would be avoided. The extent of the GDP expansion in the first few months therefore surprised most observers. Despite the drop in international demand and the removal of some fiscal and high energy cost mitigation measures, in the first quarter the Italian economy in fact grew by +0.6% on a quarterly basis (+1.9% yoy), with acquired growth for 2023 of +0.9%. GDP progress was entirely supported by domestic demand, net of inventories, which made a positive contribution (+0.7%), while net foreign demand made a marginally negative contribution (-0.1%), as did stocks (-0.1%). The most dynamic component was public administration consumption expenditure (+1.2%), followed by gross fixed investments (+0.8%) and spending by resident households and ISPs (+0.5%). The latter grew despite the significant erosion of real available incomes, thanks to the good employment trend and the use of the remaining "forced savings" accumulated during the pandemic.

In the second quarter, GDP instead recorded a decline of -0.3% QoQ, a discontinuity on a quarterly basis which, however, is offset by a positive trend of +0.6% yoy, which represents the tenth consecutive figure of growth on an annual basis. The result is attributable to a decline in both the primary and industrial sectors, against moderate growth in the service sector. The decrease is linked in particular to the negative change in domestic demand gross of inventories, while net foreign demand provided a nil contribution. In terms of the acquired change, for 2023 growth stood at +0.8% in the second quarter, down slightly compared to the value of the first quarter, which was +0.9%. Estimates for the whole of 2023 are growth of +1.1% on an annual basis. Lastly, the energy deficit is expected to decline sharply for the current year.

In the meantime, the number of employees continued to expand, exceeding pre-pandemic values: the employment rate stood at 61.2% in May (aged 15 to 64) from 60.5% in December 2022. Wage growth, which intensified as a result of the payment of substantial back pay due to delays in renewals in the public sector, is expected to characterise the whole of 2023, albeit remaining lower than the increase in prices. Inflation in July stood at 6.0% (11.6% in December 2022) and is estimated at 6.0% on average for the year, mainly reflecting the direct and indirect effects of the drop in energy commodity prices. Core inflation in July slowed further to 5.2% (from 5.8% in December 2022) and is expected to average 4.5% for the current year.

After the renewal with amendments of some economic support measures (including the 90% Facade Bonus) at the turn of the year, in the second quarter the Government approved three further decrees containing mitigation measures, to combat high energy costs and the incidence of inflation on real disposable income: the measures relating to gas (reduced rate, zero system charges) and the supplementary social bonus on gas and electricity were extended until the 3rd quarter. In May, the reduction of the tax wedge paid by workers was also increased and the increase in the threshold for fringe benefits (to 3 thousand) and vouchers (to 15 thousand) was confirmed. The NRRP was also updated, which had some implementation delays during the half-year, to include a chapter relating to projects linked to REPowerEU: the new version will be presented to the European Commission by the end of August. The set of approved measures increased the funding requirement and net debt by 3.4 billion in the current year. However, they remain in line with the budget deviation launched by Parliament in April and are consistent with a decrease in net debt during the year. The Commission expects a deficit of 4.5% of GDP for Italy, in line with the 2023 Economic and Financial Document; the Debt/GDP ratio is expected to reach 140% (from 144.4% in 2022).

Monetary policy and the financial markets

The global economic scenario is still burdened by factors of uncertainty, which affect the volatility of commodity prices and are slowing down production activities and international trade. In this context, the major Western economies maintained a restrictive monetary policy stance during the half-year. In the meantime, headline inflation has embarked upon a downward trend that has led it to fall significantly compared to the highs reached in the Eurozone and the USA, by virtue of the drop in energy prices. The central banks are still concerned by the stickiness of the core consumer price component and wage trends, particularly in the United States. At the end of the first quarter, the situation was complicated by the failures and subsequent bailouts of some US regional banks, followed by the Credit Suisse crisis in Europe, which led to fears of a further tightening of credit conditions. Central banks were therefore called upon to precisely modulate further restrictive interventions, to avoid letting their guard down in the fight against inflation, without depressing demand beyond what is necessary.

In the USA, after the three consecutive hikes of 75 basis points applied in 2022, in 2023 the Fed continued to increase the reference rates, albeit at a slower pace, by 25 basis points during the FOMC meetings in March and May. At the June 2023 meeting, the Fed then decided to keep policy rates unchanged, maintaining the reference rate in a range between 5% and 5.25%. In the press release, the Fed Chair has carved out greater freedom of action, at the same time emphasising the principle of the dependence of next decisions on future macroeconomic data, with a view to defining the most appropriate measures to bring the inflation rate back to the 2% target.

In parallel with the interventions on interest rates, the Federal Reserve continued the quantitative tightening process that began in June 2022, suspending the reinvestment of maturing securities for a monthly maximum of USD 60 billion.

In the Eurozone, inflation began later than in the United States and started to decline a few months later, in the wake of the sharp drop in energy prices. The ECB has further tightened its restrictive stance by using all of the tools at its disposal. The action resulted first of all in increases in the reference rates of 50 basis points at the meeting in February and March, and by another 25 basis points in June, bringing the interest rate on the main refinancing operations to 4% at the end of the period and the deposit rate to 3.50%. The ECB also stressed that the Governing Council's future decisions will be "data driven" and will ensure that reference rates are set at sufficiently restrictive levels to achieve a timely return of inflation to the 2% target in the medium term and are maintained at these levels as long as necessary. Therefore, with a view to pursuing this objective, quantitative tightening also continued, through the measured reduction of the APP programme portfolio at a rate of 15 billion euros per month and the subsequent interruption of the reinvestment of maturing securities starting from July 2023. The PEPP programme will instead continue with the reinvestment of the principal of maturing securities at least until the end of 2024 and will continue to be conducted in a flexible manner, so as to avoid interference with an adequate monetary policy stance.

After a 2022 characterised by widespread losses across all of the main security asset classes, the financial markets saw generalised increases in the main stock markets, which continued throughout the first half of 2023, quickly putting an end to the volatility that arose as a result of the turbulence in the US banking sector. Indeed, despite interest rate hikes by the ECB and the Fed, the generalised stability of corporate earnings and, in the United States, the gradual retreat of recession expectations, contributed to a consistent recovery in prices, generalised at geographical area level.
In particular, in the United States, the S&P 500 index rose by 15.9% in the first half of the year, while the Nasdaq 100 rose by 38.8%, thanks especially to the brilliant performance of some of the leading high-capitalisation technology companies. The European stock markets were also characterised by double-digit increases in the first six months of the year. The Eurostoxx 50 index recorded +16.0%, and the Milan FTSE MIB, with growth of +19.0%, achieved the best performance in Europe, thanks to the rise in bank stocks (25.9%); that reached at the end of the first half of 2023 was the highest capitalisation of the Italian Stock Exchange in almost 15 years. In Japan, the Nikkei 225 index rose by 27.2% in the same period. The London Stock Exchange had the worst performance, gaining just over 2% in three months and surpassed even by Hong Kong (approximately +3%).
The bond markets, on the other hand, were more directly affected by Central Bank decisions, especially on the short end of the curve, with pronounced volatility linked to expectations concerning the orientation of monetary policy. After the debacle of 2022, on the long part of the rate curves in dollars and euros, performance, also considering the coupons collected, was mainly slightly positive, in terms of both government and corporate bonds, investment grade and high yield. An exception was that of bank bonds classified as AT1 which, despite having recovered most of the losses incurred in the aftermath of the Credit Suisse restructuring, where this category of securities was eliminated, closed the half-year in the red.
The yield on the ten-year Bund fell from 2.6% at the beginning of the year to 2.3% at the end of June, while that of the US Treasury remained substantially at the same starting levels, at 3.9%, after a temporary drop to 3.5%, at the end of March, in the wake of turbulence in the US banking sector. Even the ten-year BTP yield, albeit with some fairly large fluctuations, at the end of June reached levels lower than those of the beginning of the year (from 4.70% to 4.06%). The spread on Italian government bonds with the bund contracted significantly during the period, from over 200 bps at the beginning of the year to 168 bps at the end of June.
The slope of the US and EMU government rate curve remained inverted throughout the half-year; the 2-10 year spread in the USA, already in negative territory since mid-2022, reached record levels from a historical perspective.

Domestic banking activity

The economic situation described above and the new interest rate context resulting from restrictive monetary policies have slowed down bank lending trends.

From an analysis of the loan trend published by the Italian Banking Association (ABI) in July 2023, total loans to residents in Italy stood at 1,698 billion in June 2023, with an annual change - calculated including securitised loans and adjusted for changes due to exchange rate fluctuations, value adjustments and reclassifications - equal to -2.2% (+1.9% in December 2022). Loans to residents in Italy to the private sector amounted to 1,447 billion, down by -1.9% compared to June 2022. Loans to households and non-financial companies as a whole, amounting to 1,311.5 billion, showed an annual change of -1.5% (+3.2% in June 2022). In detail, according to the most recent available data (Bank of Italy) updated to May 2023, the rate of change of loans to non-financial companies was -2.9% (it was -0.4% in December 2022). This negative trend reflects, on one hand, the increase in financing costs and more stringent supply criteria, and on the other hand lower credit demand due to the ample cash and cash equivalents accumulated in the financial statements and, in this part of the year, used to meet working capital requirements. On the contrary, total loans to households, albeit slowing down sharply, continued to grow on an annual basis, +0.8% in June (+3.2% in December 2022), while observing the change at three months, it is already down (-2.1%). Loans for the purchase of homes decreased, while demand for consumption purposes remained unchanged. In addition to the higher cost of loans, this slowdown was also affected by the less brilliant outlooks of the real estate market.

On the funding side, the stock of total direct funding (deposits from resident customers and bonds) in June 2023 amounted to 1,995.4 billion, down 2.3% compared to the previous year. In detail, deposits from resident customers showed a yoy change of -4.1%, bringing the amount of deposits to 1,764.4 billion; the change in bonds (excluding bonds issued by banks) went in the other direction, recording +14.3% with a balance of 230 billion (-4.4% in June 2022).

As regards the evolution of interest rates during the half-year, there were very significant changes due to the numerous increases in official rates by the ECB. In fact, the average rate on bank deposits from customers stood at 0.93% in June 2023 (+0.45% in June 2022). More specifically, the average rate was 0.73% on deposits and 2.59% on bonds. On the other hand, the average rate on loans in May 2023 was 4.25%, almost doubling in one year: indeed, it was 2.21% in June 2022.

In June 2023, the mark-up (calculated as the difference between the average rate on loans and the 3-month Euribor rate) was therefore 0.71 bps (it was 2.45 bps in June 2022) while the mark-down (calculated as the difference between the average rate on deposits and the 3-month Euribor rate) was 2.81 bps (-0.56 bps in June 2022).

As a result of the above, the banking spread expanded significantly: the spread between the average rate on loans and the average rate on funding to households and non-financial companies was 352 bps in June 2023 compared to 174 bps recorded in June 2022.

In terms of credit quality, it should be noted that the impact of non-performing loans on total loans, significantly reduced over the last few years, remained stable during the half-year, and the loan default rate remained at low levels.

In May 2023, the latest available figure, bad loans net of write-downs and provisions amounted to 15.3 billion, up by approximately 1.1 billion compared to December 2022, and down by roughly 0.9 billion (equal to -5.7%) compared to one year prior. The net bad loans/total loans ratio stood at 0.89% (it was 0.81% in December 2022 and 0.92% in May 2022).

In May 2023, the assets of open-ended Italian and foreign funds rose by 0.2% compared to the previous month, standing at around 1,103.8 billion (+2.1 billion). Compared to May 2022, however, assets fell by 7.2%. The significant imbalance towards foreign funds, which account for 78.5% of the total, remains.

SIGNIFICANT EVENTS DURING THE PERIOD

The first half of 2023 was characterised by a more reassuring macroeconomic scenario in terms of growth compared to forecasts for the end of 2022 even though elements of uncertainty remain, partly due to inflationary dynamics and the consequent repercussions on the international economic system and on business operations.

In this context, the Group's operations focused on the areas described below.

Integration of the insurance business

During the half-year, the Group continued with the process of integrating the insurance business started last year with the acquisition of control of the companies Banco BPM Vita and Banco BPM Assicurazioni and with the finalisation of an agreement with Crédit Agricole Assurances for the launch of a commercial partnership in the Non-Life/Protection business segment.
With its communication dated 7 March 2023, the European Central Bank recognised Banco BPM Group's status as a financial conglomerate pursuant to Directive 2002/87/EC, on the same basis as the main Italian and European financial groups operating in both the banking/investment services and insurance sectors.
The ECB's decision grants the request submitted by Banco BPM following the acquisition of full control over the insurance companies Banco BPM Vita S.p.A. and Banco BPM Assicurazioni S.p.A., which took place in July 2022, and also involves the alignment of the supervisory activity performed by the Supervisory Authority to the overall activity carried out by the Group as a financial conglomerate.
This recognition represented the condition for being able to submit the request for the application of art. 49 (1) of Regulation (EU) no. 575/2013 (CRR), a requirement for access to the benefits of the prudential treatment of the equity investment ("Danish Compromise"), currently being evaluated by the competent Authorities[1].

Furthermore, on 29 May 2023, Banco BPM exercised the purchase option, established in the agreements signed in 2021 with Cattolica Assicurazioni, on 65% of the share capital of Vera Vita S.p.A. and Vera Assicurazioni S.p.A., insurance companies operating in the life and non-life segments, respectively, in which Banco BPM already holds a 35% interest[2].
More specifically, the purchase of the 65% interest in Vera Vita will be carried out directly by Banco BPM Vita, while the equity investment in Vera Assicurazioni will be purchased directly by Banco BPM and subject to simultaneous resale to Crédit Agricole Assurances. The exercise price of the call option for the repurchase of both interests in associates and joint ventures is determined as a total of 392.5 million, to which 65% of the result for the year of the companies accrued from 1 January 2023 until the closing date will be added.
The acquisition of control over the companies Vera Vita and Vera Assicurazioni is indicatively expected to be finalised in the last quarter of 2023, subject to the issue of the required legal authorisations by the competent Authorities.

The exercise of the call option will allow for the creation of one of the main captive Life Bancassurance Groups in Italy, capable of providing an integrated wealth management offer (Asset Management, Life Insurance, Pension) and a reinforced and uniform Life product range for all Banco BPM Group customers.

[1] After this application was made, Banco BPM expects to obtain authorisation to not have to deduct the book value of the interest in Banco BPM Vita from CET 1 Capital. In this instance, the interest not deducted from own funds will be considered an exposure to credit risk to be weighted in compliance with the CRR.
[2] Vera Vita, in turn, holds the entire share capital of Vera Financial DAC, an Irish insurance company, while Vera Assicurazioni holds 100% of the share capital of Vera Protezione S.p.A.

Other events in the period

Important funding operations completed

In January 2023 the Parent Company successfully completed a new issue of Green Senior Preferred securities, with a four-year maturity for an amount of 750 million, under the Euro Medium Term Notes Programme, as part of the Bank's Green, Social and Sustainability Bond Framework.
The security, issued at a price of 99.613%, pays a fixed coupon of 4.875% and is reserved to institutional investors. The income from the issue of the security will be used to finance and/or refinance Eligible Green Loans, as defined in the Bank's Green, Social and Sustainability Bond Framework.

In addition, on 7 June 2023, Banco BPM concluded a further Green Senior Non Preferred issue, reserved for institutional investors, maturing in five years and with the possibility of early redemption in June 2027, for an amount of 750 million and a fixed coupon of 6%. Also in this case, the income from the issue of the security will be used to finance and/or refinance Eligible Green Loans, as defined in the Bank's Green, Social and Sustainability Bond Framework.

The Framework integrates with Banco BPM's ESG strategy and represents the effective implementation of the environmental and social sustainability objectives that are increasingly guiding and characterising the Bank's various business areas.
Banco BPM also obtained certification for its Framework from Institutional Shareholder Services ESG (ISS ESG) as an independent party with expertise on environmental, social and sustainability issues: Second Party Opinion (SPO).

Please also note that at the end of June 2023, Banco BPM concluded the placement of a new 750 million 5-year Covered Bond issue for institutional investors as part of its Covered Bank Bond programme.
This is the first European Covered Bond issue (Premium) by Banco BPM in compliance with Directive (EU) no. 2019/2162 adopted on 30 March 2023 and Regulation (EU) no. 2019/2160. For further details, please refer to the "Covered bond transactions and securitisations" paragraph in Part E of the Explanatory Notes.

Launch of the e-money business enhancement project

On 18 April 2023, Banco BPM decided to proceed with a project for the enhancement of the e-money business, through the development of a potential partnership with a leading market operator, which will concern both merchant acquiring and POS management and the Issuing and distribution of payment cards.
In this context, the guidelines of the partnership to be developed are as follows:

- signing of a long-term exclusive distribution agreement that includes both the issuing and merchant acquiring businesses;
- preservation of the reference running commission levels;
- collection of an upfront portion including benefits in terms of capital;
- provision of mechanisms aimed at allowing the Bank to further extract value from prospective growth.

As described in the section dedicated to significant events after the end of the interim period, contained in Part A of the Explanatory Notes, which should be referred to for more details, on 14 July 2023 Banco BPM, BCC Iccrea Group and FSI signed a binding agreement for the establishment of a strategic partnership aimed at the development of a new Italian and independent company in the digital payments sector, which calls for the transfer to the joint venture BCC Pay S.p.A. of the e-money business of Banco BPM[1], with the payment of mixed consideration in cash and in shares issued by the vehicle Pay Holding, which in turn controls the entire share capital of BCC Pay S.p.A. After the transaction, Pay Holding will be owned roughly 43% by FSI and around 28.6% each by Banco BPM and Iccrea Banca. The Agreement also calls for the signing of a multi-year distribution contract for the Company's services on the Banco BPM network as well.
The finalisation of the transaction, subject to approval by the competent Authorities, is expected in the first quarter of 2024.

[1] Inclusive of the interests in associates and joint ventures representing the entire share capital of Tecmarket Servizi.

Streamlining of the Group structure

On 29 May 2023, the Parent Company's Board of Directors approved the simplified partial demerger plan, which calls for the assignment by Banca Akros to Banco BPM of the business unit consisting of the set of assets and resources organised for the performance of the "Proprietary Finance" activities of Banca Akros.

The demerger, which is expected to take effect in the early months of 2024, subject to the issue of the ECB authorisation in compliance with sector regulations, will be implemented in simplified form, pursuant to the joint provisions of articles 2506-ter, fifth paragraph, and 2505, first paragraph, of the Italian Civil Code, and without the determination of any exchange ratio.

Liquidation of investee companies

In January the subsidiary Consorzio AT01 and the associate Bussentina S.c.r.l. were cancelled from the competent Companies' Registers, on 3 January 2023 and 19 January 2023, respectively, upon completion of the liquidation procedures.

These transactions did not produce any effects on the balance sheet or income statement of the Group as at 30 June 2023.

Programme to purchase own shares

In implementing the resolution of the Ordinary Shareholders' Meeting of 7 April 2022 and by virtue of the authorisation issued by the European Central Bank, in February 2023, the Parent Company launched a programme for the purchase of own shares to support existing short- and long-term incentive plans.
The programme was carried out in the period 28 February - 6 March 2023 with the purchase of 2,418,855 own shares (equal to 0.16% of outstanding ordinary shares) at the average unit price of 4.13 euro, for a total equivalent value of 10 million.
As a result of the above transactions, Banco BPM, taking into account the assignments taking place during the half-year and the other own shares already in the portfolio, directly holds 6,979,418 own shares, equal to 0.46% of the share capital.

Agreements with the Trade Unions

On 17 February 2023, discussions with the trade unions led to the identification of mutually agreed solutions regarding the following issues:

- recognition of a welfare bonus to all personnel in the professional areas and in the category of Middle Managers of 1,500 euro per capita (bank cost), usable exclusively in welfare mode;
- extension of the Solidarity Fund already activated with the trade union agreements of 29 December 2020 and 3 May 2021 for an additional 250 workers, already included in the previous ranking, with provision for two new dates for access to these benefits: 30 June 2023 (40% of the pool, equal to 100 positions) and 31 December 2023 (60% of the pool, equal to 150 positions).
  With a view to ensuring generational turnover, in correlation with the Fund's exits, 125 new hires are expected.
  The extension of the number of people affected by the redundancy programme will entail an extraordinary additional expense estimated as 8.5 million before tax, which was charged to the income statement for the year 2023, but conversely it will make it possible to obtain, in perspective and all other conditions being equal, a reduction in the estimated recurring cost of approximately 14.5 million per year;
- confirmation of the Group's second-level regulations, including the agreement relating to days off work;
- to support the centrality of training as a fundamental element for the value enhancement and growth of resources, execution of an agreement relating to financed training and confirmation of the smart learning initiative, for the performance of training activities outside the Bank's premises, primarily for the benefit of colleagues in the commercial network;
- with the aim of continuing to foster the focus on the individual and the best management of work-life time, confirming the possibility of using agile work for head office colleagues, with the same modes applied to date and with a view to fostering the achievement of the specific objective of the 2021-2024 Strategic Plan;

- finally, with the aim of promoting a positive business climate and, at the same time, supporting proper, healthy and sustainable growth of the business, renewal of the agreement on Commercial Policies and Work Organisation.

Change in corporate bodies

On 20 April 2023 the Shareholders' Meeting appointed the members of the Board of Directors and the Board of Statutory Auditors who will remain in office for the financial years 2023-2024-2025.

Subsequently, on 26 April 2023, the Board of Directors appointed the Chief Executive Officer, Giuseppe Castagna, and the members of the Board Committees, establishing an ad hoc ESG committee called the Sustainability Committee, an activity that was carried out previously by the Internal Control, Risks and Sustainability Committee, now renamed as the Internal Control and Risk Committee.

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 2023, new claims were limited both in number and in total additional relief (equal to approximately 2.1 million). As at 30 June 2023, due to settlements reached by negotiation or final rulings, claims and disputes for total relief figure of roughly 654.2 million were settled against claims that on the same date amounted to a total of around 720.2 million.
As illustrated in the section dedicated to significant events after the end of the year of the 2022 Annual Financial Report, please recall that in relation to the preventive seizure order sent on 19 February 2019, on 16 February 2023 the Verona Public Prosecutor's Office ordered the release from seizure of 80.3 million in favour of the Bank.[1]
In this stage, the Public Prosecutor decided to maintain the seizure of an amount of around a residual 3.5 million.

For information, reference should be made to section "Liabilities 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, within the European system of banking supervision, (Single Supervisory Mechanism), the Group is subject to the prudential supervision of the European Central Bank (ECB); with regard to specific matters, supervision is the direct responsibility of the Bank of Italy and CONSOB.
Supervisory activities entail making ordinary and recurring inspections at the offices of the Parent Company ("on/off-site inspection"), accompanied by "remote" inspections, conducted through structured and continuous exchanges of information, as opposed to specific requests for documentation and in-depth examination of specific areas.
With regard to the inspections of the Supervisory Authorities, with reference to 2021, 2022 and 2023, the same concerned the following areas: capital adequacy, combating money laundering, transparency in the area of payment services, product governance and adequacy of the transactions ordered by customers, ICAAP process, assessments of internal models used to calculate own funds requirements (credit and market), the assessment of the regulatory compliance of the framework for the implementation of IFRS 9 and the associated credit quality (Credit Quality Review) and lastly, cybersecurity.

Most of the inspection activities have already been concluded with the release of the Final follow up letters or Final 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 the valuation of the company's assets/liabilities. If the inspections have identified areas for improvement as regards the processes examined, the Group has prepared specific corrective action plans.

At the date of this report, as illustrated in detail below, for several inspections Banco BPM is still waiting to receive, depending on the case, the Final follow-up letter or the Final decision from the ECB; for others, only the conclusion of corrective action remains.

[1] The amounts seized originally amounted to 84.6 million, then reduced to 83.8 million as a result of a first partial release from seizure.

Inspections by the ECB

a) for the assessment of Cybersecurity risk management. The inspection phase started on 30 January 2023 and will be conducted with hybrid methods (on site/off site) and concluded on 14 April 2023;
b) on credit and counterparty risk for the assessment of the regulatory compliance of the framework for the implementation of IFRS 9 and the examination of the credit risk management methods (policies, methodologies, procedures and governance) with reference to portfolios of assets specifically identified and subject to qualitative review (Credit Quality Review). The on-site inspection phase began on 17 October 2022 and ended on 17 February 2023;
c) on capital adequacy to assess the ICAAP management process. The on-site inspection phase began on 26 September 2022 and ended on 24 November 2022;
d) to assess the request submitted by Banco BPM (also for Banca Akros) for a substantial change in the model of the methodology for calculating the IRC (Incremental Risk Charge) market risk parameter for the completion of the action plan relating to the inspection carried out in the course of 2019. The termination of one of the obligations relating to the IRC entailed a "material model change" with the ensuing need for a prior application to the Supervisory Authority submitted in January 2022, which was followed by the on-site inspection that began on 5 September 2022 and concluded on 28 October 2022. On 11 January 2023, the Bank received the Final IMI Decision authorising the requested change (also for Banca Akros), allowing the removal of the add-on on the IRC and requesting two corrective measures, of limited scope, completed according to the deadline;
e) on internal models used to calculate credit risk requirements 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 for the approval of the request for extension and material changes of the internal models used to calculate capital requirements for credit risk, made also following the transposition of the new regulatory requirements on the topic (EBA - IRB Repair programme), which became effective on 1 January 2022. In particular, the material changes subject to the request for approval, and included in the scope of the inspection investigations, also include those aimed at complying with the obligations still pending deriving from the investigations on internal models conducted from 2018 until 2020. The off-site inspection phase began on 14 February 2022 and ended on 20 May 2022;
f) to assess the adequacy of the first pillar capital requirement calculation; the on-site phase started on 25 October 2021 and ended on 23 December 2021. On 4 August 2022, the ECB sent the follow-up letter and on 30 September 2022 Banco BPM sent the corrective action plan, currently underway;
g) on credit and counterparty risk concerning the asset quality review, with reference to the Commercial Real Estate ("CRE") portfolio, and 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 inspection phase, exclusively off-site, began on 26 April 2021 and, as notified by the ECB, concluded on 5 November 2021. The inspection concerned credit risk management methods with reference to the portfolio under investigation, in particular the criteria for granting new credit and forbearance measures to exposures within the scope, the identification of "specialised lending" categories, the quality of appraisals, the process of classifying and evaluating real estate loans and foreclosed assets and the existing regulations in this regard. On 29 July 2022, the Bank received the final version of the inspection report containing the results of the inspection and an indication of areas for improvement; on 21 April 2023, the Bank received the final decision containing qualitative "requirements" and "recommendations" mostly attributable to organisational interventions and relating to the process for the granting and monitoring of loans for commercial properties, the framework for the valuation of commercial properties pledged as collateral and the internal control and credit risk management system connected to commercial property loans. In particular, with reference to exposures in the Commercial Real Estate area, in its final decision the ECB asked the Bank to strengthen the decision-making process for granting and monitoring credit, for adequate prudential treatment for "specialised lending & speculative lending" exposures and for the updating of procedures in order to provide a more complete and updated set of information to the appraisers that carry out property valuations. On 29 May 2023, the Bank sent the ECB its corrective action plan, which is currently underway. The conclusion of plan interventions is scheduled for 31 December 2024.

Inspections by the Bank of Italy

a) for inspections to verify the compliance of the automatic devices used by cashiers for the recirculation of banknotes at some branches in Emilia-Romagna. The inspection began on 6 June 2023 and ended on 16 June 2023;
b) for inspections to verify the compliance of the automatic devices used by cashiers for the recirculation of banknotes at some branches in Sicily. The inspection phase began on 18 October 2022 and ended on 26 October 2022;
c) on the subject of combating money laundering in the Private Banking sector of the subsidiary 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 14 April 2022. On 14 September 2022 Banca Aletti received the result of the inspection that did not identify any compliance findings and on 14 October 2022 sent the corrective action plan, limited to the implementation of measures to strengthen the controls, some of which, incidentally, were already in progress at the start date of the inspection;
d) as regards transparency, with a view to assessing fulfilment of the obligations deriving from the implementing provisions of Directive 2014/92/EU "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. On 21 October 2022, Banco BPM sent the corrective action plan, which is currently underway;
e) as regards the prevention of money laundering, with a view to ascertaining compliance with the obligations envisaged by Italian Legislative Decree no. 231/2007, with specific reference to the cash operations of cooperative banks, 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. On 18 August 2022, Banco BPM received the outcome of the inspection, which highlighted some areas of weakness in the area of due diligence and in the process of active collaboration with regard to the management of relations pertaining to the cooperatives under analysis. On 29 December 2022, Banco BPM sent the corrective action plan, which is currently underway.

Inspections by CONSOB

a) with regard to product governance and procedures to assess the adequacy of transactions arranged by customers. The inspection started in April 2019 and ended on 3 December 2019. On 30 July 2020, Banco BPM received a technical note in which, without starting any penalty proceeding, the Authority drew the Bank's attention to several aspects. On 16 October 2020, the Bank submitted the relative plan of corrective actions to the Authority, the majority of which have already been implemented, with progressive completion by the end of 2023.

RESULTS

Reclassified accounting statements

Reclassified consolidated balance sheet

(thousands of euro)	30/06/2023	31/12/2022 Restated (*)	Change	
Cash and cash equivalents	21,844,831	13,130,815	8,714,016	66.4%
Loans at AC	112,013,762	113,632,853	(1,619,091)	(1.4%)
- Loans to banks	3,855,942	4,177,893	(321,951)	(7.7%)
- Loans to customers (**)	108,157,820	109,454,960	(1,297,140)	(1.2%)
Other financial assets and hedging derivatives	44,112,405	43,093,541	1,018,864	2.4%
- At FV through Profit and Loss	8,083,541	8,206,881	(123,340)	(1.5%)
- At FV through OCI	10,134,981	9,380,520	754,461	8.0%
- At AC	25,893,883	25,506,140	387,743	1.5%
Financial assets pertaining to insurance companies	6,001,755	5,892,769	108,986	1.8%
Interests in associates and joint ventures	1,628,356	1,652,549	(24,193)	(1.5%)
Property, plant and equipment	2,825,314	3,034,689	(209,375)	(6.9%)
Intangible assets	1,241,819	1,255,124	(13,305)	(1.1%)
Tax assets	4,324,187	4,585,484	(261,297)	(5.7%)
Non-current assets and disposal groups held for sale	485,968	195,792	290,176	148.2%
Other asset items	4,011,675	3,334,518	677,157	20.3%
Total assets	**198,490,072**	**189,808,134**	**8,681,938**	**4.6%**
Direct bank funding	121,154,804	120,639,083	515,721	0.4%
- Due to customers	104,801,422	107,679,408	(2,877,986)	(2.7%)
- Securities and financial liabilities designated at FV	16,353,382	12,959,675	3,393,707	26.2%
Direct funding from insurance business and insurance liabilities	5,818,827	5,742,601	76,226	1.3%
- Financial liabilities pertaining to insurance companies measured at fair value	1,476,068	1,459,075	16,993	1.2%
- Insurance liabilities	4,342,759	4,283,526	59,233	1.4%
Due to banks	22,870,102	32,635,805	(9,765,703)	(29.9%)
Lease payables	497,147	627,921	(130,774)	(20.8%)
Other financial liabilities designated at fair value	26,794,679	13,597,650	13,197,029	97.1%
Other financial liabilities pertaining to insurance companies	2,045	439	1,606	365.8%
Liability provisions	865,983	988,852	(122,869)	(12.4%)
Tax liabilities	319,166	267,873	51,293	19.1%
Liabilities associated with assets classified as held for sale	245,492	25,821	219,671	850.7%
Other liability items	6,533,860	2,265,592	4,268,268	188.4%
Total liabilities	**185,102,105**	**176,791,637**	**8,310,468**	**4.7%**
Non-controlling interests	383	720	(337)	(46.8%)
Group shareholders' equity	13,387,584	13,015,777	371,807	2.9%
Consolidated shareholders' equity	**13,387,967**	**13,016,497**	**371,470**	**2.9%**
Total liabilities and shareholders' equity	**198,490,072**	**189,808,134**	**8,681,938**	**4.6%**

(*) The figures relating to the previous year have been restated following the retrospective application of IFRS 17 by the Group's insurance companies, as well as IFRS 9 for associates.
(**) Includes senior securities from sales of non-performing loans.

Reclassified consolidated income statement

(thousands of euro)	I half 2023	1st half 2022 Restated (*)	Change
Net interest income	1,552,900	1,039,133	49.4%
Gains (losses) on interests in associates and joint ventures carried at equity	60,607	58,168	4.2%
Financial margin	**1,613,507**	**1,097,301**	**47.0%**
Net fee and commission income	948,203	966,863	(1.9%)
Other net operating income	33,417	31,693	5.4%
Net financial result	(42,492)	176,796	
Profit (loss) on insurance business	24,580	-	
Other operating income	**963,708**	**1,175,352**	**(18.0%)**
Operating income	**2,577,215**	**2,272,653**	**13.4%**
Personnel expenses	(808,254)	(813,204)	(0.6%)
Other administrative expenses	(336,824)	(318,203)	5.9%
Net value adjustments to property, plant and equipment and intangible assets	(129,651)	(125,297)	3.5%
Operating expenses	**(1,274,729)**	**(1,256,704)**	**1.4%**
Profit (loss) from operations	**1,302,486**	**1,015,949**	**28.2%**
Net adjustments to loans to customers	(258,719)	(303,681)	(14.8%)
Fair value gains (losses) on property, plant and equipment	(32,375)	(40,845)	(20.7%)
Net adjustments to securities and other financial assets	1,169	(5,540)	
Net provisions for risks and charges	3,318	(12,734)	
Gains (losses) on interests in associates and joint ventures and other investments	(234)	1,466	
Profit (loss) before tax from continuing operations	**1,015,645**	**654,615**	**55.2%**
Taxation charge related to profit or loss from continuing operations	(317,119)	(231,019)	37.3%
Profit (loss) after tax from continuing operations	**698,526**	**423,596**	**64.9%**
Charges related to the banking system, net of taxes	(57,629)	(74,567)	(22.7%)
Goodwill impairment	-	(8,132)	(100.0%)
Change in own credit risk on Certificates issued by the Group, net of taxes	(2,568)	25,654	
Purchase Price Allocation net of taxes	(14,233)	(15,663)	(9.1%)
Profit (loss) for the period attributable to non-controlling interests	337	109	209.2%
Parent Company's profit (loss) for the period	**624,433**	**350,997**	**77.9%**

(*) The figures relating to the previous period have been restated following the retrospective application of IFRS 17 by the Group's insurance companies, as well as IFRS 9 for associates.

Reclassified consolidated income statement – Quarterly changes

Reclassified income statement items	**2023**		**2022 (*)**			
(thousands of euro)	**Q2**	**Q1**	**Q4**	**Q3 (**)**	**Q2**	**Q1**
Net interest income	809,926	742,974	723,957	551,319	527,591	511,542
Gains (losses) on interests in associates and joint ventures carried at equity	24,295	36,312	38,355	39,460	15,729	42,439
Financial margin	**834,221**	**779,286**	**762,312**	**590,779**	**543,320**	**553,981**
Net fee and commission income	469,549	478,654	453,728	479,664	486,771	480,092
Other net operating income	16,503	16,914	19,491	20,375	15,028	16,665
Net financial result	(8,356)	(34,136)	(8,951)	75,138	48,863	127,933
Profit (loss) on insurance business	14,969	9,611	6,636	2,131	-	-
Other operating income	**492,665**	**471,043**	**470,904**	**577,308**	**550,662**	**624,690**
Operating income	**1,326,886**	**1,250,329**	**1,233,216**	**1,168,087**	**1,093,982**	**1,178,671**
Personnel expenses	(402,858)	(405,396)	(391,918)	(397,285)	(405,342)	(407,862)
Other administrative expenses	(166,630)	(170,194)	(170,410)	(159,636)	(162,650)	(155,553)
Net value adjustments to property, plant and equipment and intangible assets	(65,191)	(64,460)	(84,553)	(69,886)	(64,059)	(61,238)
Operating expenses	**(634,679)**	**(640,050)**	**(646,881)**	**(626,807)**	**(632,051)**	**(624,653)**
Profit (loss) from operations	**692,207**	**610,279**	**586,335**	**541,280**	**461,931**	**554,018**
Net adjustments to loans to customers	(121,264)	(137,455)	(184,691)	(193,909)	(152,553)	(151,128)
Fair value gains (losses) on property, plant and equipment	(30,469)	(1,906)	(59,992)	(7,510)	(39,609)	(1,236)
Net adjustments to securities and other financial assets	488	681	(538)	(3,028)	(2,346)	(3,194)
Net provisions for risks and charges	868	2,450	(28,220)	(16,260)	(4,608)	(8,126)
Gains (losses) on interests in associates and joint ventures and other investments	(388)	154	515	277	(60)	1,526
Profit (loss) before tax from continuing operations	**541,442**	**474,203**	**313,409**	**320,850**	**262,755**	**391,860**
Taxation charge related to profit or loss from continuing operations	(169,683)	(147,436)	(85,589)	(90,424)	(92,599)	(138,420)
Profit (loss) after tax from continuing operations	**371,759**	**326,767**	**227,820**	**230,426**	**170,156**	**253,440**
Charges related to the banking system, net of taxes	(351)	(57,278)	(49)	(77,271)	-	(74,567)
Goodwill impairment	-	-	-	-	(8,132)	-
Change in own credit risk on Certificates issued by the Group, net of taxes	(5,845)	3,277	(20,513)	(323)	25,478	176
Purchase Price Allocation net of taxes	(6,830)	(7,403)	(10,248)	(16,468)	(7,173)	(8,490)
Profit (loss) for the period attributable to non-controlling interests	373	(36)	628	49	66	43
Parent Company's profit (loss) for the period	**359,106**	**265,327**	**197,638**	**136,413**	**180,395**	**170,602**

(*) The figures relating to previous periods have been restated following the retrospective application of IFRS 17 by the Group's insurance companies, as well as IFRS 9 for associates.

(**) The figures referring to the third quarter of 2022 have been restated with respect to those originally approved by the Board of Directors on 8 November 2022, following the completion of the Purchase Price Adoption (PPA) process relating to the acquisition of control of Banco BPM Vita and Banco BPM Assicurazioni.

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 aggregated economic-financial data that can be quickly and easily understood.
These statements were prepared on the basis of the financial statements set forth in Bank of Italy Circular no. 262/2005 and subsequent updates, following the same aggregation and classification criteria applied in the preparation of the consolidated financial statements as at 31 December 2022, with the additions needed to reflect the application of IFRS 17 Insurance contracts.

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:

To prepare the consolidated balance sheet, the asset items have been reclassified as follows:

- the aggregate "Loans measured 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" and of the financial assets at amortised cost pertaining to insurance companies, shown in the aggregate "Financial assets pertaining to insurance companies" of the reclassified balance sheet. 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" is made up 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, and of financial assets pertaining to insurance companies, also included in the aggregate "Financial assets pertaining to insurance companies" of the reclassified balance sheet; it also includes the amount of debt securities at amortised cost mentioned above;
- the aggregate "Financial assets pertaining to insurance companies" includes the financial assets attributable to insurance operations (asset items: "20. Financial assets at fair value through profit and loss", "30. Financial assets measured at fair value through other comprehensive income", "40. Financial assets at amortised cost", "50. Hedging derivatives");
- 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". Insurance assets are also included (item 80 of balance sheet assets).

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

- the aggregate "Direct bank 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), and of amounts due to customers pertaining to insurance companies (shown in item "Direct funding from insurance business and insurance liabilities" of 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 protected capital certificates, included in the aggregate "Other financial liabilities designated at fair value" and of financial liabilities pertaining to insurance companies designated at fair value, shown in item "Direct funding from insurance business and insurance liabilities";
- the aggregate "Direct funding from insurance business and insurance liabilities" includes the liabilities of the insurance companies for policies underwritten by customers. In particular, these are liability items "30. Financial liabilities designated at fair value", for unit-linked policies and "110. Insurance liabilities ", for the remaining insurance products;
- 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) and of amounts due to banks pertaining to insurance companies (shown in item "Direct funding from insurance business and insurance liabilities" of 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 protected capital certificates as described above, and 40. "Hedging derivatives";
- the item "Other financial liabilities pertaining to insurance companies" includes amounts due to banks and to customers of insurance companies, not related to commitments to policyholders, recognised under liability item "10. Financial liabilities at amortised cost";
- 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 year".

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

- 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";

- the item "Profit (loss) on insurance business" includes the items specifically attributable to the insurance business represented by the profit (loss) on insurance services (item 160) and the balance of income and expenses from insurance activities (item 170), which includes the net change in technical reserves, claims for the period, as well as other income and expenses from insurance activities. In addition, this aggregate includes the economic components (interest, dividends, realised gains/losses, gains/losses from valuation) relating to the portfolios of financial assets and liabilities held by insurance companies ("10. Interest income", "20. Interest expense", "70. Dividends", "80. Net trading income", "90. Fair value gains/losses on hedging derivatives", "100. Gains (losses) on disposal or repurchase", "110. Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss", "130. Net credit impairment losses/recoveries"). It should also be noted that, in the reclassified income statement, placement fees paid by insurance companies to the banking distribution network of Banco BPM, even if consolidated using the line-by-line method, are recognised as open balances. The item "Net fee and commission income" therefore includes fee and commission income received from the distribution network, while the item "Profit (loss) on insurance business" includes fee and commission expense paid by the insurance companies. The aim of this presentation method is to allow the contributions of the various operating segments that generate the economic result to be represented, in line with the requirements of accounting standard IFRS 8;
- 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;
- 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 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;
- the impacts arising from Purchase Price Allocations made following 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 of the so-called "value of business acquired"), in the gains/losses on interests in associates and joint ventures and other investments (effect of the remeasurement at fair value of the 19% share held in Banco BPM Vita prior to the acquisition of control) and in the item "Taxation charge related to profit or loss from continuing operations".

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 tangible assets (works of art);
- tax effects connected with the income statement impacts set out in the previous points.

Conversely, the following are usually considered to be recurring:

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

In light of the criteria set out above, it should be noted that in the first half of 2023 the following non-recurring items were recognised:

- the item "personnel expenses" includes the allocation relating to the charges that are expected to be incurred in relation to the agreements with the trade unions regarding the early retirement of personnel, amounting to 8.5 million, net of the releases of liabilities recognised in previous years mainly in relation to the payment commitments of the incentives established in Short Term Incentive Plans for a total of 9.1 million. The net effect on the item in question was +0.6 million;
- "Fair value gains (losses) on property, plant and equipment" includes net value adjustments of -32.3 million;
- the item "net provisions for risks and charges" includes the allocation of 8.7 million relating to the estimate of charges for certain contractual commitments;
- the item "Gains (losses) on interests in associates and joint ventures and other investments" includes the negative impact of -0.2 million, deriving from the sale of property, plant and equipment;
- the "Taxation charge related to profit or loss from continuing operations" includes the tax impacts of the aforementioned non-recurring items amounting to +12.9 million.

Overall, the impact of non-recurring items on the net result for the first half of 2023 was negative and equal to -27.9 million.

In the first half of 2022, the following non-recurring items had been recognised:

- the items "Net financial result" and "Net adjustments to loans to customers" included 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;

- "Fair value gains (losses) on property, plant and equipment" included 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" included the positive impact of +1.5 million, deriving from the sale of property, plant and equipment;
- the item "Goodwill impairment" showed 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" included the tax impacts of the aforementioned non-recurring items amounting to +51.9 million.

Overall, non-recurring components pertaining to the first half of 2022 were a negative 113.0 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 2023 are illustrated below.

Consolidated balance sheet figures

Loan brokering activities

Direct funding

(thousands of euro)	30/06/2023	% impact	31/12/2022	% impact	Abs. Change	% Change
Current accounts and deposits	**101,340,892**	**83.6%**	**103,699,276**	**86.0%**	**(2,358,384)**	**(2.3%)**
- current accounts and demand deposits	100,908,444	83.3%	103,410,941	85.7%	(2,502,497)	(2.4%)
- fixed-term deposits and other restricted current accounts	432,448	0.4%	288,335	0.2%	144,113	50.0%
Securities	**16,333,454**	**13.5%**	**12,941,380**	**10.7%**	**3,392,074**	**26.2%**
- bonds and liabilities at fair value	16,329,526	13.5%	12,933,380	10.7%	3,396,146	26.3%
- certificates of deposit and other securities	3,928	0.0%	8,000	0.0%	(4,072)	(50.9%)
Repurchase agreements	**1,435,470**	**1.2%**	**1,460,568**	**1.2%**	**(25,098)**	**(1.7%)**
Loans and other payables	**2,044,988**	**1.7%**	**2,537,859**	**2.1%**	**(492,871)**	**(19.4%)**
Direct funding	**121,154,804**	**100.0%**	**120,639,083**	**100.0%**	**515,721**	**0.4%**
Direct funding without repurchase agreements	**119,719,334**		**119,178,515**		**540,819**	**0.5%**
Other funding (Protected capital certificates)	**4,985,251**		**4,270,993**		**714,258**	**16.7%**
Total direct funding without repurchase agreements with certificates	**124,704,585**		**123,449,508**		**1,255,077**	**1.0%**

Direct bank funding[1] as at 30 June 2023 amounted to 124.7 billion, up compared to 31 December 2022 by 1.0% but down by 1.3% compared to 30 June 2022.
More specifically, over the half-year, there was a decrease of 2.4 billion in the component represented by current accounts and deposits (-2.3%). As regards bonds issued, the stock as at 30 June 2023 came to 16.3 billion, with an increase of 3.4 billion compared to 31 December 2022, due to new issues during the half-year, which exceeded the redemptions of securities that had matured.
Funding guaranteed by the stock of certificates with unconditional capital protection as at 30 June 2023 was 5.0 billion, up on the figure of 4.3 billion as at 31 December 2022 and 3.5 billion as at 30 June 2022.

[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.

Starting in the third quarter of 2022, the aggregate comprising financial liabilities and insurance liabilities of the insurance companies, is recorded, shown under the item **direct funding from insurance business**, in the amount of 5.8 billion, basically stable compared to 31 December 2022.

Indirect funding

(thousands of euro)	30/06/2023	% impact	31/12/2022	% impact	Abs. Change	% Change
Managed assets	**60,463,770**	**58.1%**	**59,408,707**	**62.5%**	**1,055,063**	**1.8%**
- mutual funds and SICAVs	40,973,556	39.4%	39,916,578	42.0%	1,056,978	2.6%
- securities and fund management	4,130,082	4.0%	3,969,419	4.2%	160,663	4.0%
- insurance policies	15,360,132	14.8%	15,522,710	16.3%	(162,578)	(1.0%)
Administered assets	**43,563,474**	**41.9%**	**35,620,438**	**37.5%**	**7,943,036**	**22.3%**
Total indirect funding	**104,027,244**	**100.0%**	**95,029,145**	**100.0%**	**8,998,099**	**9.5%**
Underlying funding for protected capital certificates	**4,384,549**		**3,701,323**		**683,226**	**18.5%**
Total indirect funding without certificates	**99,642,695**		**91,327,822**		**8,314,873**	**9.1%**

Indirect funding net of protected capital certificates amounted to 99.6 billion, up on an annual basis (+10.1%) compared to 31 December 2022 (+9.1%, amounting to an increase of 8.3 billion compared to the end of the year).[1]
The component of managed funding was equal to 60.5 billion, an increase compared to the figure of 59.4 billion as at 31 December 2022 (+1.8%), due to the higher contribution of funds and SICAVs; income relating to the portfolio management and bancassurance sectors was stable.
Administered assets reached 39.2 billion, an increase of 7.3 billion (+22.7%) compared to the end of 2022.
On an annual basis, managed assets increased by 1.0%, while for administered assets the increase was 8.5 billion (+27.7%).

Loans to customers

(thousands of euro)	30/06/2023	% impact	31/12/2022	% impact	Abs. Change	% Change
Mortgage loans	80,698,848	74.6%	82,019,769	74.9%	(1,320,921)	(1.6%)
Current accounts	8,773,562	8.1%	8,571,864	7.8%	201,698	2.4%
Repurchase agreements	3,138,339	2.9%	1,883,322	1.7%	1,255,017	66.6%
Finance leases	680,514	0.6%	780,186	0.7%	(99,672)	(12.8%)
Credit cards, personal loans and salary-backed loans	798,441	0.7%	967,941	0.9%	(169,500)	(17.5%)
Other transactions	12,464,176	11.5%	13,298,151	12.1%	(833,975)	(6.3%)
Senior securities from sales of non-performing loans	1,603,940	1.5%	1,933,727	1.8%	(329,787)	(17.1%)
Total net loans to customers	**108,157,820**	**100.0%**	**109,454,960**	**100.0%**	**(1,297,140)**	**(1.2%)**

Net loans to customers[2] totalled 108.2 billion as at 30 June 2023, down by 1.3 billion compared to the figure of 31 December 2022. The decrease refers to both performing exposures (-1.0%) and non-performing exposures (-11.4%). On an annual basis, loans recorded a reduction of 2.7 billion (-2.4%), deriving from a 1.9 billion reduction in performing exposures (-1.7%) and non-performing loans of 0.8 billion (-27.0%). In the first half of the year, the volume of new disbursements to households and businesses amounted to 10.2 billion.

Information on direct risks with customers residing in Russia and the Ukraine or those indirectly related to Russian counterparties is provided in Part A - Accounting policies, Other aspects, Most significant aspects for the valuations in the consolidated condensed interim financial statements as at 30 June 2023: Impacts of the Russia-Ukraine conflict, which should be referred to for further details.

[1] 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.
[2] 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 0.5 billion, are included under financial assets at fair value.

Lastly, as regards the support measures implemented by the Group with regard to customers affected by the crisis following the Covid-19 pandemic, please refer to Part A - Accounting policies, Other aspects, Most significant aspects for the valuations in the consolidated condensed interim financial statements as at 30 June 2023: Other aspects - Declaration of end of the Covid-19 pandemic and Covid-19 support measures by the Group.

Credit quality

It should be noted that the information contained in the following paragraph relating to credit quality refers to loans to customers included in the portfolio of financial assets at amortised cost.

Loans to customers at amortised cost

(thousands of euro)	30/06/2023		31/12/2022		Abs. Change	% Change
	Net exposure	% impact	Net exposure	% impact		
Bad loans	711,252	0.7%	720,582	0.7%	(9,330)	(1.3%)
Unlikely to pay	1,320,641	1.2%	1,574,841	1.4%	(254,200)	(16.1%)
Non-performing past-due exposures	55,936	0.1%	60,084	0.1%	(4,148)	(6.9%)
Non-performing loans	**2,087,829**	**1.9%**	**2,355,507**	**2.2%**	**(267,678)**	**(11.4%)**
Performing loans	104,466,051	96.6%	105,165,726	96.1%	(699,675)	(0.7%)
Senior securities from sales of non-performing loans	1,603,940	1.5%	1,933,727	1.8%	(329,787)	(17.1%)
Performing exposures	**106,069,991**	**98.1%**	**107,099,453**	**97.8%**	**(1,029,462)**	**(1.0%)**
Total loans to customers	**108,157,820**	**100.0%**	**109,454,960**	**100.0%**	**(1,297,140)**	**(1.2%)**

(thousands of euro)	30/06/2023				31/12/2022			
	Gross exposure	Total value adjustments	Net exposure	Coverage	Gross exposure	Total value adjustments	Net exposure	Coverage
Bad loans	1,868,243	(1,156,991)	711,252	61.9%	2,047,001	(1,326,419)	720,582	64.8%
Unlikely to pay	2,279,849	(959,208)	1,320,641	42.1%	2,639,481	(1,064,640)	1,574,841	40.3%
Non-performing past-due exposures	77,253	(21,317)	55,936	27.6%	82,190	(22,106)	60,084	26.9%
Non-performing loans	**4,225,345**	**(2,137,516)**	**2,087,829**	**50.6%**	**4,768,672**	**(2,413,165)**	**2,355,507**	**50.6%**
of which: forborne	*1,665,247*	*(723,873)*	*941,374*	*43.5%*	*2,082,727*	*(885,947)*	*1,196,780*	*42.5%*
Performing loans (*)	**106,483,736**	**(413,745)**	**106,069,991**	**0.39%**	**107,520,221**	**(420,768)**	**107,099,453**	**0.39%**
of which: Stage 1	*94,787,796*	*(158,012)*	*94,629,784*	*0.2%*	*96,657,964*	*(153,013)*	*96,504,951*	*0.2%*
of which: Stage 2	*11,695,940*	*(255,733)*	*11,440,207*	*2.2%*	*10,862,257*	*(267,755)*	*10,594,502*	*2.5%*
of which: forborne	*2,501,090*	*(79,613)*	*2,421,477*	*3.2%*	*2,803,391*	*(95,342)*	*2,708,049*	*3.4%*
Total loans to customers	**110,709,081**	**(2,551,261)**	**108,157,820**	**2.3%**	**112,288,893**	**(2,833,933)**	**109,454,960**	**2.5%**

(*) Includes senior securities from sales of non-performing loans for an amount of 1,603.9 million (of which 1,606.6 million in gross exposure and 2.6 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 2.1 billion as at 30 June 2023.
An examination of the components of the aggregate shows the following dynamics:

- net bad loans of 0.7 billion, down by 1.3% compared to 31 December 2022 and 7.5% compared to 30 June 2022;
- net unlikely to pay loans of 1.3 billion, down by 16.1% compared to the start of the year and 35.1% compared to 30 June 2022;
- net past-due exposures of 56 million (60 million as at 31 December 2022 and 59 million as at 30 June 2022).

The percentage of non-performing exposures out of total loans, gross of value adjustments came to 3.8%, down compared to 4.2% at the start of the year and 4.8% as at 30 June 2022.

The coverage ratio for the entire non-performing loans aggregate was 50.6% (50.6% as at 31 December 2022 and 47.8% as at 30 June 2022).
More specifically, as at 30 June 2023, the coverage ratio was as follows:

- bad loans 61.9% (64.8% as at 31 December 2022 and 61.5% as at 30 June 2022);
- unlikely to pay loans: 42.1% (40.3% as at 31 December 2022 and as at 30 June 2022);
- past due exposures 27.6% (26.9% as at 31 December 2022 and 29.8% as at 30 June 2022).

The coverage ratio of performing loans came out at 0.39%, stable compared to 31 December 2022 (0.41% as at 30 June 2022).

Financial assets

(thousands of euro)	30/06/2023	% impact	31/12/2022	% impact	Abs. Change	% Change
Debt securities (*)	36,147,793	81.9%	34,940,905	81.1%	1,206,888	3.5%
Equity instruments	2,446,584	5.5%	1,821,452	4.2%	625,132	34.3%
UCIT units	1,309,108	3.0%	1,220,222	2.8%	88,886	7.3%
Total securities portfolio	**39,903,485**	**90.5%**	**37,982,579**	**88.1%**	**1,920,906**	**5.1%**
Derivative trading and hedging instruments	3,610,703	8.2%	4,441,214	10.3%	(830,511)	(18.7%)
Loans	598,217	1.4%	669,748	1.6%	(71,531)	(10.7%)
Total financial assets	**44,112,405**	**100.0%**	**43,093,541**	**100.0%**	**1,018,864**	**2.4%**

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

Financial assets from the banking segment were equal to 44.1 billion, up by 2.4% compared to 43.1 billion as at 31 December 2022; the increase was mainly concentrated in debt securities (+1.2 billion) and, in particular, in the segments of securities at amortised cost and securities measured at fair value through other comprehensive income. As at 30 June 2023, the aggregate in question consisted of debt securities for 36.1 billion, equity instruments and UCIT units for 3.8 billion, derivative instruments and other loans for 4.2 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)	30/06/2023	% impact	31/12/2022	% impact	Abs. Change	% Change
Debt securities	416,193	5.1%	340,093	4.1%	76,100	22.4%
Equity instruments	2,149,320	26.6%	1,535,604	18.7%	613,716	40.0%
UCIT units	1,309,108	16.2%	1,220,222	14.9%	88,886	7.3%
Total securities portfolio	**3,874,621**	**47.9%**	**3,095,919**	**37.7%**	**778,702**	**25.2%**
Financial and credit derivatives	3,610,703	44.7%	4,441,214	54.1%	(830,511)	(18.7%)
Loans	598,217	7.4%	669,748	8.2%	(71,531)	(10.7%)
Overall total	**8,083,541**	**100.0%**	**8,206,881**	**100.0%**	**(123,340)**	**(1.5%)**

Financial assets measured at fair value through other comprehensive income

(thousands of euro)	30/06/2023	% impact	31/12/2022	% impact	Abs. Change	% Change
Debt securities	9,837,717	97.1%	9,094,672	97.0%	743,045	8.2%
Equity instruments	297,264	2.9%	285,848	3.0%	11,416	4.0%
Total	**10,134,981**	**100.0%**	**9,380,520**	**100.0%**	**754,461**	**8.0%**

Financial assets at amortised cost

(thousands of euro)	30/06/2023	% impact	31/12/2022	% impact	Abs. Change	% Change
Debt securities (*)	25,893,883	100.0%	25,506,140	100.0%	387,743	1.5%
Total	**25,893,883**	**100.0%**	**25,506,140**	**100.0%**	**387,743**	**1.5%**

(*) 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 2023, broken down by country (amounts in thousands of euro):

Countries	Total debt securities
Italy	11,548,035
Spain	4,828,353
Germany	3,308,666
France	6,477,095
Austria	275,100
Ireland	19,691
Other EU countries	335,515
Total EU countries	**26,792,455**
USA	3,689,790
Chile	14,349
China	96,356
Mexico	22,269
Hong Kong	20,017
Other countries	60,279
Total other countries	**3,903,060**
Total	**30,695,515**

Exposure is mainly concentrated within the Parent Company Banco BPM, which as at 30 June 2023 held a total of 30.3 billion, of which 11.2 billion relative to Italian government bonds.

Investments in sovereign debt securities are classified at 75.1% in the portfolio of financial assets at amortised cost, 24.6% in the portfolio of financial assets measured at fair value through other comprehensive income and 0.3% in the portfolio of financial assets at fair value through profit and loss as they are held for trading.
Out of this exposure, more than 87% refers to securities issued by member states of the European Union; notably about 38% 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 2023	Maturing between 2024 to 2028	Maturing between 2029 to 2039	Maturing beyond 2033	Total fair value as at 30/06/2023	Total fair value by hierarchy		
						LEVEL 1	LEVEL 2	LEVEL 3
Italy	30,387	11,928	12,308	3,172	57,795	57,795	-	-
Spain	-	1,296	2,957	-	4,253	4,253	-	-
Germany	-	11,876	9,629	1	21,506	21,506	-	-
Other EU countries	-	1	2	1	4	4	-	-
Total	**30,387**	**25,101**	**24,896**	**3,174**	**83,558**	**83,558**	**-**	**-**

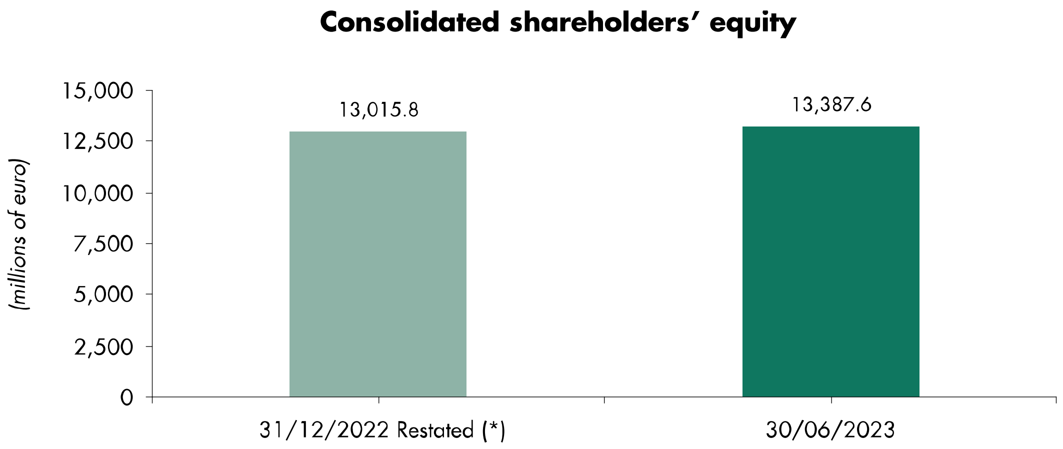
Financial assets measured at fair value through other comprehensive income

Status	Maturing by 2023	Maturing between 2024 and 2028	Maturity between 2029 and 2033	Maturing beyond 2033	Total fair value as at 30/06/2023	Net reserve at FVTOCI	Value adjustments	Total fair value by hierarchy		
								LEVEL 1	LEVEL 2	LEVEL 3
Italy	173,824	829,241	1,088,251	304,760	2,396,076	(58,983)	-	2,396,076	-	-
Spain	50,043	389,296	659,036	-	1,098,375	(59,904)	-	1,098,375	-	-
France	-	-	1,412,164	-	1,412,164	(132,366)	-	1,412,164	-	-
Germany	-	-	843,582	-	843,582	(93,987)	-	843,582	-	-
Other EU countries	-	56,390	56,795	-	113,185	(769)	-	113,185	-	-
Total	**223,867**	**1,274,927**	**4,059,828**	**304,760**	**5,863,382**	**(346,009)**	**-**	**5,863,382**	**-**	**-**

Financial assets at amortised cost

Status	Maturing by 2023	Maturing between 2024 to 2028	Maturing between 2029 to 2033	Maturing beyond 2033	Total book value as at 30/06/2023	Total fair value	Total fair value by hierarchy		
							LEVEL 1	LEVEL 2	LEVEL 3
Italy	1,252,872	5,871,757	1,785,403	184,133	9,094,165	8,969,140	8,969,140	-	-
Spain	190,231	1,728,516	1,806,979	-	3,725,726	3,601,133	3,601,133	-	-
France	596,949	2,679,304	1,788,678	-	5,064,931	4,885,027	4,885,027	-	-
Ireland	-	19,687	-	-	19,687	18,937	18,937	-	-
Germany	-	988,684	1,454,894	-	2,443,578	2,331,429	2,331,429		
Other EU countries	-	297,782	199,646	-	497,428	465,359	465,359	-	-
Total	**2,040,052**	**11,585,730**	**7,035,600**	**184,133**	**20,845,515**	**20,271,026**	**20,271,026**	**-**	**-**

Shareholders' equity and solvency ratios



(*) The figure relating to the previous year has been restated following the retrospective application of IFRS 17 by the Group's insurance companies, as well as IFRS 9 for associates.

The Group's consolidated shareholders' equity as at 30 June 2023, including valuation reserves and profit (loss) for the period, amounted to 13,387.6 million, compared to the figure at the end of 2022, restated to provide a uniform comparison, of 13,015.8 million.
The change, positive by 371.8 million, derives, for -349.5 million, from the allocation of the result for 2022 approved by the Shareholders' Meeting of 20 April 2023, for -35.4 million from the payment of coupons on Additional Tier 1 instruments and, for -10.0 million, from the purchase of own shares by the Parent Company in connection with employee incentive plans. Finally, other positive changes were recorded for a total of 766.7 million mainly referring to the contribution of the comprehensive income recorded in the half-year. The latter is positive by 754.9 million due to the net profit for the period of 624.4 million and the positive change in valuation reserves of +130.5 million, referring in particular to the valuation reserve relating to financial assets measured at fair value through other comprehensive income, as a result of financial market trends observed during the period, and that relating to costs and revenues of a financial nature relating to insurance contracts issued by the Group's insurance companies.
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 30/06/2023 as per the Parent Company's financial statements	**13,032,109**	**674,014**
Impact of the valuation at equity of associated companies	379,004	60,607
Cancellation of dividends received during the year by associated companies	-	(98,860)
Other consolidation adjustments	(23,529)	(11,328)
Balance as at 30/06/2023 as per the consolidated financial statements	**13,387,584**	**624,433**

Solvency ratios - reference legislation and standards to follow

With its communication of 25 November 2022, the Bank of Italy confirmed Banco BPM Banking Group as an Other Systemically Important Institution (O-SII) for 2023. The O-SII reserve amounts to 0.25% of regulatory requirements.
With its communication of 24 March 2023, the Bank of Italy has confirmed the Countercyclical Capital Buffer ratio for exposures to Italian counterparties at zero percent also for the second quarter of 2023.

On 15 December 2022, the European Central Bank (ECB) communicated to Banco BPM the SREP decision for the year 2023, bringing the Pillar 2 capital requirement (P2R) to 2.57%, essentially unchanged compared to that of the previous year net of the effects of the release of the deduction calculated pursuant to Art. 3 of the CRR (EU Regulation no. 575/2013), whose positive effects on the capital ratios and on the MDA buffer were calculated starting from the situation as at 31 December 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 0.028%), the minimum requirements that Banco BPM is required to meet for 2023 until further notice, are as follows:[1]

- CET 1 ratio: 8.72%;
- Tier 1 ratio: 10.71%;
- Total Capital ratio: 13.35%.

As of 1 January 2023, there are no longer any applicable transitional arrangements and therefore the capital ratios can be defined as "fully phased". Indeed, since the start of the year, the transitional rules introduced with article 473-bis of Regulation (EU) no. 575/2013 (CRR), which diluted over time the impact on own funds deriving from the application of the new impairment model introduced by the accounting standard IFRS 9 expired, as well as the option set forth in art. 468 of Regulation (EU) no. 575/2013 (CRR) which permitted exclusion from the own funds calculation of 40% of unrealised accumulated gains and losses from 31 December 2019 on debt securities measured at fair value through other comprehensive income, represented by exposures in debt instruments issued by central governments, regional governments or local authorities pursuant to art. 115, paragraph 2 of the CRR and public sector entities pursuant to art. 116, paragraph 4.

As at 30 June 2023[2], the Common Equity Tier 1 ratio stood at 14.25%, against 12.84% as at 31 December 2022. The increase is due to both the growth in regulatory capital (due to the inclusion of the result for the interim period net of the dividends expected to be distributed and the increase in valuation reserves of financial assets measured at fair value through other comprehensive income), and to the decrease recorded in risk-weighted assets (as a result, inter alia, of the lower credit risk deriving from a synthetic securitisation transaction).
Including the estimate of the positive effect of the expected future application of the Danish Compromise, for which a request has already been submitted, the Common Equity Tier 1 ratio of the Group as at 30 June 2023 would be 14.84% (from 13.34% as at 31 December 2022).

The Tier 1 ratio was equal to 16.61% against 15.16% as at 31 December 2022, while the Total Capital ratio was equal to 19.51% against 18.04% as at 31 December 2022.

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"). As at 30 June 2023, Banco BPM Group had a consolidated LCR of 179% with respect to the regulatory limit of 100%.

Effective from 30 June 2021, the NSFR, the regulatory structural liquidity indicator, which measures the ratio of stable sources of funding and stable financing requirements, constitutes a regulatory requirement with a minimum of 100%. As at 30 June 2023, Banco BPM Group had a NSFR index of 132%[3].

Lastly, as regards the leverage ratio, the value as at 30 June 2023 was 4.85%.

[1] These requirements are set as follows:

- the Pillar I minimum requirement equal to 8% (of which 4.5% CET, 1.5% in terms of AT1 and 2% in terms of AT2);
- the P2R requirement communicated by the ECB equal to 2.57% 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 0.028% to be met entirely with CET 1.

[2] The capital ratios as at 30 June 2023 were calculated by including the economic result in progress at the end of the first half of 2023 net of the portion that is expected to be distributed as a dividend based on the specific applicable legislation.

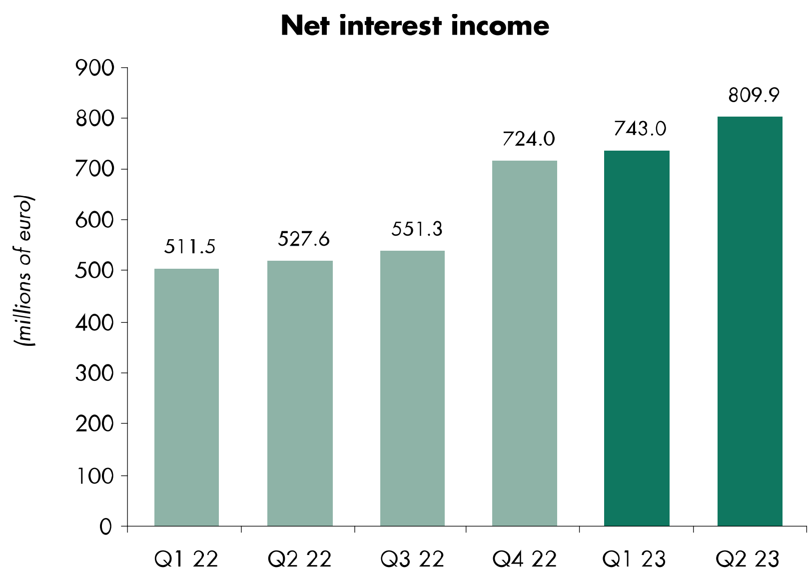
[3] Management data.

Consolidated income statement figures

Net interest income

(thousands of euro)	I half 2023	I half 2022	Abs. Change	% Change
Financial assets (securities)	355,926	176,027	179,899	102.2%
Net interest due to customers	1,571,169	840,946	730,223	86.8%
Net interest due to banks	(53,595)	2,507	(56,102)	
Securities issued and other financial liabilities at fair value	(174,371)	(124,039)	(50,332)	40.6%
Hedging derivatives (net balance) (*)	33,384	(20,522)	53,906	
Net interest on other assets/liabilities	(179,613)	164,214	(343,827)	
Total	**1,552,900**	**1,039,133**	**513,767**	**49.4%**

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



Net interest income amounted to 1,552.9 million, up by 49.4% compared to the figure in the first half of 2022 (1,039.1 million), mainly due to the increase in commercial spread resulting from the increase in interest rates and the limited impact on the cost of deposits, which more than offset the elimination of benefits relating to the remuneration of TLTRO financing.
In the second quarter of the year, net interest income stands at 809.9 million, up by 9.0% compared with the figure for the first quarter 2023 (743.0 million), mainly due to the increase in the spread on trade receivables.

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

(thousands of euro)	I half 2023	I half 2022 (*)	Abs. Change	% Change
Agos Ducato	41,583	53,135	(11,552)	(21.7%)
Anima Holding	12,322	23,314	(10,992)	(47.1%)
Vera Vita	(1,264)	(29,290)	28,026	(95.7%)
Vera Assicurazioni	4,285	3,857	428	11.1%
Banco BPM Vita		1,227	(1,227)	
Other investee companies	3,681	5,925	(2,244)	(37.9%)
Total	**60,607**	**58,168**	**2,439**	**4.2%**

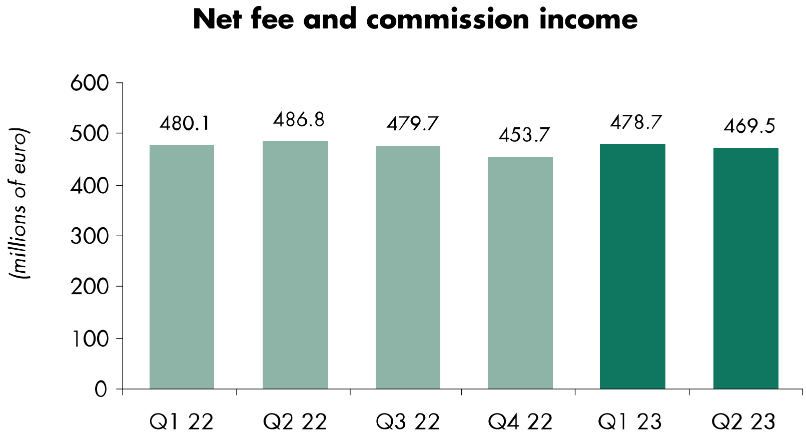
(*) The figures for the previous period were restated following the retrospective application of IFRS 17 and IFRS 9 for associated insurance companies. The impact on the item in question amounted to a total of -32.9 million.

The **gains (losses) on interests in associates and joint ventures carried at equity** was equal to 60.6 million, compared to the figure of 58.2 million for the corresponding period of the previous year.

The main contribution to the item in question was provided by consumer credit channelled from the interest held in Agos Ducato, equal to 41.6 million, compared to 53.1 million in the first half of 2022, as well as the contribution of the associated company Anima Holding, equal to 12.3 million (23.3 million in the first half of 2022 which however included the economic result achieved by the investee in the final quarter of 2021, equal to 11.8 million).
The second quarter contribution was a positive 24.3 million, down compared to the first quarter (36.3 million).

Net fee and commission income

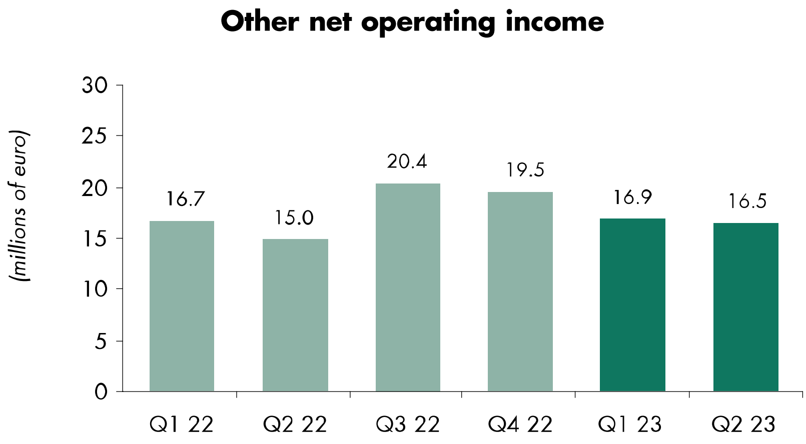
(thousands of euro)	I half 2023	I half 2022	Abs. Change	% Change
Management, brokerage and advisory services	**449,568**	**477,135**	**(27,567)**	**(5.8%)**
Savings products and policies	349,189	382,557	(33,368)	(8.7%)
- Placement of financial instruments	30,078	13,716	16,362	119.3%
- Distribution and portfolio management	244,828	296,521	(51,693)	(17.4%)
- Bancassurance	74,283	72,320	1,963	2.7%
Consumer credit	25,003	27,302	(2,299)	(8.4%)
Credit cards	27,570	31,662	(4,092)	(12.9%)
Trading of securities and currencies and order collection	44,613	32,805	11,808	36.0%
Other	3,193	2,809	384	13.7%
Keeping and management of current accounts and loans	**326,120**	**322,704**	**3,416**	**1.1%**
Collection and payment services	**117,139**	**91,456**	**25,683**	**28.1%**
Guarantees given and received	**16,520**	**25,257**	**(8,737)**	**(34.6%)**
Other services	**38,856**	**50,311**	**(11,455)**	**(22.8%)**
Total	**948,203**	**966,863**	**(18,660)**	**(1.9%)**



Net fee and commission income in the first half totalled 948.2 million, marking a decline of 1.9% compared to the same period of the previous year. The management, brokerage and advisory services segment decreased by 5.8%, mainly due to the placement of funds and SICAVs, partially offset by the growth of 1.8% in commissions relating to commercial banking services.
Net fee and commission income in the second quarter amounted to 469.5 million, down by 1.9% compared to the result recorded in the first quarter, mainly due to the lower contribution of commissions on commercial banking services (-3.6% compared to the first quarter), particularly as a result of the improvement in the conditions granted to customers for current account management as from 1 April 2023 (-13.8 million compared to the first quarter).
The aggregate of management, brokerage and advisory services is stable compared to the first quarter of 2023.

Other net operating income

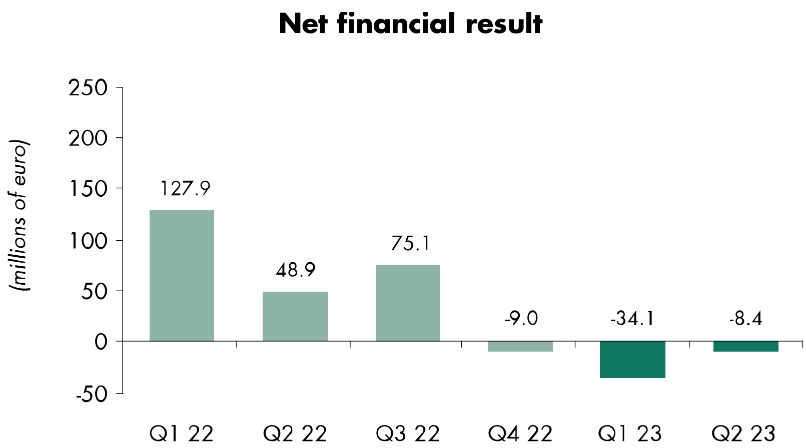
(thousands of euro)	I half 2023	I half 2022	Abs. Change	% Change
Income on current accounts and loans	3,333	3,213	120	3.7%
Rental income	18,499	17,913	586	3.3%
Expenses on leased assets	(13,389)	(12,661)	(728)	5.7%
Other income and charges	24,974	23,228	1,746	7.5%
Total	**33,417**	**31,693**	**1,724**	**5.4%**



Other net operating income totalled 33.4 million, compared to the figure of 31.7 million for the first half of 2022.

Net financial result

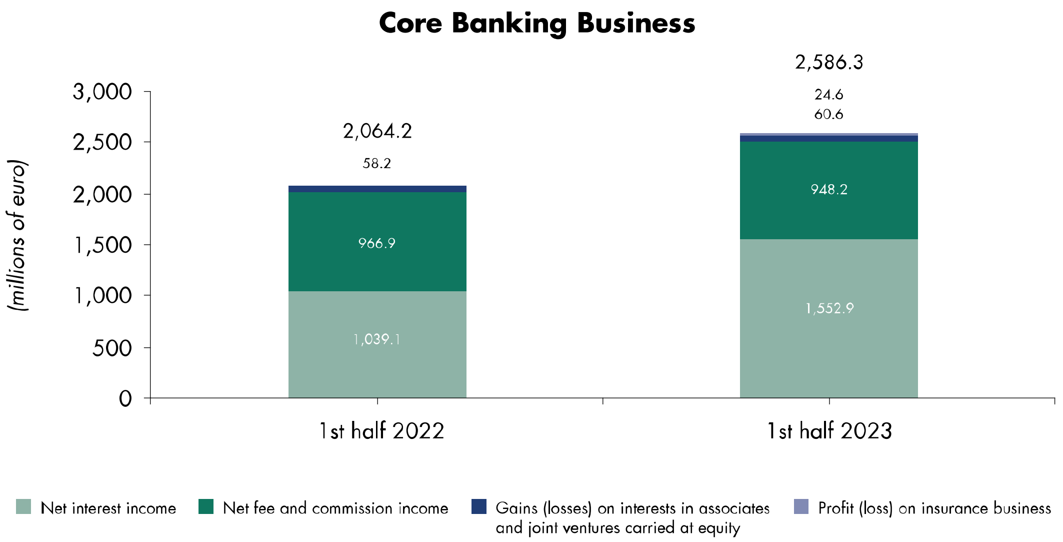
(thousands of euro)	I half 2023	I half 2022	Abs. Change	% Change
Net trading income	(11,670)	144,733	(156,403)	
Gains/losses on disposal of financial assets	8,508	89,919	(81,411)	(90.5%)
Dividends and similar income on financial assets	14,946	13,513	1,433	10.6%
Gains/losses on repurchase of financial liabilities	(21)	(2,029)	2,008	(99.0%)
Fair value gains/losses on hedging derivatives	(5,092)	(6,629)	1,537	(23.2%)
Result of assets and liabilities at fair value	(49,163)	(62,711)	13,548	(21.6%)
Total	**(42,492)**	**176,796**	**(219,288)**	



The **net financial result**[1] in the first half was negative and equal to -42.5 million compared to the positive figure of 176.8 million recorded as at 30 June 2022.
The different contribution is justified by the lower contribution of profits from the sale of securities (-79.4 million), the higher cost of deposits through certificates following the rise in rates (-112.1 million in the first half of 2023 compared to -21.9 million in the same period of the previous year), the CVA/DVA impact[2] (-33.8 million) and the different contribution of derivative trading and operations, partially offset by the impact of the valuation of the Nexi interest (+79.5 million) and the changes in fair value of other financial assets (+58.5 million).
The net financial result in the second quarter was -8.4 million, compared to -34.1 million in the first quarter. This trend is mainly attributable to the recovery of market prices of financial assets at fair value, despite the higher cost of funding through certificates following the rise in rates (-63.5 million in the second quarter compared to -48.6 million in the first quarter). In the second quarter there was also a different impact of the Credit Value Adjustment and the Debit Value Adjustment (CVA/DVA) component relating to derivative contracts (-3.7 million in the second quarter compared to -7.0 million recorded as at 31 March).
The valuation of the interest held in Nexi generated a negative impact of 3.5 million in the second quarter compared to the figure of +4.7 million recorded as at 31 March 2023.

The **profit (loss) on the insurance business** was 24.6 million. That item comprises the contribution for the first half of 2023 of the insurance companies Banco BPM Vita and Banco BPM Assicurazioni, following the acquisition of control over them starting from 1 July last year.[3]

By virtue of the trends described, the total **operating income** therefore amounted to 2,577.2 million, a considerable increase compared to 2,272.7 million recorded in the same period of the previous year (+13.4%).



(*) The figures for the previous period were restated following the retrospective application of IFRS 17 and IFRS 9 for associated insurance companies. The impact on the item in question amounted to a total of -32.9 million.

[1] The item does not include the accounting effect of the change in the credit rating of the Group with regard to the fair value measurement of its own certificate issues, which led to the recognition of a -3.8 million negative impact in the half, compared to +38.3 million recorded as at 30 June 2022. This effect is shown, net of taxes, in a separate item of the reclassified income statement.

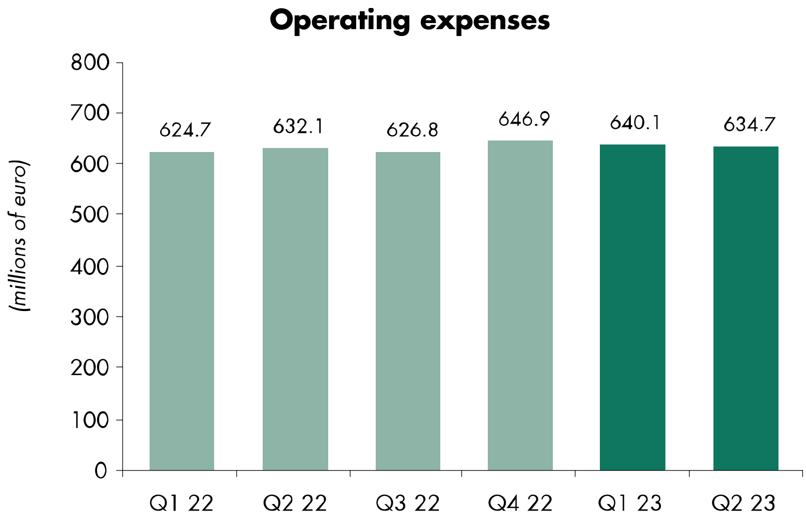
[2] The CVA expresses the portion of the financial assets valuation (fair value) that may not be paid to the bank by the counterparty in the event of default of the latter. The DVA expresses the portion of financial liabilities (fair value) that may not be paid by the bank to the counterparty in the event of bank default.

[3] The profit (loss) on the insurance business in the first half of 2023 is not comparable with the first half of 2022 (as control of the insurance companies was acquired at the beginning of the third quarter of 2022).

Taking only revenues from "core business" into account, represented by the sum of the aggregates relating to the net interest income, net fee and commission income, the result of interests in associates and joint ventures carried at equity and the result of the insurance business, the first half of 2023 figure reached 2,586.3 million, up 25.3% compared to the figure for the same period of the previous year.

Operating expenses

(thousands of euro)	I half 2023	I half 2022	Abs. Change	% Change
Personnel expenses	**(808,254)**	**(813,204)**	**4,950**	**(0.6%)**
Other administrative expenses	**(336,824)**	**(318,203)**	**(18,621)**	**5.9%**
- Taxes and duties	(152,114)	(159,860)	7,746	(4.8%)
- Services and consulting	(159,942)	(153,615)	(6,327)	4.1%
- Property	(40,691)	(34,247)	(6,444)	18.8%
- Postal, telephone and stationery	(11,460)	(11,470)	10	(0.1%)
- Maintenance and fees for furniture, machines and systems	(52,758)	(47,900)	(4,858)	10.1%
- Advertising and entertainment	(8,070)	(6,347)	(1,723)	27.1%
- Other administrative expenses	(46,476)	(45,898)	(578)	1.3%
- Expense recoveries	134,687	141,134	(6,447)	(4.6%)
Value adjustments to property, plant and equipment and intangible assets	**(129,651)**	**(125,297)**	**(4,354)**	**3.5%**
- Value adjustments to property, plant and equipment	(81,126)	(83,518)	2,392	(2.9%)
- Value adjustments to intangible assets	(48,678)	(41,650)	(7,028)	16.9%
- Net write-downs for impairment	153	(129)	282	
Total	**(1,274,729)**	**(1,256,704)**	**(18,025)**	**1.4%**



Personnel expenses, equal to 808.3 million, decreased by 0.6% compared to 813.2 million in the first half of 2022. The total number of employees was 19,983 as at 30 June 2023 (of which 134 pertaining to the insurance companies), compared to 20,157 resources employed as at 31 December 2022 (of which 143 pertaining to the insurance companies).

Other administrative expenses[1], equal to 336.8 million, are up 5.9% on the figure for the first half of 2022, equal to 318.2 million, also due to the inflationary trends underway, which specifically impacted energy consumption. It should also be noted that the figure for the first half of 2023 includes costs amounting to 7.1 million relating to insurance companies that were not consolidated on a line-by-line basis in the first half of 2022.

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

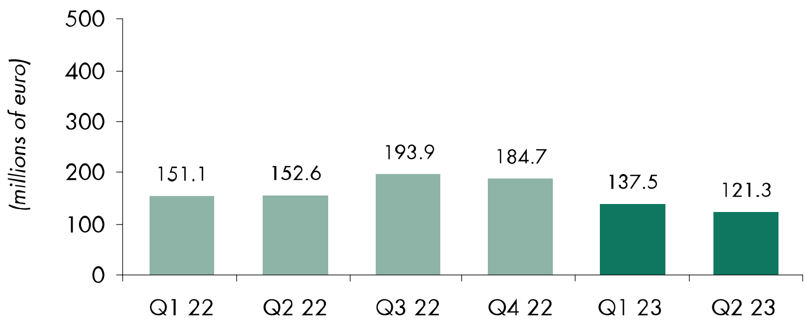
Value adjustments to property, plant and equipment and intangible assets were equal to 129.7 million, in line with the figure of 125.3 million in the first half of 2022.

Total **operating expenses** therefore amounted to 1,274.7 million, up by 1.4% compared to 1,256.7 million in the first half of 2022.

Adjustments and provisions

(thousands of euro)	I half 2023	I half 2022	Abs. Change	% Change
Net adjustments to loans at AC to customers	**(249,782)**	**(130,704)**	**(119,078)**	**91.1%**
Stage 3	(257,442)	(124,907)	(132,535)	106.1%
Stage 2	7,358	10,027	(2,669)	(26.6%)
Stage 1	(6,582)	746	(7,328)	
Acquired or originated impaired	6,884	(16,570)	23,454	
Gains (losses) on disposal of loans	**(3,420)**	**(172,058)**	**168,638**	**(98.0%)**
Gains (losses) from contractual modification without derecognition	**(5,517)**	**(919)**	**(4,598)**	**500.3%**
Total	**(258,719)**	**(303,681)**	**44,962**	**(14.8%)**

Net adjustments to loans to customers



Net adjustments to loans to customers in the first half of the year, equal to 258.7 million, showed a 14.8% reduction on the figure as at 30 June 2022.
As at 30 June 2023, the cost of credit, measured by the ratio of net value adjustments on loans to net loans, was 48 basis points annualised, representing the lowest level recorded since the founding of the Banco BPM Group.
This result was achieved by safeguarding the solid levels of coverage achieved in previous periods.

The **fair value gains (losses) on property, plant and equipment** as at 30 June 2023 came to -32.4 million (-40.8 million in the first half of 2022).

The item **net adjustments to securities and other financial assets** includes net gains of +1.2 million (-5.5 million as at 30 June 2022).

Net provisions for risks and charges in the first half of the year recorded a write-back of +3.3 million (-12.7 million in net provisions as at 30 June 2022), due to the release of provisions on guarantees and commitments for 14.9 million and provisions recognised during the period for other risks and charges of 11.6 million.

As at 30 June 2023, there were no **gains on interests in associates and joint ventures and investments** of a significant amount. In the first half of 2022, that item amounted to +1.5 million.

Due to the trends described, the **profit (loss) before tax from continuing operations** was equal to 1,015.6 million compared to 654.6 million in the first half of 2022 (+55.2%).

Other revenue and cost items

Taxation charges on profit or loss from continuing operations were equal to -317.1 million (-231.0 million in the first half of 2022).

Profit (loss) after tax from continuing operations therefore was equal to 698.5 million, a 64.9% increase compared to 423.6 million in the first half of 2022.

The income statement for the half-year included charges related to the banking system, net of taxes, of 57.6 million (74.6 million in the first half of 2022), consisting of the ordinary contribution paid to the Single Resolution Fund (85.4 million before tax, against 110.5 million as at 30 June 2022).

In the half-year, the **change in own credit risk on Certificates issued, net of taxes,** generated a negative impact of -2.6 million (-3.8 million before taxes), compared to the effect recorded in the first half of 2022 of +25.7 million (+38.3 million before taxes).

As at June 30, 2023, the impact of the **Purchase Price Allocation net of taxes** was equal to -14.2 million, against -15.7 million in the first half of 2022.

Considering the share of profit due to non-controlling interests, the first half of 2023 closed with a **net profit for the period** equal to 624.4 million (351.0 million in the first half of 2022, +77.9%).

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 2023.

(millions of euro)	Total assets	Shareholders' equity (*)	Direct Funding	Indirect Funding	Net loans	Profit (Loss)
Banks						
Banco BPM S.p.A.	189,828.1	13,032.1	120,236.9	86,826.8	107,478.8	674.0
Banca Aletti & C.	2,002.4	376.8	1,479.1	21,848.0	486.8	18.2
Banca Akros	9,044.9	728.7	1,487.1	-	378.8	17.5
Banca Aletti & C. (Suisse)	76.2	27.2	44.3	571.0	14.1	(0.4)
Bipielle Bank (Suisse) in liquidation	23.6	22.1	-	-	-	-
Insurance companies						
Banco BPM Vita	6,273.8	350.6	5,818.8	-	-	12.5
Banco BPM Assicurazioni (**)	68.8	34.5	-	-	-	4.2
Financial companies						
Aletti Fiduciaria	10.2	6.9	-	859.8	1.7	(0.3)
Oaklins Italy	3.0	2.0	-	-	-	0.3
Other companies						
Tecmarket Servizi (**)	21.2	6.2	-	-	-	-
Ge.Se.So.	0.1	-	-	-	-	-

(*) amount inclusive of the profit (loss) for the period.
(**) company held for sale pursuant to IFRS 5.

Banco BPM stock

As at 30 June 2023, the value of Banco BPM shares fluctuated between a minimum closing price of 3.403 euro on 24 March 2023 and a maximum closing price of 4.295 euro on 7 February 2023.
From the beginning of the year, Banco BPM shares recorded a positive performance of +27.47%. As at 30 June 2023, average daily volumes were approximately 14 million shares.

In addition, it should be noted that at the end of June 2023, the Banco BPM share was "covered" by 16 equity research companies (of which: 15 with positive recommendations, 1 neutral and 0 negative), with which continuous dialogue was maintained during the year.

Lastly, the shareholders of Banco BPM have the following consultation agreement in place relating to the shares of Banco BPM S.p.A., made public pursuant to art. 122 of Italian Legislative Decree no. 58/1998 and art. 129 of CONSOB Regulation no. 11971 of 14 May 1999.
On 21 December 2020, a consultation agreement was originally signed between some Italian Foundations shareholders of Banco BPM, which own a total of 83,237,332 ordinary shares, equal to 5.498% of the share capital.
Subsequently, on 20 July 2021 and on 18 October 2022, new shareholders signed on to the Agreement; on 2 January 2023, for the sole purpose of taking into account the changes in the number of Banco BPM shares subject to the agreement between the Banco BPM shareholders, it was communicated that the Parties held 125,507,707 ordinary shares of Banco BPM, equal to 8.28% of the Bank's share capital, as at 31 December 2022.
Lastly, due to an increase in the first few months of 2023, as per the Press Release issued by the Bank on 27 March 2023, the Parties to the agreement (a total of nine Parties) were holders of a total of 126,318,707 ordinary shares of Banco BPM, equal to 8.33% of the Bank's share capital.
This was also the case as at 30 June 2023.
The essential information pursuant to article 130 of the Issuers' Regulation relating to the aforementioned consultation agreement is available on the Banco BPM website www.gruppo.bancobpm.it - in the Investor Relations section - Stock, Shareholder Base and Dividends, under the item "Consultation Agreements".

Group ratings

Summary table of Banco BPM ratings

Rating Agency	Type of Rating	30/06/2023	31/12/2022
DBRS Morningstar	Long Term on Senior Debt and Long-term Issuer Rating/Trend	BBB/Stable Trend	BBB/Stable Trend
	Short Term on Debt and Short-term Issuer Rating/Trend	R-2 (high)/Stable Trend	R-2 (high)/Stable Trend
	Long Term on Deposits/Trend	BBB (high)/Stable Trend	BBB (high)/Stable Trend
	Short Term on Deposits/Trend	R-1 (low)/Stable Trend	R-1 (low)/Stable Trend
	Intrinsic Assessment	BBB	BBB
	Support Assessment	SA3	SA3
Fitch Ratings	Long Term Issuer Default Rating (IDR)/Outlook	BBB-/Stable Outlook	BBB-/Stable Outlook
	Short Term Issuer Default Rating (IDR)	F3	F3
	Long Term Deposits	BBB	BBB
	Short-Term Deposits	F3	F3
	Viability Rating (VR)	bbb-	bbb-
Moody's Investors Service	Long Term on Senior Unsecured Debt and Issuer Rating/Outlook	Ba1/Positive Outlook	Ba1/Stable Outlook
	Long Term on Deposits/Outlook	Baa2/Positive Outlook	Baa2/Stable Outlook
	Short Term on Deposits	P-2	P-2
	Baseline Credit Assessment	ba2	ba2
	Counterparty Risk Assessment	Baa2(cr)/P-2(cr)	Baa2(cr)/P-2(cr)

Summary table of Banca Akros ratings

Rating Agency	Type of Rating	30/06/2023	31/12/2022
DBRS Morningstar	Long Term on Senior Debt and Long-term Issuer Rating/Trend	BBB/Stable Trend	BBB/Stable Trend
	Short Term on Debt and Short-term Issuer Rating/Trend	R-2 (high)/Stable Trend	R-2 (high)/Stable Trend
	Long Term on Deposits/Trend	BBB (high)/Stable Trend	BBB (high)/Stable Trend
	Short Term on Deposits/Trend	R-1 (low)/Stable Trend	R-1 (low)/Stable Trend
	Support Assessment	SA1	SA1
Fitch Ratings	Long Term Issuer Default Rating (IDR)/Outlook	BBB-/Stable Outlook	BBB-/Stable Outlook
	Short Term Issuer Default Rating (IDR)	F3	F3
	Shareholder Support Rating	bbb-	bbb-

In the first half of 2023, as part of normal rating activity, the agencies DBRS Morningstar, Moody's Investors Service and Fitch Ratings monitored Banco BPM's activities through reports, press releases and rating actions; the following were the main events:

- DBRS Morningstar (hereinafter DBRS) did not make any changes to the ratings of Banco BPM in the period indicated above. It should be noted that, on 14 October 2022, DBRS had improved the main ratings of Banco BPM, as well as of its subsidiary Banca Akros, by 1 notch, at the same time assigning a Stable Trend motivated by the success obtained by Banco BPM in improving its financial position, particularly in terms of asset quality, profitability and operating efficiency. DBRS had also recognised: the solid market position of the Group in the wealthy regions of Northern Italy, strengthened by the continuous measures to rationalise the operating structure and the development of digitalisation and the "fee-driven" business, as well as the solid funding and liquidity profile of Banco BPM and the Group's adequate capital position;
- On 5 April 2023, Fitch Ratings confirmed the Banco BPM ratings in the investment grade area, with a "Stable" Outlook. The ratings are based on the analysis of Banco BPM's profile, which leverages its solid franchise, rooted in Northern Italy, and takes into account good business diversification, the improvement in profitability and asset quality, a disciplined approach to risk and adequate capital reserves, a stable and diversified funding profile and solid liquidity metrics;
- On 30 June 2023, Moody's improved the Outlook of the main ratings of Banco BPM from Stable to Positive, as shown in the table above. The improved Outlook reflects the upward pressure on Banco BPM's ratings, which is based on the assumption that the achievement of enhanced profitability and a more solid capital position will remain sustained in the future as well.

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 scenario continues to be affected by inflation trends, although there are initial signs of a slowdown in the non-energy component.
In this scenario, the Italian economy, after the strong growth recorded in 2022 and the moderate expansion in the first quarter, has more recently been showing the initial signs of a slowdown, also suffering from the effects of a monetary policy that remains restrictive but which sees further tightening interventions between now and the end of the year as less likely.
Given the context, also this year, the external variables appear to be the main influences on the operating performance of the Group.
Net interest income will continue to benefit from the increase in short-term rates, in particular in the commercial component, thanks above all to a funding mix that makes it possible to contain the effects of repricing.
Fee and commission income, though still in a scenario of potential volatility, which specifically impacts those connected with investment products, will continue to benefit from the trends in those relating to typical commercial banking operations.
The trend in operating expenses remains under control, as it is one of the main areas of focus of management actions. Moreover, the estimates prudently reflect dynamics linked to inflationary pressures, the renewal of the national collective labour agreement for bank employees and the effects of the investment policy in support of the evolutionary initiatives set forth in the Strategic Plan.
The trend of default flows, which is stable and lower than forecast, provides a snapshot of overall resilience of the national economic context, although it is not possible to exclude a possible deterioration in the final part of the year as a result of economic trends. The approach to credit will therefore remain prudent, with solid levels of coverage confirming the rigour of the valuations adopted in the last few years on both performing and non-performing exposures.

For the entire year, a significant improvement is expected in the Group's net profit compared to the previous year, with an EPS of 80 cents in 2023, improving further for 2024, significantly exceeding both the trajectory of profitability and the overall targets outlined in the Strategic Plan, which will therefore be updated in the final quarter of 2023.
At that time shareholder remuneration targets will be updated to reflect the positive results achieved in terms of profitability and organic capital creation.

Consolidated condensed interim financial statements

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated balance sheet

Asset items	30/06/2023	31/12/2022 (*)
10. Cash and cash equivalents	21,844,831	13,130,815
20. Financial assets at fair value through profit and loss	9,235,000	8,935,495
a) financial assets held for trading	4,707,152	4,508,497
c) other financial assets mandatorily measured at fair value	4,527,848	4,426,998
30. Financial assets measured at fair value through other comprehensive income	13,681,711	12,826,691
40. Financial assets at amortised cost	137,908,219	139,139,766
a) loans to banks	5,502,237	5,492,238
b) loans to customers	132,405,982	133,647,528
50. Hedging derivatives	1,302,992	1,717,211
60. Fair value change of financial assets in macro fair value hedge portfolios (+/-)	(430,133)	(488,403)
70. Interests in associates and joint ventures	1,628,356	1,652,548
80. Insurance assets	8,345	7,192
b) reinsurance assets	8,345	7,192
90. Property, plant and equipment	2,825,314	3,034,689
100. Intangible assets	1,241,819	1,255,124
of which:		
- goodwill	56,709	56,709
110. Tax assets	4,324,187	4,585,484
a) current	283,607	265,552
b) deferred	4,040,580	4,319,932
120. Non-current assets and disposal groups held for sale	485,968	195,792
130. Other assets	4,433,463	3,815,730
Total assets	**198,490,072**	**189,808,134**

(*) The figures relating to the previous year have been restated following the retrospective application of IFRS 17 by the Group's insurance Companies, as well as IFRS 9 for associates.

Liabilities and shareholders' equity items	**30/06/2023**	**31/12/2022 (*)**
10. Financial liabilities at amortised cost	144,504,170	153,874,094
a) due to banks	22,872,408	32,636,506
b) due to customers	105,298,308	108,307,067
c) debt securities in issue	16,333,454	12,930,521
20. Financial liabilities held for trading	22,589,328	10,181,692
30. Financial liabilities designated at fair value	4,767,756	3,955,763
40. Hedging derivatives	933,591	948,424
50. Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	(1,125,165)	(1,173,078)
60. Tax liabilities	319,166	267,873
a) current	58,072	1,610
b) deferred	261,094	266,263
70. Liabilities associated with assets classified as held for sale	245,492	25,821
80. Other liabilities	7,659,025	3,438,671
90. Provisions for employee severance pay	245,721	258,457
100. Provisions for risks and charges	620,262	730,395
a) commitments and guarantees given	129,299	144,164
b) post-employment benefits and similar obligations	88,892	99,330
c) other provisions for risks and charges	402,071	486,901
110. Insurance liabilities	4,342,759	4,283,526
a) insurance contracts issued - liabilities	4,342,759	4,283,526
120. Valuation reserves	(261,371)	(390,030)
140. Equity instruments	1,389,794	1,389,794
150. Reserves	4,557,732	4,249,231
170. Share capital	7,100,000	7,100,000
180. Own shares (-)	(23,004)	(18,266)
190. Non-controlling interests (+/-)	383	720
200. Profit (loss) for the period (+/-)	624,433	685,047
Total liabilities and shareholders' equity	**198,490,072**	**189,808,134**

(*) The figures relating to the previous year have been restated following the retrospective application of IFRS 17 by the Group's insurance Companies, as well as IFRS 9 for associates.

Consolidated income statement

Items		I half 2023	I half 2022 (*)
10.	Interest and similar income	2,950,776	1,273,861
	of which: interest income using the effective interest method	2,739,760	1,062,702
20.	Interest and similar expense	(1,359,801)	(242,650)
30.	**Net interest income**	**1,590,975**	**1,031,211**
40.	Fee and commission income	1,001,147	1,032,060
50.	Fee and commission expense	(92,869)	(74,465)
60.	**Net fee and commission income**	**908,278**	**957,595**
70.	Dividends and similar income	46,555	36,259
80.	Net trading income	(38,724)	162,457
90.	Fair value gains/losses on hedging derivatives	(5,092)	(6,629)
100.	Gains (losses) on disposal or repurchase of:	4,304	(84,168)
	a) financial assets at amortised cost	(447)	(44,964)
	b) financial assets measured at fair value through other comprehensive income	4,772	(37,175)
	c) financial liabilities	(21)	(2,029)
110.	Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss	1,110	(55,589)
	a) financial assets and liabilities designated at fair value	(38,620)	88,110
	b) other financial assets mandatorily measured at fair value	39,730	(143,699)
120.	**Operating income**	**2,507,406**	**2,041,136**
130.	Net credit impairment losses/recoveries relating to:	(249,124)	(136,244)
	a) financial assets at amortised cost	(249,030)	(134,035)
	b) financial assets measured at fair value through other comprehensive income	(94)	(2,209)
140.	Gains (losses) from contractual modification without derecognition	(5,517)	(919)
150.	**Net income from financial activities**	**2,252,765**	**1,903,973**
160.	Profit (loss) on insurance services	20,857	-
	a) insurance revenues deriving from insurance contracts issued	54,392	-
	b) costs for insurance services deriving from insurance contracts issued	(33,048)	-
	c) insurance revenues from reinsurance	1,864	-
	d) costs for insurance services deriving from reinsurance	(2,351)	-
170.	Balance of revenues and costs of a financial nature relating to insurance activities	(66,842)	-
	a) net costs/revenues of a financial nature relating to insurance contracts issued	(66,949)	-
	b) net revenues/costs of a financial nature relating to reinsurance	107	-
180.	**Net income from financial and insurance activities**	**2,206,780**	**1,903,973**
190.	Administrative expenses:	(1,355,885)	(1,383,202)
	a) personnel expenses	(799,014)	(812,286)
	b) other administrative expenses	(556,871)	(570,916)
200.	Net provisions for risks and charges	3,318	(12,734)
	a) commitments and guarantees given	14,867	(83)
	b) other net provisions	(11,549)	(12,651)
210.	Depreciation and impairment losses on property, plant and equipment	(79,910)	(83,647)
220.	Amortisation and impairment losses on intangible assets	(64,900)	(57,126)
230.	Other operating expenses/income	167,830	173,011
240.	**Operating expenses**	**(1,329,547)**	**(1,363,698)**
250.	Gains (losses) of associates and joint ventures	60,607	58,168
260.	Fair value gains (losses) on property, plant and equipment and intangible assets	(32,375)	(40,845)
270.	Value adjustments to goodwill	-	(8,132)
280.	Gains (losses) on disposal of investments	(234)	1,466
290.	**Profit (loss) before tax from continuing operations**	**905,231**	**550,932**
300.	Taxation charge related to profit or loss from continuing operations	(281,135)	(200,044)
310.	**Profit (loss) after tax from continuing operations**	**624,096**	**350,888**
320.	Profit (loss) after tax from discontinued operations	-	-
330.	**Profit (loss) for the period**	**624,096**	**350,888**
340.	Profit (loss) for the period attributable to non-controlling interests	337	109
350.	**Parent Company's profit (loss) for the period**	**624,433**	**350,997**
	Basic EPS (euro)	0.41	0.23
	Diluted EPS (euro)	0.41	0.23

(*) The figures relating to the previous period have been restated following the retrospective application of IFRS 17 by the Group's insurance Companies, as well as IFRS 9 for associates.

Statement of consolidated comprehensive income

	Items	30/06/2023	30/06/2022 (*)
10.	**Profit (loss) for the period**	**624,096**	**350,888**
	Other comprehensive income after tax without reclassification to the income statement	**20,524**	**35,467**
20.	Equity instruments designated at fair value through other comprehensive income	21,789	(30,727)
30.	Financial liabilities designated at fair value through profit and loss (changes to its own credit risk)	(11,281)	29,229
50.	Property, plant and equipment	(3,163)	2,023
70.	Defined benefit plans	12,270	34,751
90.	Share of valuation reserves related to interests in associates and joint ventures carried at equity	909	191
	Other comprehensive income after tax with reclassification to the income statement	**110,022**	**(552,661)**
110.	Foreign investment hedges	(110)	(656)
120.	Exchange rate differences	295	1,795
130.	Cash flow hedges	1,429	(9,974)
150.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income	70,677	(512,557)
170.	Share of valuation reserves related to interests in associates and joint ventures carried at equity	3,564	(31,269)
180.	Revenues or costs of a financial nature relating to insurance contracts issued	34,167	-
200.	**Total other comprehensive income after tax**	**130,546**	**(517,194)**
210.	**Comprehensive income (Items 10+170)**	**754,642**	**(166,306)**
220.	Consolidated comprehensive income attributable to non-controlling interests	(337)	(109)
230.	**Consolidated comprehensive income attributable to the Parent Company**	**754,979**	**(166,197)**

(*) The figures relating to the previous period have been restated following the retrospective application of IFRS 17 by the Group's insurance Companies, as well as IFRS 9 for associates.

Statement of changes in consolidated shareholders' equity

30 June 2023	Balance as at 31/12/2022	Changes in opening balances	Balance as at 01/01/2023	Allocation of profit from previous year		Changes in the period										Shareholders' equity as at 30/06/2023	Group shareholders' equity as at 30/06/2023	Non-controlling interests as at 30/06/2023
							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 2023				
Share capital:	**7,100,731**		**7,100,731**	**-**			**-**	**-**					**-**		**7,100,731**	**7,100,000**	**731**	
a) ordinary shares	7,100,731		7,100,731	-			-	-					-		7,100,731	7,100,000	731	
b) other shares	-		-	-			-	-					-		-	-	-	
Share premium reserve	**-**		**-**	**-**		**-**	**-**						**-**		**-**	**-**	**-**	
Reserves:	**4,220,220**	**29,786**	**4,250,006**	**334,742**		**(22,661)**	**(4,366)**	**-**	**-**		**-**	**-**	**-**		**4,557,721**	**4,557,732**	**(11)**	
a) retained earnings	3,875,778	29,786	3,905,564	334,742		(20,608)	(4,366)	-	-				-		4,215,332	4,215,341	(9)	
b) other	344,442	-	344,442	-		(2,053)	-		-		-	-	-		342,389	342,391	(2)	
Valuation reserves	**(624,011)**	**233,980**	**(390,031)**			**(1,886)**							**-**	**130,546**	**(261,371)**	**(261,371)**	**-**	
Equity instruments	**1,389,794**		**1,389,794**							**-**					**1,389,794**	**1,389,794**	**-**	
Own shares	**(18,266)**		**(18,266)**			**-**	**5,270**	**(10,008)**							**(23,004)**	**(23,004)**	**-**	
Profit (loss) for the period	**701,803**	**(17,542)**	**684,261**	**(334,742)**	**(349,519)**									**624,096**	**624,096**	**624,433**	**(337)**	
Shareholders' equity	**12,770,271**	**246,224**	**13,016,495**	**-**	**(349,519)**	**(24,547)**	**904**	**(10,008)**	**-**	**-**	**-**	**-**	**-**	**754,642**	**13,387,967**	**13,387,584**	**383**	
- of the Group	**12,769,551**	**246,224**	**13,015,775**	**-**	**(349,519)**	**(24,547)**	**904**	**(10,008)**	**-**	**-**	**-**	**-**	**-**	**754,979**	**13,387,584**			
- of non-controlling interests	**720**	**-**	**720**	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(337)**	**383**			

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**	**52,596**	**4,053,102**	**280,448**		**(20,476)**	**(5,760)**	**-**	**-**		**-**		**-**		**4,307,314**	**4,306,539**	**775**
a) retained earnings	3,670,845	52,596	3,723,441	280,448		(28,128)	(5,760)	-	-				-		3,970,001	3,969,224	777
b) other	329,661	-	329,661	-		7,652	-	-			-		-		337,313	337,315	(2)
Valuation reserves	**341,360**	**1,237**	**342,597**	**-**		**(6,690)**							**-**	**(517,194)**	**(181,287)**	**(181,287)**	**-**
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)**									**350,888**	**350,888**	**350,997**	**(109)**
Shareholders' equity	**13,096,059**	**53,833**	**13,149,892**	**-**	**(288,336)**	**(27,166)**	**6**	**(16,016)**	**-**	**297,321**	**-**		**-**	**(166,306)**	**12,949,395**	**12,947,993**	**1,402**
- of the Group	**13,094,951**	**53,833**	**13,148,784**	**-**	**(288,336)**	**(27,569)**	**6**	**(16,016)**	**-**	**297,321**	**-**		**-**	**(166,197)**	**12,947,993**		
- of non-controlling interests	**1,108**	**-**	**1,108**	**-**		**403**	**-**	**-**					**-**	**(109)**	**1,402**		

(*) The figures relating to the previous period have been restated following the retrospective application of IFRS 17 by the Group's insurance Companies, as well as IFRS 9 for associates.

Consolidated cash flow statement

Indirect method

A. Operating activities	30/06/2023	30/06/2022 (*)
1. Cash flow from operations	**1,131,206**	**716,323**
- profit (loss) for the period (+/-)	624,096	350,888
- gains/losses on financial assets held for trading and on other financial assets/liabilities at fair value through profit and loss (-/+)	(87,312)	(36,186)
- capital gains/losses on hedging derivatives (-/+)	5,092	6,629
- net credit impairment losses/recoveries (-/+)	254,641	137,163
- net impairment losses/recoveries on property, plant and equipment and intangible assets (+/-)	144,810	148,905
- net provisions for risks and charges and other costs/revenues (+/-)	3,677	15,799
- net revenues and costs of insurance contracts issued and reinsurance (-/+)	(20,218)	-
- taxes, duties and tax credits not settled (+/-)	266,690	184,130
- net impairment losses/recoveries on discontinued operations net of taxes (-/+)	-	-
- other adjustments (+/-)	(60,270)	(91,005)
2. Cash flow from/used in financial assets	**(392,713)**	**(4,688,177)**
- financial assets held for trading	(113,859)	(1,149,046)
- financial assets designated at fair value	-	-
- other financial assets mandatorily measured at fair value	(76,133)	(40,908)
- financial assets measured at fair value through other comprehensive income	(855,114)	78,631
- financial assets at amortised cost	977,000	(2,109,999)
- other assets	(324,607)	(1,466,855)
3. Cash flow from/used in financial liabilities	**8,395,923**	**8,021,434**
- financial liabilities at amortised cost	(9,369,924)	4,237,420
- financial liabilities held for trading	12,407,636	741,595
- financial liabilities designated at fair value	789,792	458,445
- other liabilities	4,568,419	2,583,974
4. Cash flow from/used by insurance contracts issued and reinsurance	**58,080**	**-**
- insurance contracts issued - liabilities/assets (-/+)	59,233	-
- reinsurance assets/liabilities (+/-)	(1,153)	-
Net cash flow from/used in operating activities	**9,192,496**	**4,049,580**
B. Investing activities		
1. Cash flow from:	**77**	**75,582**
- 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	77	582
- sales of intangible assets	-	-
- sales of subsidiaries and business segments	-	-
2. Cash flow used in:	**(70,155)**	**(122,040)**
- purchases of interests in associates and joint ventures	-	(700)
- purchases of property, plant and equipment	(18,131)	(67,199)
- purchases of intangible assets	(52,024)	(54,141)
- purchases of subsidiaries and business segments	-	-
Net cash flow from/used in investing activities	**(70,078)**	**(46,458)**
C. Financing activities		
- issues/purchases of own shares	(10,008)	(16,016)
- issues/purchases of equity instruments	(48,875)	257,328
- dividend distribution and other allocations	(349,519)	(288,336)
- third-party sales/purchases	-	-
Net cash flow from/used in financing activities	**(408,402)**	**(47,024)**
Net cash flow from/used during the period	**8,714,016**	**3,956,098**

(*) The figures relating to the previous period have been restated following the retrospective application of IFRS 17 by the Group's insurance Companies, as well as IFRS 9 for associates.

Reconciliation	30/06/2023	30/06/2022 (*)
- Cash and cash equivalents at the beginning of the period	13,130,815	29,153,316
- Net cash flow from/used during the period	8,714,016	3,956,098
- Cash and cash equivalents: foreign exchange effect	-	-
Cash and cash equivalents at the end of the period	**21,844,831**	**33,109,414**

(*) The figures relating to the previous period have been restated following the retrospective application of IFRS 17 by the Group's insurance Companies, as well as IFRS 9 for associates.

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

Statement of compliance with the international accounting standards

These consolidated condensed interim financial statements as at 30 June 2023 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 Commission, 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 2023 (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 2023 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.

The accounting standards used for the preparation of the consolidated condensed interim financial statements, with the exception of anything concerning insurance items, which are described in the section "A.2 Key financial statement items" below, are those adopted for the preparation of the consolidated financial statements as at 31 December 2022, 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 2023 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 2023, as illustrated in the paragraph "Scope of consolidation and methods".

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 eighth update published on 17 November 2022, which incorporated the new regulations set forth in IFRS 17 "Insurance Contracts"). 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 2023, 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 2022.
In this regard, it should be noted that with the entry into force of IFRS 17 "Insurance contracts", an accounting standard to be applied on a retrospective basis, the balances relating to the previous year were recalculated with respect to the originally published amount. For information on the impacts relating to the first-time application of IFRS 17, for insurance subsidiaries and associates, please refer to the specific section entitled "Impacts of the transition to IFRS 17 Insurance contracts".
To ensure an accurate comparison, it should also be noted that for the year 2022 the contribution of the subsidiary insurance companies - Banco BPM Vita and Banco BPM Assicurazioni - is reflected in the income statement, line by line, starting from 1 July 2022, i.e. from the date of acquisition of control; however, the contribution in the first half of 2022, when 19% of the companies were held, is set forth under item "250. Gains (losses) of associates and joint ventures". This last item also includes the contribution of the companies Vera Vita and Vera Assicurazioni for both the first half of 2022 and the first half of 2023, as they were associates during both periods.

The consolidated condensed interim financial statements, approved by the Board of Directors of Banco BPM on 2 August 2023, 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.

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 2023, 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.

In this regard, it should be noted that the persistent framework of instability in the national and global macroeconomic context is creating uncertainty in the future scenarios in which the Group will be operating, in turn making financial statement estimates uncertain. After the Covid-19 health crisis, the economic recovery was influenced by the effects of increasingly restrictive monetary and credit conditions for businesses and households, as a direct consequence of rising inflation, the obstacles linked to geopolitical tensions between Russia and Ukraine as well as the increasingly severe and frequent impacts associated with climate change.

For further details, please refer to the paragraph "Most significant aspects for the valuations in the consolidated condensed interim financial statements as at 30 June 2023".

The accounting policies considered most significant 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 2023.

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 credit 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 Explanatory 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.
In addition, in contexts of uncertainty, given the limited availability of reasonable and demonstrable forward-looking information, the measurement of expected losses may be influenced by some managerial adjustments (management overlay/post model adjustment), introduced with the aim of considering those risk factors not captured by the models in use.
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 2023.

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.
Generally, it can be said that the risks resulting from the exposure of the borrower counterparty to aspects relating to climate and environment are considered indirectly to the extent that the ECL calculation models take the expected impact of changes in macroeconomic variables on credit risk parameters into account, also through the use of sector satellite models, namely of models that define the functional relationships between changes in macroeconomic variables and the Bank's risk parameters (Probability of Default - PD and Loss Given Default - LGD).
This applies to the measurement of expected credit losses (ECL) of non-performing loans.
Starting from the 2022 financial statements, the Group has carried out preliminary assessments on how climate and environmental risks can directly impact the PD and LGD risk parameters, in order to quantify expected losses on non-performing exposures. In particular, account was taken of:

- the physical risk resulting from the financial impact on the debtor related to climate change, including more frequent extreme weather events and gradual changes in the climate, as well as environmental degradation, i.e. air, water and soil pollution, water stress, loss of biodiversity and deforestation;
- the transition risk resulting from the negative impact that the counterparty may incur, directly or indirectly, as a result of the adjustment process towards a low-carbon and more environmentally sustainable economy.

In greater detail, the inclusion of the above-mentioned risks led to an increase in the ECL of 36 million, which was implemented through a post model adjustment as described in "Part E – Information on risks and related hedging policies" in these Explanatory Notes.

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 2023.

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 Explanatory 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 Explanatory 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.

As at 30 June 2023, the assets in question therefore amounted to 561.0 million and were represented by:

- 56.7 million in goodwill deriving from the business combination with Banca Popolare Italiana (Bancassurance Protection CGU for 42.9 million, coinciding with the investee Vera Assicurazioni), the acquisition of the controlling interests in the company Oaklins Italy S.r.l. (Banca Akros CGU for 3.8 million) and the acquisition of control of Banco BPM Vita (Banco BPM Vita CGU for 10.0 million) completed in 2022;
- for 504.3 million from business trademarks 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), all allocated to the Retail CGU with the exception of 18.6 million relating to the valuation of the trademark of Banca Akros (Banca Akros CGU).

For the above-mentioned intangible assets, the survey of potential impairment triggers (internal and external), based on the evolution during the half-year of the main 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), did not bring to light any indications that would call into question the recoverability of the relative book values.
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 2022 financial statements, with 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 methodology for determining the risk premium 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 2023-2025 income projections approved by the Board of Directors on 28 March 2023 as part of the internal capital and liquidity adequacy assessment process (ICLAAP), 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 Explanatory 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 Explanatory 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 Explanatory 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] According to the company policy, the company responsible for property valuation must be replaced with another company every two years. The company CBRE is responsible for valuations as of 2023.
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 particular, for properties for business use, the appraisal is updated every two or three years depending on whether the property has a value of more than or less than 5 million, unless the scenario analysis is such that an earlier revision is required.

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[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").

When this Report was drafted, it was deemed that the evolution recorded in the real estate market during the half-year was not such so as to require an update with respect to the valuations carried out as at 31 December 2022, except for a limited number of properties in relation to some events that occurred during the period (such as, for example, reclassification of the property from operating to investment due to branch closure, assessment of maintenance status, revision of lease agreement, etc.) or the specific objective characteristics of the property (such as, by way of example, size, intended use, location). These updates, supported by an external appraisal, together with the value adjustments inferred from the sale negotiations in progress, resulted in an overall negative economic effect of -32.4 million in the first half of 2023 (the negative effect recorded in the corresponding period of the previous year was -40.8 million). In greater detail, the appraisal update campaign conducted in June 2023 concerned 61 properties for a total value of approximately 590 million (book value prior to the appraisal).

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. One of the important assumptions made when measuring fair value regards the assessment of what the maximum and best use of the properties is. In this regard, the fair value measurement of property used in operations uses the continuity of their use by the Group in the foreseeable future as reference, insofar as strictly dependent on commercial and administrative activities.

Margins of subjectivity are also present when identifying the perimeter of properties 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 2023, 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.
In particular, with regard to employee benefits represented by the provisions for employee severance pay and defined benefit pension funds, changes in actuarial assumptions (demographic and financial) in the first half of 2023, as well as the actual experience recognised with respect to initial forecasts, led to an overall reduction in liabilities of 16.9 million (of which 8.8 million for the provisions for employee severance pay and 8.1 million for defined benefit pension funds).
This reduction is recognised net of the tax effect as a balancing entry to a positive income component in the statement of comprehensive income (12.3 million net of the relative tax effect).

In greater detail, this effect is mainly due to the increase in the discount rate due to higher market yields as well as the reduction in the inflation rate recorded in the period and/or expected in the future.

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.

Estimating insurance liabilities for commitments to policyholders

For the Group's insurance companies, the valuation of the insurance liabilities established to cover commitments to policyholders requires the development of a series of demographic and financial assumptions capable of significantly influencing the amount.

In particular, the valuation of insurance liabilities is affected by the typical risks of the sector, which are duly analysed and assessed according to what is set forth in the Solvency II regulatory framework; the "Solvency and Financial Condition Report", published annually by the Companies, provides a representation of these risks.

In greater detail, the main risks relating to the Life business are represented by changes in mortality and longevity assumptions, the unpredictability of policyholders' choices, as well as uncertainties relating to higher inflation rates and the resulting increase in future expenses. For the Non-Life business, the main risk is linked to estimates of the severity, frequency and value of claims, as well as uncertainties relating to inflation rates that may affect the growth in claim management expenses.

In light of the above, it cannot be ruled out that the occurrence of risk events other than those assumed during the calculation of the amounts of premiums and/or preparation of the financial statements may affect the amount of commitments vis-à-vis the policyholders and consequently the estimate of liabilities in the financial statements.

Ongoing inspections by the Supervisory Authority

Finally, it should be noted that, as shown in the Report on operations, as part of the ordinary inspection cycle carried out by the Supervisory Authority, as at the date of this Financial Report, some inspection activities on specific areas are underway, while for other inspection activities the closure has been notified but the "Decision" or "Final follow-up letter" is pending. Although the information elements acquired during the inspections are carefully considered by the Group in order to assess any implications on the financial statement estimates, it cannot be excluded that the changes in the processes that could be implemented in response to the requests and final recommendations issued by the Supervisory Authority and the disclosure of new information not known at the date of this Report may be such so as to prospectively affect the assessments of the exposures reported in the financial statements.

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The description 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, in these Explanatory 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.

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 2023 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 also assessed the effects of the ongoing 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 Explanatory Notes.

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 2023, 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 2023, 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 2023, there are no arrangements, statutory clauses, potential rights or other situations able to establish that the Group has the practical ability to unilaterally direct the relevant activities.
In order to corroborate the above-mentioned opinion, a brief examination is provided below of the analyses carried out on the interests in associates and joint ventures in the companies Vera Vita S.p.A. and Vera Assicurazioni S.p.A., to an extent equal to 35% of the share capital, taking into account potential voting rights resulting from the exercise of the purchase option on the remaining 65% of the share capital held by Cattolica Assicurazioni (now merged into Generali Italia).

Verification of requirements for control pursuant to IFRS 10 over Vera Vita and Vera Assicurazioni

As described in the paragraph "Integration of the insurance business" in the section "Significant events during the period" in the Interim Report on Operations of the Group, in the first half of 2023 the Banco BPM Group moved forward with the valuation of the bancassurance segment which began with the acquisition of control in July 2022 over Banco BPM Vita and Banco BPM Assicurazioni and continued on 23 December 2022 with the signing of a binding term sheet with Crédit Agricole Assurances S.A. ("CAA") for the establishment of a 20-year strategic partnership in the Non-Life/Protection sector.
In particular, on 29 May 2023 Banco BPM exercised the option to purchase 65% of Vera Vita and Vera Assicurazioni with respect to Cattolica Assicurazioni, as an initial step in view of the sale to CAA of 65% of Vera Assicurazioni, which on the basis of the agreement of December 2022 will be sold to it, like the 65% interest in Banco BPM Assicurazioni.
The exercise price of the purchase option of Vera Vita and Vera Assicurazioni is set at 65% of the own funds of the insurance companies as at 31 December 2022, net of T2 instruments, plus a fixed component of 60 million, to which 65% of the result for the year of the two insurance companies accrued from 1 January 2023 until the closing date will be added.
The finalisation of the purchase transaction in question, following the exercise of the above-mentioned options, is subject to obtaining the necessary legal authorisations from the competent Authorities (IVASS), indicatively expected during the final quarter of 2023.
In light of the above, pursuant to IFRS 10, it was necessary to assess the substantial nature of the rights resulting from the exercise of the option to purchase 65% of Vera Vita and Vera Assicurazioni, in order to verify whether they are able to attribute to the investor the ability to direct the relevant activities, considering all facts and circumstances deemed relevant. In appreciating the substantiality of the rights, the presence of legal barriers was assessed, including in the form of authorisations, the presence of which is considered to prevent the investor from exercising its voting rights.
As a result of the analyses performed, also with the support of a leading professional opinion, no elements emerged to support the claim that the rights resulting from the exercise of the option are relevant insofar as the existence of control is concerned. Indeed, at that date, it is believed that there are substantial regulatory barriers, considering that the acquisition of IVASS authorisation does not constitute a merely formal step, but has aspects of substantiality which constitute a barrier to the free and current exercise of voting rights, thus constituting, pursuant to IFRS 10, evidence of the absence of any practical ability to exercise control.
In light of the above, at the date of preparation of these condensed interim financial statements, the interests in associates and joint ventures in Vera Vita and Vera Assicurazioni will continue to be classified as associates and valued using the equity method on the basis of IAS 28.

Consolidated structured entities

The control of structured entities, namely entities for which voting rights are not considered relevant to establish control, is retained to exist where the Group has contractual rights to manage the relevant activities of the entity and is exposed to the variable returns of the same.
On this basis, the structured entities for which consolidation for the purpose of the consolidated condensed interim financial statements as at 30 June 2023 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 2023, 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 2022, 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 2022, 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 sale; 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 2023, 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 2022.
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 2022.

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.	Banco BPM Assicurazioni S.p.A. (*) Share capital € 22,000,000.00	Milan	Milan	1	Banco BPM Vita	100.000%	100.000%

Company name	Operational headquarters	Registered office	Type of relationship (1)	Investment relationship		Available
				Holder	% held	% of votes (2)
7. Banco BPM Vita S.p.A. Share capital € 179,125,000.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
8. Bipielle Bank (Suisse) S.A. in liquidation Share capital CHF 25,000,000	CH - Lugano	CH - Lugano	1	Banco BPM	100.000%	100.000%
9. BPM Covered Bond S.r.l. Share capital € 10,000.00	Rome	Rome	1	Banco BPM	80.000%	80.000%
10. BPM Covered Bond 2 S.r.l. Share capital € 10,000.00	Rome	Rome	1	Banco BPM	80.000%	80.000%
11. BRF Property S.p.A. Share capital € 2,000,000.00	Parma	Parma	1	Banco BPM	65.428%	65.428%
12. BP Covered Bond S.r.l. Share capital € 10,000.00	Milan	Milan	1	Banco BPM	60.000%	60.000%
13. Ge.Se.So. S.r.l. Share capital € 10,329.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
14. Lido dei Coralli S.r.l. Share capital € 10,000.00	Sassari	Sassari	1	Banco BPM	100.000%	100.000%
15. Oaklins Italy S.r.l. Share capital € 109,000.00	Milan	Milan	1	Banca Akros	100.000%	100.000%
16. Partecipazioni Italiane S.p.A. in liquidation Share capital € 350,000.00	Milan	Milan	1	Banco BPM	99.966%	100.000%
17. P.M.G. S.r.l. in liquidation Share capital € 52,000.00	Milan	Milan	1	Banco BPM	84.000%	84.000%
18. Sagim S.r.l. Società Agricola Share capital € 7,746,853.00	Asciano (SI)	Asciano (SI)	1	Agriurbe	100.000%	100.000%
19. Sirio Immobiliare S.r.l. Share capital € 10,000.00	Lodi	Lodi	1	Banco BPM	100.000%	100.000%
20. Tecmarket Servizi S.p.A. (*) Share capital € 983,880.00	Verona	Verona	1	Banco BPM	100.000%	100.000%
21. Terme Ioniche S.r.l. Share capital € 881.92400	Cosenza	Lodi	1	Banco BPM	100.000%	100.000%
22. Terme Ioniche Società Agricola S.r.l. Share capital € 100,000.00	Cosenza	Cosenza	1	Banco BPM	100.000%	100.000%
23. BP Mortgages S.r.l. (**) Share capital € 10,000.00	Milan	Milan	4	-	0.000%	
24. BPL Mortgages S.r.l. (**) Share capital € 12,000.00	Conegliano V. (TV)	Conegliano V. (TV)	4	-	0.000%	
25. 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.*
(*) *Company held for sale pursuant to IFRS 5.*
(**) *Special Purpose Entity for securitisation transactions originated by the Group.*

Changes in the scope of consolidation

During the first half of the year, changes in the scope of consolidation include the exit of the subsidiary Consorzio AT01, consolidated on a line-by-line basis, and the associate Bussentina S.c.r.l., valued using the equity method, following their cancellation from the competent Companies' Registers, to complete the liquidation procedures.
These transactions did not generate any effects on the income statement of the Group as at 30 June 2023.

With reference to the binding agreement signed for the establishment of a strategic partnership aimed at the development of a new Italian and independent company in the digital payments sector, which calls for the transfer to the joint venture BCC Pay S.p.A. of the e-money activities of Banco BPM and the interests in associates and joint ventures in Tecmarket, it should be noted that in order to prepare the balance sheet as at 30 June 2023, the associated assets and liabilities subject to the transfer were reclassified to the specific balance sheet items "Non-current assets and disposal groups held for sale" and "Liabilities associated with assets classified as held for sale", in keeping with the provisions of IFRS 5.

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 2023) to the date of its approval by the Board of Directors (2 August 2023), 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.

E-money business enhancement project: signing of a binding Memorandum of Understanding with FSI and BCC Iccrea Group

As already mentioned in the section dedicated to significant events that occurred during the period of the Interim Report on Operations, on 14 July 2023 Banco BPM, BCC Iccrea Group and FSI signed a binding agreement (the "Agreement") for the establishment of a strategic partnership aimed at the development of a new Italian and independent company in the digital payments sector. The initiative will be able to count on strong development with a view to digital/fintech innovation of the range of products and services provided to customers, and calls for the expansion of the customer base to other banks and financial operators in the domestic market. The single technological platform will generate significant economies of scale in terms of investments as well.
The Agreement calls for the transfer to the joint venture BCC Pay S.p.A. (which will soon be rebranded) of the e-money activities of Banco BPM[1], with the payment of mixed consideration in cash and shares issued by the vehicle Pay Holding, which in turn controls the entire share capital of BCC Pay S.p.A. After the transaction, Pay Holding will be owned roughly 43% by FSI and around 28.6% each by Banco BPM and Iccrea Banca. The Agreement also calls for the signing of a multi-year distribution contract for the company's services on the Banco BPM network as well, which will distribute the issuing and acquiring offer catalogue of the joint venture, while maintaining full control of the commercial policy and pricing with its customers. Banco BPM will be able to maintain the current e-money commission margins, fully benefiting from their growth in a sector with high development potential, as well as the contribution of profits expected from the joint venture in addition to potential increases in the value of its interests in associates and joint ventures, and see a positive impact on capital ratios.
Following the transfer of Banco BPM's e-money activities, the joint venture will represent the second largest national operator with an e-money market share of more than 10%, with approximately 9 million cards, 400 thousand POSs and roughly 110 billion euro of intermediated transactions.
As a result of the transaction, Banco BPM will receive an immediate consideration of 500 million for the assets transferred, with an upfront cash component of approximately 200 million, in addition to the deferred price components for a further amount of up to 100 million, which may lead to 600 million in value.
The Agreement calls for some preparatory activities for the finalisation of the transaction, as usual, with the aim of completing the closing within the first quarter of 2024, a Banco BPM lock-up until 2026 and the usual exit mechanisms for this transaction type. The closing is subject, as usual, to the approval of the competent Authorities.

Establishment of Banco BPM Invest SGR S.p.A.

On 4 July, Banco BPM Invest SGR S.p.A., established in June and wholly-owned by the Parent Company Banco BPM, was registered with the Companies' Register.
The new company will carry out collective asset management activities for institutional customers once it has obtained the required authorisations from the Bank of Italy.

[1] Inclusive of the interests in associates and joint ventures representing the entire share capital of Tecmarket Servizi.

EU-wide stress test: Banco BPM far exceeds the minimum regulatory requirements

On 28 July, the results of the EU-wide stress test conducted by the EBA were disclosed. Banco BPM recorded better results than in previous years despite a more severe macroeconomic scenario, confirming its ability to generate value in the base scenario and withstand significant shocks in the adverse scenario. In particular, the adverse scenario leads to a fully loaded CET1 ratio post-impact of 9.0% compared to 7.0% recorded in the previous stress test conducted in 2021, with an increase of 2 percentage points.

OTHER ASPECTS

Most significant aspects for the valuations in the consolidated condensed interim financial statements as at 30 June 2023

The following section provides an illustration of the aspects considered to be priorities for the valuations performed in order to prepare the 2023 consolidated condensed interim financial statements and for the relative disclosure.

Environmental and climate aspects

The consideration of environmental and climate aspects represents an important element of attention in the strategy pursued by the Group, capable of affecting its operating activities, objectives and business conduct, in the knowledge that it can play a leading role in the action against climate change.
In this perspective, already in 2022, a greater awareness of the Group emerged with regard to the impact of ESG issues on the business model, on the competitive arena as well as on its objectives and strategies, in its guiding role for businesses and private customers in the process of transition towards an economy that combines economic sustainability with environmental and social sustainability.
At the date of preparation of these consolidated condensed interim financial statements, the main impacts on the financial statements related to the aspects in question pertain to the valuations of credit exposures and owned properties.
As at 30 June 2023, the assessment of the effects deriving from the inclusion of the effects of physical risk and transition risk, conducted through "management overlays", resulted in higher value adjustments of 36 million, based on the assumptions and scenarios described in the paragraph "Methods for measuring IFRS 9 expected losses for financial reporting purposes" contained in the section relating to credit risk of "Part E - Information on risks and related hedging policies" of these Explanatory Notes.
The effects of environmental and climate risks – consequent, for example, to regulatory adjustments required by the market, in terms of energy efficiency standards, or probable natural disasters of properties located in particular areas – are also capable of impacting real estate valuations, as they influence the ability of the property to be able to generate income. This ability represents a significant input in estimating the fair value, i.e. the criterion adopted by the Group for the financial statement valuations of the assets that therefore take into account environmental and climate aspects.

Impacts of the Russia-Ukraine conflict

A factor of instability that could be an obstacle to economic recovery is represented by the effects relating to the Russia-Ukraine conflict, which, on the one hand, increase the risk of the economic environment in which the business is run and, on the other, increase the risk of limited predictivity of economic projections. These uncertainties translate into an increase in the risk of having to make significant adjustments to the book value of the assets in the financial statements, as a result of a revision of estimates that could not be predicted when this interim financial report was prepared.

In line with the recommendations of the supervisory authorities (ESMA and CONSOB)[1] aimed at guaranteeing proper oversight over valuation issues impacted by the conflict and a full and transparent disclosure in the financial statements, information is provided below on the Group's credit exposures directly or indirectly impacted by the conflict, so as to be able to assess the extent of the problem and the actions taken by the Group to constantly monitor credit risks related to the Ukrainian conflict.
With reference to the uncertainties related to the macroeconomic scenario of reference, also as a result of the conflict, please refer to the following paragraph "Macroeconomic scenario".
In this regard, it should be noted that the impacts of the conflict are constantly monitored by the Group and subject to periodic reporting to the Board of Directors, as part of an ordinary and no longer crisis-based system, and it is no longer considered necessary to strengthen governance of this factor, also due to the constant reduction of the Group's exposures.

Direct exposures to Russia and Ukraine

For Banco BPM Group, the impacts directly related to the Russia-Ukraine conflict are entirely marginal, also considering that there are no operating activities located in Russia or Ukraine and that credit exposures to customers residing in these countries or indirectly related to Russian or Ukrainian counterparties are not significant. As at 30 June 2023, these exposures were entirely represented by loans.
In detail, direct gross exposures to Russian customers, entirely represented by loans, were constantly declining and as at 30 June 2023 amounted to approximately 8 million (19 million as at 31 December 2022), almost entirely referring to a counterparty classified as unlikely to pay; net of the relevant adjustment provisions, the book value is approximately 2 million.
Furthermore, the exposures referring to counterparties belonging to groups with direct control by Russian, Belarusian or Ukrainian entities declined compared to the previous year and refer to two Italian counterparties with an overall authorised credit amount of 48.5 million; the relative utilisation amounts to 3.5 million for unsecured loans.
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 - were stable with respect to 31 December 2022 and amount to roughly 15 million. Unsecured loans to the same counterparties for letters of credit confirmed and not yet utilised amounted to 3.9 million (14.8 million as at 31 December 2022).
Commercial risks associated with the operations of the Group's main customers and related to ongoing transactions with Russian and Ukrainian counterparties were down significantly and amounted to 20 million (96 million as at 31 December 2022).

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

As also shown in the 2022 financial statements, as at 30 June 2023 there were 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

With reference to impacts on credit quality, it should be noted that in 2022 the initiatives implemented through contact campaigns with customers belonging to the sectors potentially most exposed to the increase in energy prices and difficulties in the procurement of raw materials, triggered by the conflict in question, were completed. As a result of these initiatives, no elements emerged that would require taking actions different from those already envisaged as part of ordinary credit monitoring activities.

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[1] In more detail, see the following documents:

- ESMA Public Statement (ESMA71-99-1864) of 14/03/22 entitled "ESMA coordinates regulatory response to the war in Ukraine and its impact on EU financial markets";
- ESMA Public Statement (ESMA32-63-1277) of 13/05/22 entitled "Implications of Russia's invasion of Ukraine on half-yearly financial reports";
- ESMA Public Statement (ESMA32-63-1320) of 28/10/22 entitled: "European common enforcement priorities for 2022 annual financial reports";
- CONSOB notification of 18/03/2022 entitled "Notification on the impact of the war in Ukraine with regard to inside information and financial reporting"
- CONSOB notification of 19/05/22 entitled "Conflict in Ukraine - Notification on financial disclosure and obligations relating to compliance with the restrictive measures adopted by the European Union against Russia".

Macroeconomic scenario

As illustrated in the interim report on operations, the uncertainties linked to macroeconomic forecasts, particularly with regard to the evolution of inflation and developments in the Russia-Ukraine conflict, are such so as to require significant degrees of judgement in the selection of the assumptions and forecasts to be taken as a reference in the assessments used in the financial statements.

For Banco BPM Group, the monitoring of the macroeconomic context is carried out at least quarterly by a working group created ad hoc (Scenario Council), made up of the Chief Financial Officer and Chief Lending Officer and the heads of the various functions involved in various capacities for the planning and reporting processes (Planning and Control, Budget Strategy and Capital Planning, Risk, Administration and Budget), with the participation of the head of the Audit function as an auditor. The Scenario Council is responsible for defining and updating or confirming the macroeconomic scenarios used in the Group's strategic processes and their probability of occurrence, in light of external events or specific vulnerabilities of the Group. It is also responsible for identifying the processes impacted and their potential updating.

In greater detail, the macroeconomic scenarios are reviewed twice a year, at the close of the financial year (December) and the preparation of the half-yearly report (June); on a quarterly basis, a check is made on the sustainability of the scenarios used by the Group, unless the "materiality triggers", currently identified as a change in GDP of more than 0.5%, are exceeded. If the triggers are exceeded, the Scenario Council assesses whether they should be updated, after carrying out a detailed analysis of the factors that have led to the overrun and a technical assessment of their use in the various processes concerned.

On the basis of the policy described above, the assessments in the financial statements as at 30 June 2023 were conducted on the basis of an updated macroeconomic scenario compared to that used in the preparation of the 2022 financial statements; for an examination of the selected scenarios and the relative probabilities of occurrence, please refer to the paragraph "Methods for measuring IFRS 9 expected losses for financial reporting purposes" contained in the credit risk section of "Part E - Information on risks and related hedging policies" of these Explanatory Notes.

Measurement of expected losses on credit exposures

The various authorities have highlighted the importance of assessing whether the deterioration of the economic situation caused, first, by the Covid-19 scenario and, subsequently, by 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), based on the forward-looking information. The aforementioned assessment could be made on a collective basis, if it is not possible to identify the effects at the level of individual exposure, also taking into account the differential impacts of the crisis on different sectors of economic activity.

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 has accepted the possibility of resorting to post-model adjustment/management overlay, if it is deemed that the models are not able to fully reflect the effects of the crisis and the relative government support measures.

In order to calculate performing credit exposures (on-and off-balance sheet), in line with what was done for the 2022 financial statements, also when preparing the consolidated condensed interim financial statements as at 30 June 2023, the Group has applied some "post model adjustments/management overlays", for a total amount of roughly 200 million (corresponding to approximately 45% of total adjustment provisions on performing exposures), where it was deemed that the estimation models in use were not able to adequately capture certain risk factors, strengthening the Group's capacity to absorb any negative effects of the macroeconomic context, taking into account the factors of uncertainty existing at the date of preparation of this financial report. For a detailed analysis of post-model adjustments made as at 30 June 2023 and the relative changes during the year, please refer to the paragraph "Methods for measuring IFRS 9 expected losses for financial reporting purposes" contained in the section related to credit risk of "Part E - Information on risks and related hedging policies" of these Explanatory Notes. The same paragraph also provides an analysis of the sensitivity of the ECL to the various macroeconomic scenarios.

Other aspects - Declaration of end of the Covid-19 pandemic and Covid-19 support measures by the Group

After the year 2022, characterised by a scenario of normalisation of life and social habits, on 5 May 2033 the World Health Organisation officially declared the end of the health emergency that broke out just over three years earlier, with the declaration of the start of the pandemic on 11 March 2020.
In this context, for the support measures put into place by the Group during the pandemic period (moratoria and loans with COVID-19 public guarantees), it should be noted that the analyses conducted at the end of 2022 had not shown, with segments and rating ranges remaining the same, different risk profiles with respect to the remaining credit portfolio. For this reason, starting from 2023 exposures affected by Covid support measures are no longer subject to separate monitoring and reporting, as they are managed as part of ordinary credit processes.
For the support measures represented by moratoria, at the end of June 2023 there is no material amount for which payment suspensions are still in force.
For the support measures represented by loans guaranteed by the State, the residual exposure as at 30 June 2023 amounted to approximately 14.5 billion (guaranteed by MCC/Small-Medium Enterprises Management Fund for 11.7 billion, by SACE for 2.7 billion and for the remaining minor share by ISMEA and Confidi).

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 2023 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. 2036 of 19 November 2021 - IFRS 17 "Insurance Contracts" and no. 1491 of 8 September 2022 - Amendments to IFRS 17 "Insurance contracts: Initial application of IFRS 17 and IFRS 9 – Comparative Information"

On 18 May 2017, the IASB issued the new accounting standard IFRS 17, which governs the accounting treatment of insurance contracts; subsequently, the standard was amended on 25 June 2020 to simplify its implementation and the disclosure of financial performance, as well as to defer the first-time application of IFRS 17 and make it simultaneous with the adoption of IFRS 9.
Lastly, 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.
For an illustration of the main aspects of IFRS 17, the choices of the Group's insurance subsidiaries and the impacts of the transition for subsidiaries and associates, please refer to the following paragraph "Impacts of the transition to IFRS 17 Insurance contracts".

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.

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.

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.

With the exception of the regulation endorsing IFRS 17, the other amendments described above have no impact on the Group.

IAS/IFRS accounting standards and endorsed SIC/IFRIC interpretations, the application of which takes effect after 30 June 2023

There are no endorsed standards or amendments whose application takes effect after 30 June 2023.

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 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. Its application, initially scheduled for the year 2022, was first deferred to 1 January 2023, with the amendments approved by the IASB on 15 July 2020, and finally deferred to 1 January 2024, with the amendments issued on 31 October 2022 "Non-current Liabilities with Covenants". This latter amendment requires that only those covenants that an entity is required to comply with on or before the reporting date are likely to affect the classification of a liability as current or non-current. It is also required to indicate in the Explanatory Notes the information that allows the users of the financial statements to understand the risk that the non-current liabilities with covenants may become repayable within twelve months.

Amendments to IFRS 16 "Lease Liability in a Sale and Leaseback"

On 22 September 2022, the IASB issued, in response to an IFRIC recommendation, the above amendments, with the aim of clarifying how a seller-lessee should carry out the subsequent measurement of liabilities in sale and leaseback transactions that meet the requirements of IFRS 15 for the purposes of accounting as a sale.
These amendments will enter into force for annual reporting periods beginning on or after 1 January 2024.

Amendments to IAS 12 "International Tax Reform - Pillar Two Model Rules"

On 23 May 2023, the IASB issued this amendment, following the OECD's publication in December 2021 of a series of internationally agreed standards (by more than 135 countries representing over 90% of global GDP) aimed at resolving the tax problems deriving from the digitalisation of the economy, through which a two-pillar model has been introduced (Pillar One and Two). In particular, Pillar Two aims to limit tax competition by introducing a minimum global tax rate of 15% in each jurisdiction in which large multinationals operate. In general, the Parent Company will be required to pay any top-up tax for subsidiaries that operate in low tax jurisdictions (for which the current tax is lower than the minimum threshold of 15%). The additional tax will be paid in the jurisdiction of the Parent Company. Given the doubts that emerged on the accounting of deferred taxes relating to the top-up tax, the IASB introduced:

- a mandatory temporary exception for entities that recognise and disclose information on deferred tax assets and liabilities relating to income taxes of the Pillar Two model;
- some additional targeted disclosure obligations before and after the entry into force of the regulations.

The entity's request to apply the temporary exception - and to communicate that it has applied the exception - must be made immediately after the publication of the amendments and retrospectively in accordance with IAS 8. Reporting requirements, other than those linked to the entity's communication that it plans to apply the exception, are required for annual periods beginning on or after 1 January 2023 (there is therefore no disclosure obligation in interim financial reports).

Amendments to IAS 7 and IFRS 7 "Disclosure: Supplier Finance Arrangements"

On 25 May 2023, through this amendment the IASB published some reporting obligations aimed at improving the transparency of financial agreements with suppliers and their effects on a company's liabilities, cash flows and exposure to liquidity risk.
Lack of transparency as to the content of the above-mentioned loan agreements represents an obstacle to an accurate analysis by a company's investors.
The amendments aim to add to the requirements already inherent in the accounting standards by requiring companies to provide the terms and conditions of the agreements, the liabilities that are part of the agreements with a separate indication of the amounts for which the suppliers have already received payment, payment due dates and information on liquidity risk.
These amendments will enter into force for annual reporting periods beginning on or after 1 January 2024.

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

Impacts of the transition to IFRS 17 Insurance contracts

Introduction

The accounting standard IFRS 17 "Insurance contracts", applicable from 1 January 2023, was issued by the IASB on 18 May 2017, to replace IFRS 4 with the aim of having a single standard on insurance. In fact, without prejudice to the fair value measurement of assets, IFRS 4 indicated that the liability measurement approach should be based on the accounting models established by the individual national jurisdictions, pending the finalisation of the IASB project relating to insurance contracts, thus making it difficult to compare financial statements.
Therefore, IFRS 17 represents the evolution of the previous regulations, introducing greater transparency and uniformity in the representation of insurance contracts and reducing subjectivity in the preparation of financial statements.

The version of IFRS 17 approved by the IASB in May 2017 was subject to subsequent amendments published on 25 June 2020 and 9 December 2021.
The endorsement took place with Regulation (EU) no. 2036/2021 of 19 November 2021, in turn amended by Regulation (EU) no. 1491/2022 of 8 September 2022, which introduced some changes of limited scope for the preparation of comparative information for the first-time application of IFRS 17 and IFRS 9. It should be noted that during the endorsement phase, in line with the wishes of the Italian and European industry, the possibility was

introduced to exempt intergenerationally-mutualised and cash flow matched contracts from the annual cohort requirement, which was not permitted by the version of the standard approved by the IASB (the "carve out option").

That being stated, in line with the provisions set forth in IAS 8 – and in particular by paragraphs 30 and 31 – the qualitative and quantitative information useful for understanding the impacts on the consolidated statement of financial position, cash flows and profit and loss correlated with the adoption of the new standard, which for the Banco BPM Group regards both the subsidiary insurance companies (Banco BPM Vita and Banco BPM Assicurazioni) and the associated insurance companies (Vera Vita and Vera Assicurazioni).
Preliminarily, for the subsidiaries, an illustration is provided of the main methodological choices adopted in the application of the standard in question and the relative implementations.

The guidelines provided by ESMA in the Public Statement "Transparency on implementation of IFRS 17 Insurance Contracts" of 13 May 2022, as referred to in the joint statement of the Bank of Italy, CONSOB and IVASS of 27 October 2022 ("IAS/IFRS Financial Statements as at 31/12/2022 - Disclosure on the transition to IFRS 17 and IFRS 9") and in the subsequent ESMA communication of 28 October 2022 ("European common enforcement priorities for 2022 annual financial reports"), were also taken into due consideration.

Summary of the standard and information on the Group's projects for the subsidiary insurance companies

For insurance companies, the adoption of IFRS 17 represents the most significant change in accounting requirements after the initial application of the international accounting standards, since it required an extensive review of the accounting policies for representing the insurance business – both life and non-life business – and the methodologies for measuring the associated liabilities.
In particular, the accounting models proposed by the standard led to a fundamental change from the previous accounting policies, with particular reference to the following critical aspects:

- concept of insurance revenue;
- timing of recognition of losses deriving from onerous contracts;
- greater complexity of measurement processes, quantitative requirements, determination of actuarial and financial assumptions, disclosure requirements and analysis of the results;
- misalignment with the amounts used to measure regulatory capital.

Aiming to introduce greater transparency and clarity of information to stakeholders, IFRS 17 defines the principles to be applied for the recognition, measurement and accounting of all insurance and reinsurance contracts and states:

- a clear definition of the insurance contract;
- a consistent standard for accounting;
- a unified valuation model for all types of contracts;
- consistent reporting standards for the assets and liabilities of the companies.

In light of the above, in July 2022, the Group's subsidiaries - Banco BPM Vita and Banco BPM Assicurazioni - started the project to implement the accounting standard in question.
The project, which transversally involved numerous operating structures of the companies, was divided into several workstreams, in order to complete, in 2023, the alignment of all accounting and administrative processes necessary for the production of the data and information required by IFRS 17.
In greater detail, the sites were defined as follows:

- *methodological-accounting workstream*: this is the workstream aimed at defining the methodological choices of the key aspects of the standard, set out in specific technical documentation. In this regard, the reference accounting framework was also defined, with particular regard to the identification of the chart of accounts and the development of accounting records;
- *IT developments workstream*: this is the workstream dedicated to aligning IT procedures to the new requirements of the standard, which has involved the life actuarial engine, the non-life actuarial engine, the data warehouse, the IFRS 17 engine, the accounting and financial statements system;
- *target operating model workstream*: the objective of this project was to design the new end-to-end IFRS 17 valuation process, identifying the roles, responsibilities and time-frames for carrying out the various activities;

- *parallel run and transition workstream*: this workstream processed data production in parallel for the preparation of the necessary data for the opening balances and comparative balances for the financial year 2022.

During the second half of 2022, a specific project was also launched, with the aim of identifying the impacts and defining the rules for the representation of IFRS 17 balance sheet and income statement figures in the Group's consolidated financial statements, with particular reference to the determination of the Contractual Service Margin at a consolidated level.

Interaction between IFRS 17 and IFRS 9 for subsidiary insurance companies

With reference to the valuation of the assets and liabilities held by the consolidated insurance companies, it should first be noted that the Group was not able to avail itself of the possibility to defer IFRS 9 to 1 January 2023, with simultaneous application with IFRS 17, as that possibility was reserved to financial conglomerates.
In this regard, it must be noted that, based on Regulations (EU) no. 1988/2017 and no. 2097/2020, for entities primarily engaged in insurance activities - including the insurance sector of a financial conglomerate falling within the scope of Directive 2002/87/EC - it would be permitted to postpone the application of IFRS 9 (so-called "deferral approach") in place of IAS 39 until 1 January 2023, in order to allow its simultaneous application with the new insurance standard IFRS 17, thus ensuring a more consistent representation of the economic and equity impacts of insurance liabilities and related financial assets, in accordance with the provisions of the new standard.
As the Group received notice of its status as a financial conglomerate on 7 March 2023, the financial assets and liabilities held by the Group's insurance companies were valued on the basis of IFRS 9 as of the date of initial consolidation (1 July 2022).

For the sake of comprehensive disclosure, the classification of the financial instruments held by the insurance companies is provided below:

- debt securities are nearly fully classified in the portfolio of "Financial assets measured at fair value through other comprehensive income";
- the shares and UCIT units are included in the portfolio of "Other financial assets mandatorily measured at fair value" through profit and loss, since the option to designate them at fair value through other comprehensive income was not used for equity instruments;
- liabilities related to Class III insurance contracts (unit linked) are included in the portfolio of "Financial liabilities designated at fair value", with the objective of ensuring a consistent accounting treatment with the underlying investments, mainly represented by UCIT units.

For further details on the criteria for the recognition and valuation of the above-mentioned financial instruments, please refer to what is explained in part "A.2 Key financial statement items" in the Annual Financial Report as at 31 December 2022 to which reference is made.

In light of what is described previously, it is necessary to specify that, with the initial application of IFRS 17, there were therefore no impacts on the classification and measurement of financial instruments; likewise, the rules set out in paragraphs C28B-C28E of IFRS 17 ("classification overlay") - introduced by Regulation (EU) no. 1491 of 8 September 2022 - which allows, for the IFRS 17 comparative periods, the use of IFRS 9 rules for the classification and measurement of financial assets linked to insurance liabilities, except for the impairment rules, do not apply.

Explanation of the main aspects relating to IFRS 17 and methodological choices adopted by the Group's subsidiary insurance companies

Below is an illustration of the technical aspects considered most relevant for the application of IFRS 17 and the main options and methodological choices made by the Group, for which it is not possible to exclude possible future adjustments.

Definition of insurance contract and identification of the investment component

IFRS 17 applies to contracts falling within the following scope:

- insurance contracts issued, including reinsurance contracts;
- reinsurance contracts held; and

- investment contracts with discretionary participation features issued, provided that the entity also issues insurance contracts.

An insurance contract is defined as a contract based on which one party (the issuer) accepts a "significant insurance risk" from another party (the policyholder), agreeing to indemnify the policyholder if the latter suffers damages as a result of a specific uncertain future event (the insured event).
Therefore, IFRS 17 proposes the definition of "insurance contract" included in IFRS 4. The guidelines for identifying the presence of "significant insurance risk" establish, however, that this must be based on the present value of the potential cash flows of a given contract, rather than on the absolute value.
IFRS 17 also requires the separation of the distinct investment component in the host insurance contract only if the following requirements are met simultaneously:

- the investment component and the insurance component are not highly interrelated. The two components are highly interrelated if the entity is unable to measure one component without considering the other, as the value of one component varies according to the other, or if the policyholder is unable to benefit from one component unless the other is also present; and
- a contract with equivalent terms is sold, or could be sold, separately in the same market or the same jurisdiction, either by entities that issue insurance contracts or by other parties.

The separated investment component must be subject to IFRS 9, unless it is an investment contract with discretionary participation features within the scope of application of IFRS 17.
With reference to the classification of insurance contracts, both non-life and life, the Group did not deem it necessary to change the scope, with respect to the valuations carried out on the basis of the previous IFRS 4. Therefore, the scope of application includes all contracts, non-life and life, with the exception of Class III products represented by Unit Linked products, for which no significant insurance risk has been identified.
With reference to the separation of components from an insurance contract referring to the life business, on the basis of a qualitative analysis, the Group considers it necessary to activate the Multi-segment tariff unbundling procedure. Consequently, the Class I component - i.e. the investment component with discretionary participation features - is accounted for in accordance with IFRS 17, while the Unit-linked Class III component - Investment component - will be accounted for in accordance with IFRS 9.

Identification of contract boundaries

Having determined the scope of contracts that fall under IFRS 17, the standard requires the setting of contract boundaries within which the cash flows are to be considered for the purposes of the valuation of the liabilities of the company. It is therefore a question of defining whether a contractual option should be considered in the projected cash flows from the time the contract is executed or whether it is such as to generate a new group of contracts.
The Group companies, in continuity with actuarial calculation logics already in use, consider including in the contract boundaries, and therefore in the cash flow projection, all future premiums and options dependent on the policyholder's decisions, where there is no option for the company to re-price them or to refuse the exercise of the option. For example, based on current analyses, automatic deferrals and additional payments fall within the contractual limits; in this regard, it should be noted that, for non-life business contracts for which the tacit renewal option is available, the cash flows are valued up to the first contractual expiry, since both counterparties have the option to cancel or withdraw from the renewal of the contract.

Level of aggregation (unit of account): grouping of contracts

IFRS 17 provides that, upon initial recognition, insurance contracts must be aggregated into groups of contracts and that the provisions relating to their recognition, measurement and presentation in the financial statements must be applied to the group of contracts.
The level of aggregation is therefore not a merely abstract concept, but it directly affects the ability of companies to aggregate contracts in order to proceed with their initial recognition and subsequent measurement. The level of aggregation is relevant for the purposes of identifying onerous contracts, with the consequence that losses attributable to the contracts must be recognised from the beginning ("onerous contract test").
The level of aggregation is determined on the basis of the following grouping hierarchy:

- portfolio: a group of contracts subject to similar risks and managed together as a single pool;
- cohorts: this is a segmentation of portfolios on the basis of the initial recognition date of the contract;

- profitability "buckets": these refer to a further division of each cohort, depending on the profitability expected at the time of initial recognition of the contract, according to the following three buckets:
  - onerous contract that is considered unprofitable, and therefore onerous, at the time of initial recognition;
  - contract considered profitable at the time of initial recognition that does not present a significant risk of becoming onerous in the future;
  - other cases, i.e. a profitable contract that presents a significant risk of becoming onerous in the future.

IFRS 17 requires an entity not to include contracts issued more than one year later in the same group. Therefore, each portfolio must be disaggregated into annual cohorts or cohorts that include periods of less than one year. As reported in the introduction, at the time of endorsement by the European Commission with EU Regulation no. 2036/2021, the text of IFRS 17 was amended to provide for the possibility of not applying the requirement of annual cohorts (so-called carve-out option).

In light of the above, for Banco BPM Vita the aggregation into groups of contracts takes place according to the following characteristics: products included in the same Segregated Fund, Class I component of Multi-segment products and pure risk products (e.g. Term Life Insurance - TLI).
With regard to contracts belonging to Multi-segment products or linked to a Segregated Fund, it was decided to exercise the option not to apply the annual cohort requirement ("Carve Out option"), as provided for in the IFRS 17 endorsement Regulation at European level, and therefore to aggregate these types of contracts only with regard to the concept of similar risks managed together and belonging to the same profitability bucket.
For Banco BPM Assicurazioni products, it is deemed that the related legal form also reflects the substance, and it is therefore considered reasonable to classify a contract that provides for the combination of several guarantees based on the prevailing risk it presents. Based on these considerations, the following portfolios of insurance contracts were identified: Motor vehicles, Income, Home, Fire, Accident, Health.

Accounting models for the measurement of insurance liabilities

IFRS 17 provides for three methods for the valuation of insurance contracts applicable to the various business lines.

The Building Block Approach (BBA) is the standard method for the valuation of insurance contracts structured on a block approach whereby, at the time of execution of the contract, the insurance liability is equal to the algebraic sum of the present value of the expected contractual cash flows on the basis of an appropriate discount rate (Present Value of Future Cash Flow - PVFCF), the adjustment for non-financial risks related to the uncertainty in the realisation of cash flows (Risk Adjustment - RA) and the expected economic margin (Contractual Service Margin - CSM).[1] This model is applicable to all insurance contracts with the exception of those with direct participation features for which the "Variable Fee Approach" model is applied or those measured on the basis of the "Premium Allocation Approach" simplified methodology.
The subsequent measurement of liability requires an assessment of the aforementioned features, in order to reflect the changes between the initial estimates and those in effect at the reporting date. In particular:

- changes in the present value of cash flows, deriving from changes in the discount rate used, result in the corresponding adjustment of the former with a balancing entry in the income statement or, if the so-called "OCI Option" (Other Comprehensive Income) is used, in the statement of comprehensive income;
- changes in the estimate of liabilities relating to future services determine an adjustment of the CSM, to be released to the income statement on the basis of the coverage unit;
- changes arising from the difference between the expected cash flows for the period, recognised in revenues for insurance services, and those actually incurred in the same period, recognised in the costs for insurance services, have an impact on the income statement for the year.

The Premium Allocation Approach (PAA) is a simplified optional methodology set out in the regulations for contracts with a temporary duration, i.e. coverage of 12 months or less, or - under certain conditions - also for contracts with a longer duration. With this approach, a single liability is recognised, without any distinction of the components under the BBA model, called Liability for Remaining Coverage (LRC), which is systematically released to the income statement according to the contractual duration, in a manner entirely similar to the premium reserved based on IFRS 4.

[1] In particular, paragraph 25 states that the date of initial recognition of the contract is: the date of the premium, the date of initial commencement or the date on which the contract becomes onerous.

The Variable Fee Approach (VFA) is the mandatory measurement model established for insurance contracts with direct participation features, i.e. contracts that, on the basis of an underlying participation feature, provide a significant additional benefit when the insured event occurs (e.g., contracts linked to Segregated Funds). The model in question is structured in blocks, in line with the standard model: in this case, the CSM represents the fee for the financial management service provided by the company. Based on this model, any changes in the estimate of the CSM, which derive from the performance of the underlying financial assets and therefore affected by market variables, determine a change in the CSM itself, without having a direct impact on the income statement or the statement of comprehensive income, as is the case with the BAA model.

In light of the above, Banco BPM Vita uses the following valuation models:

- Variable Fee Approach, for all insurance contracts with direct participation features, subject to verification of eligibility criteria;
- Premium Allocation Approach for the Unit of Account reserved to single-year non-life products in run-off (health and accident products);
- Building Block Approach for the remaining portfolios.

For Banco BPM Assicurazioni's business, the preferred approach is that of the Premium Allocation Approach, for single-year contracts as well as for multi-year contracts following the successful verification of eligibility. In the event of a negative outcome of the eligibility test for multi-year cases, the Company reserves the right to use the general model.

Inputs and parameters on valuation models

Discount Rate

As previously illustrated, the valuation of the insurance liability is based on the discounting of expected future cash flows using a discount rate deemed adequate to reflect the time value of money and the financial risk, if the latter is not already incorporated in the cash flow estimates.

The discount rates must:

- reflect the time value of money, the characteristics of cash flows and the liquidity characteristics of insurance contracts;
- be consistent with the current observable market prices (if any) of the financial instruments whose cash flows have characteristics corresponding to those of insurance contracts, for example, in terms of maturities, currency and liquidity; and
- exclude the effect of factors which, although affecting observable market prices, do not affect future cash flows of insurance contracts.

The approach used by the Group to define the discount rate is based on a bottom-up approach, according to which the discount curve is determined starting from a risk-free curve (liquid risk-free yield curve), to which an adjustment is applied for the liquidity premium of the insurance contracts, able to reflect the differences between the liquidity characteristics of the financial instruments that are the basis of the rates observed on the market and the liquidity characteristics of the insurance contracts subject to valuation.

Risk Adjustment

As already described above, a further block for the determination of the financial liability is the so-called "Risk Adjustment", i.e. the non-financial adjustment that represents, in substance, the remuneration that the entity requires to assume the risk arising from the uncertainty about the amount and timing of cash flows. The risks covered by the adjustment in question are insurance risk and other non-financial risks, such as lapse risk or expense risk.

Considering that IFRS 17 does not define a specific calculation method, the Group deemed it appropriate to estimate the Risk Adjustment using a Value At Risk (VAR) approach.

CSM release pattern (Coverage Unit)

The Contractual Service Margin represents the expected profit from the insurance contracts in the portfolio and is estimated as the difference between the cash flows due to the entity (premiums) and the total contractual liabilities assumed, including the risk adjustment. The aforementioned margins will be recognised in the income statement throughout the entire period in which the insurance coverage is provided; no profit is therefore recorded at the date of initial recognition of the contracts as they relate to insurance services that will be provided in the future. The

release of the CSM is based on the definition of the coverage units, which are determined by identifying for each contract the quantity of service provided to the policyholder and the expected duration of the group of contracts.
If the CSM assumes negative values, at the time of the initial recognition or even subsequently in the event of adverse changes in the expected profitability, the implicit loss arising from the insurance contract must be recognised in full in the income statement.
In the method implemented by the Group companies, the release of the CSM is based on a pattern defined by considering the amounts insured for the TLI (Term Life Insurance) and CPI (Credit Protection Insurance) products and on the mathematical reserves for the other products.

Financial revenues and costs and accounting options adopted to mitigate accounting mismatches
The accounting standard IFRS 17 requires the entity to make an accounting policy choice with regard to the disaggregation of insurance revenues and financial costs between the income statement and the statement of comprehensive income. In greater detail, the options permitted by the aforementioned standard (paragraphs 88, 89, 90) allow a portion of financial costs and revenues of a financial nature relating to insurance contracts to be recognised as a balancing entry to comprehensive income (OCI option), rather than in the income statement. This choice is aimed at reducing any accounting mismatches resulting from the different valuation models required by IFRS 17 for insurance contracts and by IFRS 9 for the investments underlying the aforementioned contracts. More specifically:

- for contracts accounted for according to the BBA or PAA models, IFRS 17 allows changes in insurance liabilities arising from changes in discount rates to be recognised as a balancing entry to the statement of comprehensive income, with the effects of the reversal of the discount rate identified upon initial recognition (the so-called "locked-in" rate) being recognised in the income statement;
- for contracts accounted for with the VFA model, the standard essentially requires that the net financial return, arising from the difference between the fair value measurement of the assets underlying the insurance contracts and the revaluation of the insurance liabilities, is recognised in the statement of comprehensive income, with a zero effect on the income statement. This approach, also known as the "mirroring approach", replaced the shadow accounting practice under IFRS 4, also aimed at reducing the accounting mismatching resulting from different measurement criteria between insurance liabilities and related financial assets, as represented below in paragraph "15 Insurance assets and liabilities" of section "A.2 - Key financial statement items".

In order to reduce potential accounting mismatches and related income statement volatility, the Group decided to use the OCI option for all portfolios of insurance contracts.

Determination of the CSM at consolidated level

In theory, for groups within which entities issuing insurance contracts and entities placing insurance contracts coexist, the calculation of the CSM at consolidated level must take place according to a different calculation track than the one that would be followed for the CSM of the IAS/IFRS financial statements of the insurance companies, if required. This circumstance is recalled by the ESMA communication of 28 October 2022, cited in the introduction, which emphasises the importance that the IFRS 10 consolidation requirements must be applied consistently to all intra-group transactions, including those falling within the scope of IFRS 17, in order to guarantee the proper application of the new standard in the consolidated financial statements. Specifically, ESMA reports that if the group banks distribute insurance products, the CSM at consolidated level will often differ from the insurance one.
The need to determine a CSM at consolidated level is relevant for the Banco BPM Group as the Parent Company distributes the insurance products of the subsidiaries, charging the placement fee to the latter. As part of the consolidation process, the elimination of intra-group fees charged to insurance companies requires an adjustment to consider the costs actually incurred by the Parent Company for the distribution of policies. This transaction may therefore entail the recognition of a different consolidated CSM from the one that would be calculated in the financial statements of the individual companies, to the extent that the costs incurred by the Group towards third-party economies differ from the placement fees paid by the companies to the banking distribution network.
Taking into account the above, the Group chose to calculate, in the first instance, the CSM at the level of individual insurance companies and, subsequently, determine the Group CSM through appropriate adjustments at the time of consolidation. To this end, the actual costs incurred by the Group are estimated on the basis of a "Cost/income ratio", determined according to operational metrics, based on the historical observation of the actual distribution costs incurred by the Group's networks with respect to the fees paid to the Group's insurance companies, broken down by homogeneous categories of policies and distribution models. The aforementioned operating drivers are

also considered in order to identify costs represented by personnel expenses, other administrative expenses, net value adjustments on property, plant and equipment, to be reclassified to the consolidated financial statement item relating to the result of insurance operations.

Presentation and financial statements

The IFRS 17 standard introduces new logic to calculate the income of insurance companies, also with a view to achieving better comparability of the financial disclosure with a consequent impact on insurance products and on the way the performance of insurance companies is measured, based on the product profit margin (CSM) to be measured according to the services provided compared to the current premium income aggregate.
In particular, in the income statement, the items "Net premiums" and "Balance of other income/expenses from insurance activities" were replaced by the items "Profit (loss) on insurance services" and "Balance of revenues and costs of a financial nature relating to insurance activities".
In fact, IFRS 17 introduces a separate representation of the two components that contribute to the profitability of the insurance business:

- the insurance margin shown under "Profit (loss) on insurance services", equal to the difference between:
  - insurance revenues: mainly represented by the expenses that are expected to be incurred during the year, by the evolution of the liability for the explicit adjustment for the risk, as well as by the allocation to the financial year of a share of the CSM in relation to the services provided;
  - the related costs mainly represented by the amount of expenses for insurance services actually incurred in the current year (claims), fees and other acquisition costs, losses for onerous contracts.
- the margin related to the financial components is instead shown in the item "Balance of revenues and costs of a financial nature relating to insurance activities". In particular, these are interest accrued during the year due to the time value of money, the effects related to changes in the time value of money and the financial risks of insurance contracts, changes in the fair value of the underlying assets of issued insurance contracts valued using the VFA approach, other than those recognised in the statement of comprehensive income as a result of the OCI option.

In terms of disclosure, the standard requires different statements of changes, occurred during the year, of the individual components making up the insurance liabilities.
In this regard, it should be noted that the new requirements for the presentation of the results of the insurance business and the related disclosure are incorporated in the Bank of Italy Circular no. 262 "Bank financial statements: layouts and rules for preparation", from the 8th update of 17 November 2022. The aforementioned disclosure requirements take into account the provisions issued by IVASS with reference to the insurance financial statements, by reference to ISVAP Regulation no. 7 of 13 July 2007, as amended by Measure no. 121 of 7 June 2022.

Procedures for transition to the new standard

As indicated in the introduction, IFRS 17 is mandatorily applicable for annual periods beginning on or after 1 January 2023. The transition date is identified with the start of the financial year immediately preceding the one of first application (i.e. 1 January 2022).
For the purposes of the transition, IFRS 17 provides for the application of three different approaches, which can be adopted on the basis of the availability of historical information:

- the full retrospective approach. This approach requires that the contracts in the portfolio are accounted for as if the rules introduced had always been in force from the date they were entered into;
- the simplified approach (the so-called "modified retrospective approach"), where the complete approach is not feasible. This method introduces a number of simplifications with reference to the estimate of the CSM, the level of aggregation of contracts, the use of annual cohorts and the discount rates to be used. In any case, the objective of this method is to determine a CSM at the date of initial recognition of the contract and reconstruct its value at the transition date;
- the fair value approach. This transition method is based on the possibility of calculating the CSM at the transition date as the difference between the fair value of the group of insurance contracts - determined according to the logic envisaged by IFRS 13 - and the so-called "fulfilment cash flows" at the transition date, equal to the sum between the "Present Value of Future Cash Flow - PVFCF" and the "Risk Adjustment - RA". Therefore, this method does not call for the reconstruction of the historical values of the contract starting from the signing date, and is based only on the data available at the transition date.

IFRS 17 also governs the case of the acquisition of insurance contracts as part of a business combination that occurred after the transition date. For this case, applicable to the Group, IFRS 17 provides that the initial recognition of insurance contracts, and consequently of the contractual services margin (CSM), must refer to the date of the business combination transaction.
Considering that the acquisition of the insurance companies Banco BPM Vita and Banco BPM Assicurazioni took place on 1 July 2022, for the insurance contracts issued by them, the initial recognition date is 1 July 2022 in accordance with the provisions of IFRS 17. The transition method adopted to estimate the CSM is the Fair Value Approach, in line with what was identified in the "Purchase Price Allocation - PPA" process pursuant to IFRS 3.

The effects of the first-time adoption of IFRS 17 for the Group

For the Banco BPM Group, the adoption of IFRS 17 had a direct impact resulting from the valuation of the insurance contracts issued by the Group's insurance companies - Banco BPM Vita and Banco BPM Assicurazioni - as well as an indirect impact related to the equity valuation of interests in the associated insurance companies Vera Vita and Vera Assicurazioni and their respective subsidiaries Vera Financial and Vera Protezione.

For the main methodological approaches and accounting policies adopted by the Group for the measurement of insurance contracts issued by the subsidiaries, please refer to what is described above.

With reference to the associates - Vera Vita and Vera Assicurazioni - it should be noted that the transition project was led by the respective Parent Companies; the relative impacts communicated by the above-mentioned companies were considered by the Group as part of the valuation at equity of the related interests. For these companies, the restatement of the balances, in addition to constituting the date of initial application of IFRS 17, also represents the date of initial application of IFRS 9 to replace IAS 39. In this regard, it should be noted that Vera Vita and Vera Assicurazioni made use of the "Deferral Approach", by virtue of which financial assets and liabilities could continue to be recognised in the financial statements pursuant to IAS 39, until the entry into force of IFRS 17. In applying the equity method, Banco BPM Group therefore maintained the accounting standards applied by the associated insurance companies, making use of the temporary exemption provided by IAS 28 until 31 December 2022.

Impacts of the transition to IFRS 17

On the basis of the provisions of IFRS 17, the application was carried out retrospectively by restating the comparative balances. The date of transition (First Time Adoption - FTA) to the accounting standard is in fact 1 January 2022, which represents the start of the period immediately preceding the date of mandatory initial application of IFRS 17 (i.e. 1 January 2023). Specifically with reference to the insurance companies Banco BPM Vita and Banco BPM Assicurazioni, considering that the acquisition of control took place on 1 July 2022, the transition to IFRS 17 was carried out starting from that date, in consideration of the interaction with the Purchase Price Allocation process and the resulting operational issues and the marginal economic contribution of the companies in question in the first half of 2022, as well as in the light of what is described in greater detail in the paragraph "Procedures for transition to the new standard" above.

At the transition date, the application of IFRS 17 had an overall positive impact on consolidated shareholders' equity of 31.0 million; taking into account the results and reserves for the year 2022, restated on the basis of IFRS 17, the impact on shareholders' equity as at 31 December 2022 is overall a positive 246.2 million. This impact refers to the subsidiaries for 47.6 million and to the associates for 198.6 million.

(figures in thousand of euro)	Subsidiary insurance companies	Associated insurance companies (*)	Total
FTA impact on consolidated shareholders' equity	**(22,810)**	**53,833**	**31,023**
Item 120. Valuation reserves	**-**	**1,237**	**1,237**
- of which: new measurement criterion for insurance liabilities	*-*	*1,237*	*1,237*
Item 150. Reserves	**(22,810)**	**52,596**	**29,786**
- of which: new measurement criterion for insurance liabilities	*15,625*	*52,596*	*68,221*
- of which: cancellation of the VoBA	*(38,435)*	*-*	*(38,435)*
Impact for the year 2022	**70,442**	**144,760**	**215,202**
Item 120. Valuation reserves	**66,484**	**166,260**	**232,744**
- of which: new measurement criterion for insurance liabilities	66,484	166,260	*232,744*
Item 200. Profit (loss) for the year	**3,958**	**(21,500)**	**(17,542)**
- of which: new measurement criterion for insurance liabilities	814	(21,500)	*(20,686)*
- of which: cancellation of the VoBA	3,144	-	*3,144*
Impact on consolidated shareholders' equity as at 31 December 2022	**47,632**	**198,593**	**246,225**
Summary of impacts by reason	**47,632**	**198,593**	**246,225**
New measurement criterion for insurance liabilities	*82,923*	*198,593*	*281,516*
Cancellation of the VoBA	*(35,291)*	*-*	*(35,291)*
Summary of impacts by financial statement item	**47,632**	**198,593**	**246,225**
Item 120. Valuation reserves	*66,484*	*167,497*	*233,981*
Item 150. Reserves	*(22,810)*	*52,596*	*29,786*
Item 200. Profit (loss) for the year	*3,958*	*(21,500)*	*(17,542)*

(*) For the associated insurance companies, the initial application of IFRS 17 was simultaneous with that of IFRS 9.

As shown in the table above, the overall impact on shareholders' equity as at 1 January 2023 depends on the combined effect of the new criterion for measuring insurance liabilities (+281.5 million), and the reversal of the intangible assets represented by the VoBA (-35.3 million).
In greater detail, the different criterion for measuring financial liabilities follows the derecognition of the technical provisions and other equity components calculated on the basis of IFRS 4 and the recognition of the new value of the insurance liabilities calculated pursuant to IFRS 17 (Present Value of Future Cash Flows - PVFCF, Risk Adjustment - RA, Contractual Service Margin - CSM).
The cancellation of the "VoBa - Value of Business acquired", i.e. the intangible asset recognised during the Purchase Price Acquisition (PPA) of Banco BPM Vita and Banco BPM Assicurazioni, pursuant to IFRS 3, against the capacity of the contracts outstanding at the date of acquisition to generate revenues over the residual useful life of the relationships acquired, derives from the fact that such capacity is included in the Contractual Service Margin component, determined pursuant to IFRS 17.

With reference to the individual shareholders' equity items, the overall impact on valuation reserves as at 1 January 2023 was positive for 234.0 million, while that on profit reserves was a positive 12.3 million. This last impact is equal to the sum of the positive effect recorded as an increase in profit reserves during First Time Adoption (+29.8 million) and the negative impact on the net income for 2022 (-17.5 million).
More specifically, the positive change in valuation reserves is mainly due to the new measurement model ("Variable Fee Approach") applied to insurance contracts with direct participation features (segregated funds).
The negative impact on the net income is instead attributable to certain insurance contracts of the associate Vera Vita considered to be onerous, the loss component of which - also generated as a result of the higher interest rates recorded in 2022 - had to be charged in full to income statement pursuant to paragraph 47 of IFRS 17.

Reconciliation between the originally published consolidated financial statements and those restated on the basis of the latest update of Circular 262

This section provides the reconciliation between the balance sheet as at 31 December 2022, as originally published, and the one restated to take into account the first-time application of IFRS 17 (and IFRS 9 for associated insurance companies), shown for the purposes of comparison with the balance sheet balances as at 30 June 2022.
The formats used and the relative rules for completion comply with those contained in the 8th update of Bank of Italy Circular no. 262 of 22 December 2005 "Bank financial statements: layouts and rules for preparation", which incorporated the amendments to the new accounting standard IFRS 17, also by referring to ISVAP Regulation no. 7 of 13 July 2007, as amended by Measure no. 121 of 7 June 2022. This update confirmed the balance sheet and income statement items already previously established to represent the specific insurance business, albeit with a different name and with information content aligned with the requirements of IFRS 17, as shown schematically in the following table.

(7th update of Bank of Italy Circular no. 262/2005 of 29 October 2021)	**(8th update of Bank of Italy Circular no. 262/2005 of 17 November 2022)**
Balance Sheet	
Assets	
80. Technical reserves of reinsurers	80. Insurance assets
	a) insurance contracts issued - assets
	b) reinsurance assets
Liabilities	
110. Technical reserves	110. Insurance liabilities
	a) insurance contracts issued - liabilities
	b) reinsurance liabilities
Income statement	
160. Net premiums	160. Profit (loss) on insurance services
	a) insurance revenues deriving from insurance contracts issued
	b) costs for insurance services deriving from insurance contracts issued
	c) insurance revenues from reinsurance
	d) costs for insurance services deriving from reinsurance
170. Balance of other income/expenses from insurance activities	170. Balance of revenues and costs of a financial nature relating to insurance activities
	a) net costs/revenues of a financial nature relating to insurance contracts issued
	b) net revenues/costs of a financial nature relating to reinsurance

Reconciliation between the originally published and restated consolidated balance sheet as at 31 December 2022

Asset items	31/12/2022	Impact IFRS 17 (*)	31/12/2022 Restated
10. Cash and cash equivalents	13,130,815		13,130,815
20. Financial assets at fair value through profit and loss	8,935,495		8,935,495
a) financial assets held for trading	4,508,497		4,508,497
c) other financial assets mandatorily measured at fair value	4,426,998		4,426,998
30. Financial assets measured at fair value through other comprehensive income	12,826,691		12,826,691
40. Financial assets at amortised cost	139,139,766		139,139,766
a) loans to banks	5,492,238		5,492,238
b) loans to customers	133,647,528		133,647,528
50. Hedging derivatives	1,717,211		1,717,211
60. Fair value change of financial assets in macro fair value hedge portfolios (+/-)	(488,403)		(488,403)
70. Interests in associates and joint ventures	1,453,955	198,593	1,652,548
80. Technical reserves of reinsurers	3,087	(3,087)	
80. Insurance assets		7,192	7,192
90. Property, plant and equipment	3,034,689		3,034,689
100. Intangible assets	1,286,734	(31,610)	1,255,124
of which:			
- goodwill	56,709		56,709
110. Tax assets	4,622,827	(37,343)	4,585,484
a) current	265,552		265,552
b) deferred	4,357,275	(37,343)	4,319,932
120. Non-current assets and disposal groups held for sale	214,737	(18,945)	195,792
130. Other assets	3,808,291	7,439	3,815,730
Total assets	**189,685,895**	**122,239**	**189,808,134**

(*) The impact is consequent to the retrospective application of IFRS 17 by the insurance companies owned by the Group, as well as of IFRS 9 for associates.

Liabilities and shareholders' equity items	31/12/2022	Impact IFRS 17 (*)	31/12/2022 Restated
10. Financial liabilities at amortised cost	153,874,094		153,874,094
a) due to banks	32,636,506		32,636,506
b) due to customers	108,307,067		108,307,067
c) debt securities in issue	12,930,521		12,930,521
20. Financial liabilities held for trading	10,181,692		10,181,692
30. Financial liabilities designated at fair value	3,938,518	17,245	3,955,763
40. Hedging derivatives	948,424		948,424
50. Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	(1,173,078)		(1,173,078)
60. Tax liabilities	279,983	(12,110)	267,873
a) current	1,610		1,610
b) deferred	278,373	(12,110)	266,263
70. Liabilities associated with assets classified as held for sale	31,731	(5,910)	25,821
80. Other liabilities	3,430,984	7,687	3,438,671
90. Provisions for employee severance pay	258,457		258,457
100. Provisions for risks and charges	730,395		730,395
a) commitments and guarantees given	144,164		144,164
b) post-employment benefits and similar obligations	99,330		99,330
c) other provisions for risks and charges	486,901		486,901
110. Technical reserves	4,414,424	(4,414,424)	
110. Insurance liabilities		4,283,526	4,283,526
120. Valuation reserves	(624,011)	233,981	(390,030)
140. Equity instruments	1,389,794		1,389,794
150. Reserves	4,219,445	29,786	4,249,231
170. Share capital	7,100,000		7,100,000
180. Own shares (-)	(18,266)		(18,266)
190. Non-controlling interests (+/-)	720		720
200. Profit (loss) for the year (+/-)	702,589	(17,542)	685,047
Total liabilities and shareholders' equity	**189,685,895**	**122,239**	**189,808,134**

(*) The impact is consequent to the retrospective application of IFRS 17 by the insurance companies owned by the Group, as well as of IFRS 9 for associates.

With reference to the balance sheet, the main impacts of the transition on the specific items are listed below:

- higher value of associates valued at equity for 198.6 million;
- cancellation of the VoBA that affected items "100. Intangible assets" for the share of Banco BPM Vita (31.6 million) and "120. Non-current assets held for sale" for the share of Banco BPM Assicurazioni (19.1 million);
- new measurement criteria for insurance contracts represented in items "80. Insurance assets" and "110. Insurance liabilities", replacing the previous items pursuant to IFRS 4 "80. Technical reserves of reinsurers" and "110. Technical reserves";
- the related tax effects of the items identified.

With reference to the consolidated income statement for the first half of 2022, the restatement of balances following the application of IFRS 17 had a negative impact of 32.9 million; the "restated" profit for the first half of 2022 was therefore 351.0 million, compared to the originally published profit of 383.9 million.
Taking into account that, as at 30 June 2022, interests in insurance companies were classified as interests in associates, the above-mentioned impact is limited to the item "250. Gains (losses) of associates and joint ventures": the relative "restated" balance is therefore +58.2 million compared to +91.1 million originally published. As previously illustrated, for the companies Banco BPM Vita and Banco BPM Assicurazioni, the application of IFRS 17 had no impact on the first half of 2022, taking into account that the transition was made to coincide with the date of acquisition of control (1 July 2022), in consideration of the interaction with the Purchase Price Allocation process and the ensuing operating problems and the marginal economic contribution of the first half of the year, also taking into account the interest held (19%).

Interest Rate Benchmark Reform ("IBOR Reform")

IBOR Reform - regulatory, accounting and planning aspects

Below are the main updates on the reform of the IBOR rates, subject to detailed discussion in Part A of the Consolidated Financial Statements as at 31 December 2022, which should be referred to for the details on regulatory, planning and accounting aspects.
In particular, during the first half of 2023 the remaining project activities were completed, mainly referring to the termination of the publication of the USD LIBOR, which took place on 30 June 2023. In view of this date, the Group's commitment was to intensify negotiations with its counterparties in order to reduce the stock of accounts still indexed to the rates being discontinued and definitively switch to SOFR rates.
With regard to the issue of clauses relating to the replacement rate in instalment loan agreements, following the publication of the European Delegation Law (ED) no. 127 of 4 August 2022 and the Guidance of the Working Group on Euro Risk-free rates of 4 May 2023, internal analyses have been launched to assess what the consequences will be on the scope of variable rate loans indexed to the Euribor.
In relation to the aforementioned ED law no. 127, the Italian Government is expected to transform the indications that emerged at the European level into Implementing Decrees to define the plan for the implementation of the interventions. In this regard, an amendment to article 118 of the Consolidated Banking Law is planned, in order to extend the possibility of unilaterally changing rates to forward contracts, as is already the case for open-ended contracts. In this way, banks will be able to apply the changes necessary to update the replacement rate at large scale to all loans without having to resort to individual negotiations.
The above-mentioned Guidance published in May 2023 urges the banking world to include the TERM ESTR in addition to the COMPOUNDED ESTR, as a further possible alternative as the EURIBOR replacement rate.

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 the current exposure to IBOR rates as at 30 June 2023, it should be noted that at the reference date of this interim report there is a very limited number of contracts still outstanding, mainly referring to the USD LIBOR rate, as exposures indexed to the EONIA rate have already been definitively extinguished, while positions indexed to LIBOR rates in other currencies are residual.
In greater detail, the exposures indexed to IBOR rates as at 30 June 2023 are as follows:

- derivatives: all positions indexed to the USD LIBOR, including those with Clearing Houses, were extinguished at maturity or were renegotiated during the first half of the year (except for one bilateral position for a value of 10 million, which reached its natural contractual maturity on 1 July 2023);
- assets: there are 92 structured finance pool loans for a total value of 400 million for which Banco BPM, as participant bank, follows the instructions of the lead banks responsible for negotiations for the replacement of the discontinued rates. There are also 47 multi-currency accounts for a total value of 11.7 million; these are mainly accounts in USD (31), the amount of which is almost entirely attributable to the position of a single corporate customer (11.2 million), classified as UTP since May 2023, in relation to the fact that relations with banks are blocked by international courts;
- liabilities: 2,183 multi-currency current accounts remain for a total balance of 132 million (as at 31 December 2022 there were 2,435 accounts for a value of approximately 217 million), of which 1,799 in USD (equivalent value of 102 million euro), 183 in GBP (equivalent value of 15 million euro), 137 in CHF (equivalent value of 7.4 million euro) and 64 in YEN (equivalent value of 8 million euro).

Hedge accounting

As regards hedge accounting, as at 30 June 2023 there are no residual derivative contracts indexed to the rates impacted by the Reform.

Other significant aspects relating to Group accounting policies

Below is an illustration of several transactions or events occurring during the first half of 2023, 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 - in the period between September 2019 and December 2021, with a total of ten drawdowns - for the purpose of maintaining favourable borrowing conditions for banks through incentives. 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.
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 was 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 2021 (the so-called "special interest rate period" or "SIRP") and between 24 June 2021 and 23 June 2022 (the so-called "additional special interest rate period" or "ASIRP"), where a rate 50 basis points below this rate shall apply.
An incentive mechanism has also been established 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 - DF) for the entire duration of the operation instead of the MRO rate, with a further reduction of 50 basis points for the entire special period from 24 June 2020 to 23 June 2022.
With Decision ECB/2022/37 of 27 October 2022, the ECB, in addition to raising interest rates, intervened retroactively recalibrating the conditions applicable to the loans in question and setting the reference deadline as 22 November 2022 in order to benefit from an improved average rate, previously extended to maturity. In greater detail, before the decision in question, against the achievement of the benchmarks, the reference rate for calculating the accruals of the pre-SIRP and post-ASIRP periods was equal to the average of the DF rates for the entire duration of the loan, also including the special period (SIRP and ASIRP), without prejudice to the guarantee of a negative rate of -1% for this last period. With the aforementioned decision, starting from 23 November 2022, remuneration is indexed to the interest rate applicable during this period, maintaining the method for calculating the average rate, applicable to the pre-SIRP and post-ASIRP periods, counted from the date of issue of the loan until 22 November 2022, without prejudice to the guarantee of a rate of -1% for the special period.

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. Interest is therefore recognised on the basis of the rates in force from time to time and applicable for each reference period, based on the probability of being able to achieve certain "benchmark" objectives. Also following the changes introduced in the conditions of the TLTRO III of 27 October 2022, the model for the recognition of accruals is pursued in substantial continuity with the accounting treatment defined in previous years.
In this regard, it should be noted that, since all the "net lending" objectives were achieved in prior years, the interest accrued on the aforementioned liabilities is assessed on the basis of the most favourable interest rate applicable to the Deposit Facility (DF). In greater detail, for the loans in place for Banco BPM Group, which were issued from 24 June 2020 onwards, the accrued interest was therefore calculated for each time period as reported below:

- for the special SIRP and ASIRP periods (from 24 June 2020 to 23 June 2022): the fees are calculated and allocated on the basis of the -1% rate, i.e. equal to the Deposit Facility rate (DF) in place in the aforementioned periods (-0.5%), in addition to the additional remuneration (-0.5%) guaranteed by the ECB at a fixed rate and not dependent on the residual duration of the individual tranches;
- for the post-ASIRP period (from 23 June 2022 to 22 November 2022): the fees are determined based on the interest rate recognised by the ECB for this period – now known – which is equal to the average of the DF rates from 24 June 2020 (or later date depending on the issue date) to 22 November 2022 (so-called "main interest period");
- for the last period (from 23 November 2022 until maturity/repayment of the loans): the accruals are determined on the basis of the variable rate DF in force in that period (equal to 1.5% until 21 December 2022, which became 2% until 8 February 2023, 2.5% until 22 March 2023, 3% until 10 May 2023, 3.25% until 21 June 2023 and then 3.5%).

The accrual thus determined as at 30 June 2023, as for future reporting to maturity, corresponds to what would be paid by the ECB if an early repayment at each reference date would be admitted.

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 consolidated condensed interim 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 2023.

Active loans and relative interest pertaining to H1 2023

As at 30 June 2023, the residual nominal value of the TLTRO III operations underwritten by the Group amounted to 17.7 billion (26.7 billion as at 31 December 2022) and pertained entirely to five quarterly drawdowns by the Parent Company in the period between 30 September 2020 and 22 December 2021. The reduction compared to the amount outstanding as at 31 December 2022 is attributable to the repayment of 9.0 billion of issue no. 9 of 24 June 2020, expired on 28 June 2023.
Considering the interest accrued but not yet collected, i.e. a total liability of 57.8 million, the book value of the TLTRO III loans as at 30 June 2023 amounted to 17,757.8 million. This value corresponds to the amount that would be paid by the ECB to Banco BPM, should their early repayment be permissible as at 30 June 2023.

Interest accrued in the first half of 2023 was a negative -367.6 million (+193.3 million in positive accruals for the first half of 2022) and is calculated on the basis of Deposit Facility rates in force from time to time, as described previously.
The different contribution depends on the joint effect of the increase in interest rates starting from the second half of 2022 and the elimination of the favourable remuneration mechanisms illustrated above.

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), a range 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").
These incentives are proportional to a percentage of the expenses incurred and are disbursed in the form of the granting of tax deductions to the parties that bear the expenses relating to the aforementioned interventions. The

aforementioned regulation also makes it possible to transform the tax deduction into a tax credit also by obtaining a discount on the amount due to the supplier.
Tax credits may only be recovered by offsetting them against tax and social security debts of the transferee in compliance with the timeframe of the original tax deduction. If the transferee is unable to offset the receivable with its tax and social security payables within the above-mentioned terms, the non-offset amount is definitively lost.
However, tax credits may be transferred to other parties (including banks and other financial intermediaries).
Below are the accounting policies relating to the treatment of the above-mentioned tax credits acquired by the Group through the Parent Company.

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 independently 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 instructions provided on 5 January 2021 by the Bank of Italy, CONSOB and IVASS in document no. 9 of the Coordination Round Table on the application of IAS/IFRS "Accounting treatment of tax credits linked to the "Heal Italy" and "Relaunch" Decree Laws, purchased following the sale by direct beneficiaries or previous purchasers" - Banco BPM Group defined its own accounting policy by making reference to certain accounting provisions under IFRS 9. More specifically, the tax credits in question were deemed to be substantially similar 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 this regard, it should be noted that the purchase of tax credits carried out by Banco BPM until 30 June 2023 is entirely attributable to the "Hold to Collect" business model, as the receivables purchased fall within the scope of the "offsetting capacity" of the bank, or its tax and social security payables and therefore the intention is to hold them until maturity and recover them by offsetting them with the above-mentioned 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 tax credits purchased with its tax and social security debts, 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 2023 the nominal value of the total tax credits purchased amounts to 3,196.1 million, of which 760.0 million in the first half of 2023 (1,888.5 million in credits purchased as at 30 June 2022).
The total receivables recovered through offsetting amounted to 841.3 million (of which 535.8 million in the first half of 2023), therefore the residual nominal value as at 30 June 2023 amounted to 2,354.7 million (2,130.4 million as at 31 December 2022).
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 2023, amounts to 2,159.7 million (1,966.9 million as at 31 December 2022).
As at 30 June 2023, commitments were also made with third parties for future purchases of tax credit for a total amount of 1,630 million.
The amount of the credits purchased and the purchase commitments undertaken is lower than the estimate of the prospective offsetting capacity of the bank. As at 30 June 2023, the tax credits recognised in the financial statements are therefore considered fully recoverable. Even in connection with the commitments to purchase additional tax credits mentioned above, no risks of irrecoverability are foreseeable.
It should be noted that Banco BPM did not transfer any of the tax credits purchased.

"Hold to Collect" Business Model - sales

During the first half of 2023, a single sale transaction was completed for a US government bond classified in the accounting portfolio of "Financial assets at amortised cost" for a total nominal value of USD 50 million. The above-mentioned transaction, which was carried out by the Parent Company, generated a profit on disposal of 2.7 million, which is represented in the income statement item "100. Gains (losses) on disposal or repurchase of: a) financial

assets at amortised cost". This result compares with a profit realised in the first half of 2022 of 126.8 million, resulting from the completion of sales transactions for a total nominal value of approximately 4 billion.
Please recall that 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, the above-mentioned sale transaction corresponds to roughly 0.16% of the nominal value of the securities in issue as at 1 January 2023 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.
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 2022.

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

Additional Tier 1 Issue

Banco BPM issued 4 Additional Tier 1 instruments for a total amount of 1.4 billion for institutional investors. These were, specifically, subordinated instruments classified in Additional Tier 1 capital, under the terms of Regulation no. 575 of 2013 (CRR).
The issues took place on 11 April 2019, 14 January 2020, 12 January 2021 and 5 April 2022.
Since these are perpetual securities, the issuer has the option of early redemption starting respectively from 18 June 2024, 21 January 2025, 19 January 2026 and 12 April 2027; in case of failure to call, the call can be exercised every five years in the first case and subsequently every six months for the other three issues.
The six-monthly coupon, non-cumulative, was set at an annual rate of 8.75%, 6.125%, 6.5% and 7%, 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 2022, to which reference is made.
In the financial statements as at 30 June 2023, the price received from the above-cited issues, after deducting the directly attributable transaction costs, net of the related tax charge (10.2 million), is shown under shareholders' equity item "140. Equity instruments ", for an amount of 1,389.8 million, in line with the end of 2022 as there were no issues or redemptions.
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. In the first half of 2023, the shareholders' equity decreased by 35.4 million, as a result of the payment of the coupons related to AT1 issues (48.9 million) net of the related IRES tax effect of 13.5 million. For the same reason, the reduction in shareholders' equity in the first half of 2022 was 27.8 million (63.3 million for the year 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 and the National Resolution Fund (merged into the Single Resolution Fund starting from 2016), through payment of ex ante ordinary contributions to be paid annually, until 1% of total deposits protected is reached by 31 December 2023. 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.
Contributions are recognised in 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 in June 2023, and fully charged to the income statement for the first half of 2023, amounted to 85.4 million, down by 25 million compared to the contribution of the first half of 2022 due to a reduction in the annual contribution to be collected at system level.
In that regard, please note that for 2023, 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").

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 2023 (114.6 million was the contribution requested for 2022, recognised in the third quarter of 2022).

Negotiations for the renewal of the national collective labour agreement

The National Collective Labour Agreement (CCNL) of 19 December 2019 expired on 31 December 2022; the final tranche of wage scale increases, established in the above-mentioned agreement, was applied effective as of 1 December 2022.
On 26 July 2023, the Italian Banking Association (ABI) and the Trade Union Organisations - in continuity with and in implementation of the provisions of the agreement minutes of 27 December 2022, 28 February 2023 and 26 April 2023 and in relation to the transmission to ABI of the single platform for the renewal of the CCNL on 6 July 2023, as well as its presentation at the meeting of 19 July 2023 with the resulting initiation of discussions - agreed on the continuation until 31 December 2023 of the "mere" suspension of the terms as at 31 December 2022 pursuant to national forecasts and bargaining institutions.

It was also specified that the economic and regulatory benefits established in the National Collective Labour Agreement of 19 December 2019 must be applied to the work performed by workers in the aforementioned period of "mere" suspension of the terms.

Moratoria for Emilia Romagna flood victims

On 1 June 2023, the text of Decree Law 61 "Urgent measures to deal with the emergency caused by the flood events that occurred starting from 1 May 2023" (hereinafter "Flood Decree") was published in the Official Gazette, containing several provisions in favour of companies with operating headquarters in the areas subject to flooding (Emilia Romagna, Marche and Tuscany).
In particular, article 11 of the Decree provides for the suspension, in the absence of a request from the customer and without the application of penalties and interest, of the payment of instalments on mortgages and loans of any kind, disbursed by banks as well as by intermediaries pursuant to art. 106, expiring in the period from 1 May to 30 June 2023. The beneficiaries of the suspension are all companies and businesses - of any size - that as at 1 May 2023 had their operating and/or legal headquarters in the flooded areas. This is without prejudice to the possibility for the customer to waive the benefit by sending a notification to the Bank.

The decree contains no provisions concerning the timing and methods of recovery of the instalments, therefore allowing banks and financial intermediaries to act "freely".
In this regard, it should be noted that the timing of the issue of the decree in question made it impossible to block the processes of debiting the instalments due in May and June; these instalments were therefore charged to customers.
The above-mentioned decree was converted into law with several amendments on 31 July 2023. On the basis of the final law, the Bank will return the debited instalments.
As far as the suspension duration is concerned, the Bank decided to proceed according to different approaches in recovering the suspended instalments, by defining different timescales depending on whether or not the customer is in a situation of financial difficulty. In greater detail, with regard to customers in financial difficulty, the suspended instalments will be charged back after the payment of the final instalment set forth in the current amortisation schedule. On the other hand, as regards customers who do not have situations of financial difficulty, the suspended instalments will be charged back in December 2023.
The decisions thus made are relevant as far as the preparation of the interim financial report is concerned, as they constitute a renegotiation of the contractual terms of the instalments for the months of May and June 2023.
In this regard, it should be noted that, based on the Group's accounting policy, the situation in question is classified as a "non-substantial change", for which "Modification accounting" (IFRS 9 § 5.4.3) must be applied, as illustrated in detail in Part A - Accounting policies of the 2022 financial statements. This treatment calls for the Net Present Value (NPV) of the renegotiated exposure to be determined by discounting the renegotiated cash flows on the basis of the original effective interest rate existing prior to the contractual amendment. The difference between the NPV thus determined and the NPV calculated by discounting the cash flows expected prior to the suspension, i.e. the gross value of the receivable, at the original effective interest rate, must be recognised in the income statement under item "140. Gains (losses) from contractual modification without derecognition".
For the moratoria in question, the NPV of the renegotiated exposure is necessarily lower than the NPV calculated before the suspension of the instalments, as during the suspension period no interest accrues in favour of the Bank. Based on the decisions made by the Bank at the date of preparation of the interim financial report, the estimated loss, recognised under item "140. Gains (losses) from contractual modification without derecognition", amounts to 5 million. This impact may change depending on the effective application of the moratorium, in light of a more precise definition of the customers benefitting from the provision and the express waivers that are still being received.

Lastly, as illustrated in the paragraph "Methods for measuring IFRS 9 expected losses for financial reporting purposes" contained in the section relating to credit risk of Part E of these Explanatory Notes, as at 30 June all performing exposures for which waivers were not received from customers were classified in Stage 2, by virtue of a collective staging allocation approach. This allocation, which involved a total exposure of 1.75 billion, led to an increase in value adjustments of approximately 2.5 million, as a result of the different model for measuring the ECL based on a lifetime horizon rather than just one year.

E-money business enhancement project

As described in the section on "Significant events during the period" in the interim report on operations, on 18 April 2023, Banco BPM decided to proceed with a project for the enhancement of the e-money business, through the development of a potential partnership with a leading market operator, concerning both Merchant Acquiring and POS management, as well as the Issuing and distribution of payment cards.
In this regard, on 11 July 2023 the Banco BPM Board of Directors, having examined the offers received from leading sector operators, decided to grant an exclusive right to FSI SGR S.p.A., Pay Holding S.p.A. and BCC Pay S.p.A. in order to negotiate and define the terms and conditions of a potential partnership in the issuing and acquiring sectors.
On 14 July 2023, Banco BPM, BCC Iccrea Group and FSI signed a binding agreement for the establishment of a strategic partnership aimed at developing a new Italian and independent entity in the digital payments sector.
This agreement calls for the transfer to a joint venture (BCC Pay S.p.A.) of the e-money business of Banco BPM and the interests held in Tecmarket, with the payment of mixed consideration in cash and shares issued by the vehicle Pay Holding, i.e. the parent company of BCC Pay S.p.A. After the transaction, Pay Holding will be owned roughly 43% by FSI and around 28.6% each by Banco BPM and Iccrea Banca.
The agreement also calls for the signing of a multi-year distribution contract for the joint venture's services on the Banco BPM network as well.
The finalisation of the transaction, subject to approval by the competent Authorities, is expected in the first quarter of 2024.

For the purposes of preparing the condensed interim financial statements as at 30 June 2023, as the assumptions set forth in IFRS 5 were met, the assets and liabilities of the e-money business and the interests in associates and joint ventures subject to the transfer were reclassified to the specific balance sheet items. "120. Non-current assets and disposal groups held for sale" and "70. Liabilities associated with assets classified as held for sale".
With reference to the income statement for the first half of 2023, there was no impact, both in valuation terms, as the sale price is significantly higher than the book value, and in terms of exposure, as the business is not classified as discontinued operations because it does not represent an important autonomous unit or geographical area of activity (major line of business).
In greater detail, the balance sheet items of the business are mainly represented by liabilities relating to the accounting balances outstanding on prepaid cards, which as at 30 June 2023 amounted to 205.4 million. Upon completion of the transfer transaction, the business unit will break even, as Banco BPM plans to make available to the transferee cash and cash equivalents equal to the balance of the prepaid cards; from this perspective, as at 30 June 2023 a reclassification of 205.4 million was made from asset item "10. Cash and cash equivalents" to item "120. Non-current assets and disposal groups held for sale", conventionally taking it from the sub-item "Available cash".

For further details, please refer to the information provided in the section "Non-current assets and disposal groups held for sale and associated liabilities – Item 120 in the assets and Item 70 in the liabilities", contained in "Part B - Information on the consolidated balance sheet" of these Explanatory Notes.

A.2 - KEY FINANCIAL STATEMENT ITEMS

In order to prepare the Interim Financial Report as at 30 June 2023, the applicable accounting standards for the recognition and measurement of insurance contracts by the Group's insurance companies, updated with respect to those adopted for the preparation of the Banco BPM Group's 2022 Financial Statements, are restated below, to incorporate the entry into force of IFRS 17. As concerns the classification, recognition, measurement and derecognition of financial statement items, as well as the procedures for recognising all other aspects of the accounting standards adopted by the Banco BPM Group not subject to amendment, reference should be made to the Banco BPM Group's Annual Financial Report as at 31 December 2022 ("A.2 - Key financial statement items").

IFRS 17, as endorsed with Regulation (EU) no. 2036/2021 (and subsequent amendments with Regulation (EU) no. 1491/2022) is applicable as of 1 January 2023.
During the endorsement phase, the possibility, not permitted by the standard approved by the IASB, was introduced to exempt intergenerationally-mutualised and cash flow matched contracts from the annual cohort requirement. The Group has chosen to make use of this option, referred to as the "carve out option".

15 - Insurance assets and liabilities

Classification criteria

Insurance assets and liabilities that fall within the scope of application of IFRS 17 "Insurance contracts" are classified in this category.

In particular, the following is included in asset item "80. Insurance assets":

- insurance contracts, including reinsurance contracts, issued and investment contracts with discretionary participation features issued defined and governed by IFRS 17, belonging to portfolios of insurance contracts issued which constitute, based on the sign of the closing balance, assets;
- reinsurance contracts defined and governed by IFRS 17, belonging to portfolios of reinsurance contracts that constitute, based on the sign of the closing balance, assets.

On the other hand, liability item "110. Insurance liabilities" includes:

- insurance contracts, including reinsurance contracts, issued and investment contracts with discretionary participation features issued defined and governed by IFRS 17, belonging to portfolios of insurance contracts issued which constitute, based on the sign of the closing balance, liabilities;

- reinsurance contracts defined and governed by IFRS 17, belonging to portfolios of reinsurance contracts that constitute, based on the sign of the closing balance, liabilities.

Classification as an insurance asset or liability therefore depends on the net balance of the portfolio to which the contracts belong. Generally, insurance contracts have a negative balance (insurance liabilities), while reinsurance contracts have a positive balance (insurance assets).

An insurance contract is defined as a contract based on which one party (the issuer) accepts a "significant insurance risk" from another party (the policyholder), agreeing to indemnify the policyholder if the latter suffers damages as a result of a specific uncertain future event (the insured event).
With IFRS 17, the definition of "insurance contract" requires the identification of the "significant insurance risk", which is based on the present value of the potential cash flows of a given contract, rather than on the absolute value.
IFRS 17 also requires the separation of the distinct investment component in the host insurance contract only if the following requirements are met simultaneously:

- the investment component and the insurance component are not highly interrelated. The two components are highly interrelated if the entity is unable to measure one component without considering the other, as the value of one component varies according to the other, or if the policyholder is unable to benefit from one component unless the other is also present; and
- a contract with equivalent terms is sold, or could be sold, separately in the same market or the same jurisdiction, either by entities that issue insurance contracts or by other parties.

The separated investment component must be subject to IFRS 9, unless it is an investment contract with discretionary participation features within the scope of application of IFRS 17.

In light of the above:

- with reference to the classification of insurance contracts, both non-life and life, the Group includes within the IFRS 17 scope all contracts, non-life and life, with the exception of Class III products represented by Unit Linked products, for which no significant insurance risk has been identified;
- as concerns the separation of components of the insurance contract referring to the life business, on the basis of a qualitative analysis, the Group activated the Multi-segment tariff unbundling procedure. Consequently, the Class I component - i.e. the investment component with discretionary participation features - is accounted for in accordance with IFRS 17, while the Unit-linked Class III component - Investment component - is accounted for in accordance with IFRS 9. Specifically, the Group measures these products at fair value, exercising the option set forth in the standard (Fair Value Option) in order to avoid accounting mismatches with respect to the related investments measured at fair value.

Having determined the scope of contracts that fall under IFRS 17, the standard requires the setting of contract boundaries within which the cash flows are to be considered for the purposes of the valuation of the liabilities of the company. It is therefore a question of defining whether a contractual option should be considered in the projected cash flows from the time the contract is executed or whether it is such as to generate a new group of contracts.
In order to measure the insurance liabilities, the Group companies, in continuity with actuarial calculation logics already in use, include in the cash flow projection all future premiums and options dependent on the policyholder's decisions, where there is no option for the company to re-price them or to refuse the exercise of the option. For example, based on current analyses, automatic deferrals and additional payments fall within the contractual limits; in this regard, it should be noted that, for non-life business contracts for which the tacit renewal option is available, the cash flows are valued up to the first contractual expiry, since both counterparties have the option to cancel or withdraw from the renewal of the contract.

When the contract is signed with the insured entity, a liability is recognised, the amount of which is given by the algebraic sum of the present value of all expected future contractual cash flows, discounted and also inclusive of an appropriate risk adjustment (for non-financial risks) and the expected economic margin (Contractual Service Margin) representing the present value of future profits.

Upon initial recognition, insurance contracts must be aggregated into groups of contracts and the provisions relating to their recognition, measurement and presentation in the financial statements must be applied to the group of contracts.

The level of aggregation is relevant for the purposes of identifying onerous contracts, with the consequence that losses attributable to the contracts must be recognised from the beginning ("onerous contract test").
The level of aggregation is determined on the basis of the following grouping hierarchy:
- portfolio: a group of contracts subject to similar risks and managed together as a single pool;
- cohorts: this is a segmentation of portfolios on the basis of the initial recognition date of the contract;
- profitability "buckets": these refer to a further division of each cohort, depending on the profitability expected at the time of initial recognition of the contract, according to the following three buckets:
  - onerous contract that is considered unprofitable, and therefore onerous, at the time of initial recognition;
  - contract considered profitable at the time of initial recognition that does not present a significant risk of becoming onerous in the future;
  - other cases, i.e. a profitable contract that presents a significant risk of becoming onerous in the future.

IFRS 17 requires an entity not to include contracts issued more than one year later in the same group. Therefore, each portfolio must be disaggregated into annual cohorts or cohorts that include periods of less than one year ("grouping by cohorts"), with the exception of contracts linked to segregated funds for which the text of IFRS 17 optionally provides for derogations to this requirement ("carve-out option").

For Banco BPM Vita, the aggregation into groups of contracts takes place according to the following characteristics: products included in the same Segregated Fund, Class I component of Multi-segment products and pure risk products (e.g. Term Life Insurance - TLI).
With regard to contracts belonging to Multi-segment products or linked to a Segregated Fund, the option not to apply the annual cohort requirement was exercised ("Carve Out option"), as provided for in the IFRS 17 endorsement Regulation at European level, and therefore to aggregate these types of contracts only with regard to the concept of similar risks managed together and belonging to the same profitability bucket.
For Banco BPM Assicurazioni products, the following portfolios of insurance contracts were identified: Motor vehicles, Income, Home, Fire, Accident, Health.

Income item measurement and recognition criteria

For the valuation of insurance contracts, there are three types applicable to the different lines of business: the Building Block Approach (BBA), the Premium Allocation Approach (PAA) and the Variable Fee Approach (VFA).

The BBA is the standard method for the valuation of insurance contracts structured on a block approach whereby, at the time of execution of the contract, the insurance liability is equal to the algebraic sum of the present value of the expected contractual cash flows on the basis of an appropriate discount rate (Present Value of Future Cash Flow - PVFCF), the adjustment for non-financial risks related to the uncertainty in the realisation of cash flows (Risk Adjustment - RA) and the expected economic margin (Contractual Service Margin - CSM). This model is applicable to all insurance contracts with the exception of those with direct participation features for which the VFA model is applied or those measured on the basis of the PAA simplified methodology.
The subsequent measurement of liability requires an assessment of the aforementioned features, in order to reflect the changes between the initial estimates and those in effect at the reporting date. In particular:
- changes in the present value of cash flows, deriving from changes in the discount rate used, result in the corresponding adjustment of the former with a balancing entry in the income statement or, if the so-called "OCI Option" (Other Comprehensive Income) is used, in the statement of comprehensive income;
- changes in the estimate of liabilities relating to future services determine an adjustment of the CSM, to be released to the income statement on the basis of the coverage unit;
- changes arising from the difference between the expected cash flows for the period, recognised in revenues for insurance services, and those actually incurred in the same period, recognised in the costs for insurance services, have an impact on the income statement for the year.

The PAA is a simplified optional methodology set out in the regulations for contracts with a temporary duration, i.e. coverage of 12 months or less, or - under certain conditions - also for contracts with a longer duration. With this approach, a single liability is recognised, without any distinction of the components under the BBA model, called Liability for Remaining Coverage (LRC), which is systematically released to the income statement according to the contractual duration.

The VFA is the mandatory measurement model established for insurance contracts with direct participation features, i.e. contracts that, on the basis of an underlying participation feature, provide a significant additional benefit when the insured event occurs (e.g., contracts linked to Segregated Funds). The model in question is structured in blocks, in line with the standard model: in this case, the CSM represents the fee for the financial management service provided by the company. Based on this model, any changes in the estimate of the CSM, which derive from the performance of the underlying financial assets and therefore affected by market variables, determine a change in the CSM itself, without having a direct impact on the income statement or the statement of comprehensive income, as is the case with the BAA model.

Banco BPM Vita uses the following valuation models:

- Variable Fee Approach, for all insurance contracts with direct participation features, subject to verification of eligibility criteria;
- Premium Allocation Approach for the Unit of Account reserved to single-year non-life products in run-off (health and accident products);
- Building Block Approach for the remaining portfolios.

For Banco BPM Assicurazioni's business, the preferred approach is that of the Premium Allocation Approach, for single-year contracts as well as for multi-year contracts following the successful verification of eligibility. In the event of a negative outcome of the eligibility test for multi-year cases, the Company reserves the right to use the general model.

Inputs, parameters and other elements underlying the valuation models

The insurance liability valuation models are based on a series of inputs and parameters, the most significant of which are the discount rate, the Risk Adjustment and the method for the release to the income statement of the Contractual Service Margin.
The valuation of the insurance liability is based on the discounting of expected future cash flows using a discount rate deemed adequate to reflect the time value of money and the financial risk, if the latter is not already incorporated in the cash flow estimates.
The discount rates must:

- reflect the time value of money, the characteristics of cash flows and the liquidity characteristics of insurance contracts;
- be consistent with the current observable market prices (if any) of the financial instruments whose cash flows have characteristics corresponding to those of insurance contracts, for example, in terms of maturities, currency and liquidity; and
- exclude the effect of factors which, although affecting observable market prices, do not affect future cash flows of insurance contracts.

In this regard, the approach used by the Group to define the discount rate is based on a bottom-up approach, according to which the discount curve is determined starting from a risk-free curve (liquid risk-free yield curve), to which an adjustment is applied for the liquidity premium of the insurance contracts, able to reflect the differences between the liquidity characteristics of the financial instruments that are the basis of the rates observed on the market and the liquidity characteristics of the insurance contracts subject to valuation.

Another aspect to be considered for the determination of the financial liability is the "Risk Adjustment", i.e. the non-financial adjustment that represents, in substance, the remuneration that the entity requires to assume the risk arising from the uncertainty about the amount and timing of cash flows. The risks covered by the adjustment in question are insurance risk and other non-financial risks, such as lapse risk or expense risk.
Considering that IFRS 17 does not define a specific calculation method, for the Group, the Risk Adjustment is estimated using a Value At Risk (VAR) approach.

CSM release pattern

The Contractual Service Margin represents the expected profit from the insurance contracts in the portfolio and is estimated as the difference between the cash flows due to the entity (premiums) and the total contractual liabilities assumed, including the risk adjustment. The aforementioned margins will be recognised in the income statement throughout the entire period in which the insurance coverage is provided; no profit is therefore recorded at the date

of initial recognition of the contracts as they relate to insurance services that will be provided in the future. The release of the CSM is based on the definition of the coverage units, which are determined by identifying for each contract the quantity of service provided to the policyholder and the expected duration of the group of contracts.
If the CSM assumes negative values, at the time of the initial recognition or even subsequently in the event of adverse changes in the expected profitability, the implicit loss arising from the insurance contract must be recognised in full in the income statement.
The release of the CSM is based on a model defined by considering the amounts insured for the TLI (Term Life Insurance) and CPI (Credit Protection Insurance) products and on the mathematical reserves for the other products.
The CSM is calculated in the first instance at the level of the individual insurance company and, subsequently, within the Group through appropriate adjustments during consolidation. This choice is due to the fact that within the Group there are entities issuing insurance contracts (the insurance companies) and entities placing them (the Parent Company), which charge placement commissions for the service. As part of the consolidation process, during the elimination of intra-group fees charged to insurance companies, an adjustment is made to consider the costs actually incurred by the Parent Company for the distribution of policies. This transaction may therefore entail the recognition of a different consolidated CSM from the one that would be calculated in the financial statements of the individual companies, to the extent that the costs incurred by the Group towards third parties differ from the placement fees paid to the banking distribution network.
To this end, the actual costs incurred by the Group are estimated on the basis of the "Cost/income ratio", determined according to operational metrics, based on the historical observation of the actual distribution costs incurred by the Group's networks with respect to the fees paid to the Group's insurance companies, broken down by homogeneous categories of policies and distribution models. The aforementioned operating drivers are also considered in order to identify costs represented by personnel expenses, other administrative expenses, net value adjustments on property, plant and equipment, to be reclassified to the consolidated financial statement item relating to the result of insurance operations.

Income components

In the income statement, the components that contribute to the insurance business profitability are:

- the insurance margin shown under item "160. Profit (loss) on insurance services", equal to the difference between:
  - insurance revenues relating to contracts issued, which reflect the portion of the consideration received from the policyholder that the insurance company believes it is required to recognise in the income statement for services provided during the year. In other words, these are the expenses that are expected to be incurred during the year, the evolution of the liability for the explicit risk adjustment, as well as the allocation to the financial year of a share of the CSM in relation to the services provided;
  - the related costs mainly represented by the amount of expenses for insurance services actually incurred in the current year such as claims and other directly attributable expenses, losses for onerous contracts, commissions and other acquisition costs, operating expenses of the investments underlying the insurance contracts to which the Variable Fee Approach valuation method is applied;
  - costs and revenues relating to reinsurance;
- the margin related to the financial components is instead shown under item "170. Balance of revenues and costs of a financial nature relating to insurance activities". In particular, these are interest accrued during the year due to the time value of money, the effects related to changes in the time value of money and the financial risks of insurance contracts, changes in the fair value of the underlying assets of issued insurance contracts valued using the VFA approach, other than those recognised in the statement of comprehensive income as a result of the OCI option.

With regard to the policy choice relating to the disaggregation of insurance revenues and financial costs between the income statement and the statement of comprehensive income, in order to reduce potential accounting misalignments resulting from the different valuation models established by IFRS 17 for contracts and by IFRS 9 for the investments underlying the above-mentioned contracts and the relative income statement volatility, the Group has decided to use the OCI option for all insurance contract portfolios.

Financial products

Financial products that do not present a significant insurance risk and do not include discretionary participation features (therefore not representing policies linked to segregated funds) are recognised on the basis of IFRS 9 and

classified in the portfolio of "Financial liabilities measured at fair value", based on the so-called "Fair Value Option". For the Group, these products are essentially attributable to unit-linked policies.
For the products in question, the income statement does not reflect the premiums, but the revenue (fee and commission income) and cost (fee and commission expense) components on the basis of the rules established by IFRS 9 and IFRS 15. In particular, the revenues and costs relating to the products in question may be attributable to the activities carried out in the origination phase, to be charged to the income statement at the time of issue of the product, or in the investment management phase, to be spread over the life of the product, depending on the provision of the service. The income statement also includes costs and revenues resulting from changes in the fair value of liabilities related to the products in question.

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. More specifically, the calculation of expected exposure takes into account the effects resulting from the existence of netting or collateral agreements, which are able to mitigate counterparty risk, while the probability of default is estimated using Credit Default Swap pricing, when available, as a 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:

- financial instruments represented by OTC derivatives and by repurchase agreements on debt securities ("Bond Repo") when the inputs of the pricing models used to calculate the fair value, are observable in the market or, if not observable, are deemed that they do not significantly influence the fair value measurement;
- equity instruments not listed on active markets, measured using the market multiples technique, referring to a selected sample of comparable companies with respect to the subject of the valuation, or measured on the basis of the effective transactions made in a period of time reasonably close to the reference date;
- debt securities of third parties or own issues, not listed on active markets, for which the inputs, including the credit spreads, are taken from market sources;
- UCIT units, not listed on active markets, characterised by significant levels of transparency and liquidity. The above-mentioned units are valued on the basis of the NAV provided by the management company/fund administrator.

As a rule, the following financial instruments are considered level 3:

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

For 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 2022 ("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	30/06/2023			31/12/2022		
	L1	L2	L3	L1	L2	L3
1. Financial assets at fair value through profit and loss	5,605,491	2,307,189	1,322,320	4,884,588	2,823,048	1,227,859
a) Financial assets held for trading	2,428,535	2,277,860	757	1,721,009	2,786,156	1,332
b) Financial assets designated at fair value	-	-	-	-	-	-
c) Other financial assets mandatorily measured at fair value	3,176,956	29,329	1,321,563	3,163,579	36,892	1,226,527
2. Financial assets measured at fair value through other comprehensive income	13,333,992	167,686	180,033	12,487,636	176,477	162,578
3. Hedging derivatives	-	1,302,992	-	-	1,717,211	-
Total	**18,939,483**	**3,777,867**	**1,502,353**	**17,372,224**	**4,716,736**	**1,390,437**
1. Financial liabilities held for trading	210,569	22,378,759	-	180,938	10,000,754	-
2. Financial liabilities designated at fair value	-	4,747,828	19,928	-	3,937,468	18,295
3. Hedging derivatives	-	933,591	-	-	948,424	-
Total	**210,569**	**28,060,178**	**19,928**	**180,938**	**14,886,646**	**18,295**

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

Financial assets measured at fair value on a recurring basis

As at 30 June 2023, financial instruments measured significantly on the basis of non-observable parameters (Level 3) are for the most part (87.97%) comprised of instruments classified in the "Other financial assets mandatorily measured at fair value" portfolio as well as of instruments classified in the category of "Financial assets measured at fair value through other comprehensive income" (11.98%). The remainder is classified in "Financial assets held for trading".
More specifically, level 3 financial assets amounted to 1,502.4 million and are represented by the following types of investment:

- unlisted equity instruments of 222.4 million, mostly valued on the basis of internal equity models, discounted cash flow techniques or transaction prices, which do not meet the requirements to be assigned to level 2;
- UCIT units of 745.7 million, represented by private equity, private debt and similar funds (628.7 million), real estate funds (113.3 million) and hedge funds (3.7 million). These funds are characterised by significant levels of illiquidity, and the process of valuing the fund assets to a significant extent requires a series of assumptions and estimates;
- loans to customers amounting to 500.1 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 33.6 million, of which structured credit securities of 32.6 million;
- Over the Counter (OTC) derivatives amounting to 0.6 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 162.9 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 3,447.2 million.

Financial liabilities measured at fair value on a recurring basis

Level 1 financial liabilities refer to listed trading derivatives for 152.2 million and to technical overdrafts listed in active markets for 58.4 million.
The remaining financial liabilities are predominantly represented in level 2, and for the most part concern the portfolio of "Financial liabilities held for trading" relating to Bond Repo trading for 18,364.2 million (5,527.0

million in December 2022), financial and credit derivatives for 2,301.1 million and issues of Certificates unconditionally guaranteed by Banca Akros for 1,713.5 million.
"Financial liabilities designated at fair value" includes liabilities related to Class III insurance products (unit-linked and index-linked policies), the benefits of which are correlated with the value of market indices and units of investment funds, classified mainly in level 2 for 1,476.1 million and also in level 3 for 19.9 million; furthermore, level 2 includes unconditionally guaranteed capital certificates issued by Banco BPM for a book value of 3,271.8 million (2,467.5 million as at December 2022).

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, the only transfer of a significant amount concerned a bond belonging to the portfolio of "Financial assets measured at fair value through other comprehensive income", transferred from level 2 to level 1 for 9.5 million (opening value).

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 2023, 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 21.2 million, and were comprised by:

- adjustments for CVA which resulted in a cumulative loss, in terms of lower assets/higher liabilities, of 0.8 million;
- adjustments for DVA which resulted in a cumulative benefit, in terms of higher assets/lower liabilities, of 22 million.

As at 31 December 2022, cumulative fair value adjustments to take account of counterparty risk (CVA/DVA) were positive overall for 32.8 million, equal to the imbalance between negative adjustments for CVA (-1.7 million) and positive adjustments for DVA (+34.5 million).
The resulting impact on the income statement for the first half of 2023 was therefore a negative 11.6 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	**1,227,859**	**1,332**	**-**	**1,226,527**	**162,578**	**-**
2. Increases	**210,430**	**6**	**-**	**210,424**	**30,725**	**-**
2.1. Purchases	111,492	-	-	111,492	469	-
2.2. Profits charged to:	46,177	4	-	46,173	30,256	-
2.2.1. Income statement	46,177	4	-	46,173	-	-
- of which capital gains	45,176	-	-	45,176	-	-
2.2.2. Shareholders' equity	-	X	X	X	30,256	-
2.3. Transfers from other levels	6,214	-	-	6,214	-	-
2.4. Other increases	46,547	2	-	46,545	-	-
3. Decreases	(115,969)	(581)	-	(115,388)	(13,270)	-
3.1. Sales	(23,930)	-	-	(23,930)	(5,422)	-
3.2. Redemptions	(10,396)	(3)	-	(10,393)	-	-
3.3. Losses charged to:	(32,342)	(122)	-	(32,220)	(7,448)	-
3.3.1. Income statement	(32,342)	(122)	-	(32,220)	-	-
- of which capital losses	(28,153)	(122)	-	(28,031)	-	-
3.3.2. Shareholders' equity	-	X	X	X	(7,448)	-
3.4. Transfers to other levels	-	-	-	-	-	-
3.5. Other decreases	(49,301)	(456)	-	(48,845)	(400)	-
4. Closing balance	**1,322,320**	**757**	**-**	**1,321,563**	**180,033**	**-**

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

	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging derivatives
1. Opening balance	**-**	**18,295**	**-**
2. Increases	**-**	**1,633**	**-**
2.1 Issues	-	-	-
2.2. Losses charged to:	-	-	-
2.2.1. Income statement	-	-	-
- of which capital losses	-	-	-
2.2.2. Shareholders' equity	X	-	-
2.3. Transfers from other levels	-	-	-
2.4. Other increases	-	1,633	-
3. Decreases	**-**	**-**	**-**
3.1. Redemptions	-	-	-
3.2. Buy-backs	-	-	-
3.3. Profits charged to:	-	-	-
3.3.1. Income statement	-	-	-
- of which capital gains	-	-	-
3.3.2. Shareholders' equity	X	-	-
3.4. Transfers to other levels	-	-	-
3.5. Other decreases	-	-	-
4. Closing balance	**-**	**19,928**	**-**

Fair value disclosure on financial assets and liabilities valuated 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 2022.

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 2023 and as at 31 December 2022, there were no suspended costs or revenues related to the effect.

Disclosure on structured credit products

As at 30 June 2023, the Group's exposure to structured credit instruments amounted to 2,326.5 million and consisted of 1,870.6 million in asset backed securities (ABS) arising from securitisation transactions and 200.5 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:

- 69.9 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 68.1 million; B1 mezzanine tranche of 0.8 million; B2 mezzanine tranche of 0.5 million and junior tranche of 0.5 million);
- 234.2 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 233.5 million; mezzanine tranche of 0.7 million);
- 20.2 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 20.1 million; mezzanine tranche of 0.1 million);
- 10.1 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 9.0 million; B1 mezzanine tranche of 0.2 million; B2 mezzanine tranche of 0.5 million and junior tranche of 0.4 million);
- 618.9 million relating to securities issued by the Leviticus SPV, which the Group holds following the GACS securitisation of bad loans, called "Project ACE", completed in February 2019 (senior tranche of 614.3 million; mezzanine tranche of 4.6 million);
- 661.8 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 658.8 million; mezzanine tranche of 3.0 million);
- 255.3 million for securities relating to third-party securitisations (senior tranche for 234.6 million; mezzanine tranche for 4.2 million; junior tranche for 16.5 million). It should be noted that the junior tranche is attributable nearly exclusively (16.4 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 - Covered bond transactions and securitisations".

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 30/06/2023			Total 31/12/2022		
	L1	L2	L3	L1	L2	L3
A. On-balance sheet assets						
1. Debt securities	308,804	35,801	-	219,452	40,789	-
1.1 Structured securities	2,064	30,734	-	657	32,476	-
1.2 Other debt securities	306,740	5,067	-	218,795	8,313	-
2. Equity instruments	1,947,849	-	18	1,333,525	-	18
3. UCIT units	8,982	-	126	33,398	-	128
4. Loans	-	97,861	-	-	157,184	-
4.1 Repurchase agreements	-	97,861	-	-	157,184	-
4.2 Other	-	-	-	-	-	-
Total (A)	**2,265,635**	**133,662**	**144**	**1,586,375**	**197,973**	**146**
B. Derivative instruments	-	-	-	-	-	-
1. Financial derivatives	162,900	2,143,950	613	134,634	2,587,772	1,186
1.1 held for trading	162,900	1,841,874	613	134,634	2,465,536	1,186
1.2 connected with the fair value option	-	302,049	-	-	122,222	-
1.3 other	-	27	-	-	14	-
2. Credit derivatives	-	248	-	-	411	-
2.1 held for trading	-	248	-	-	411	-
2.2 connected with the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	**162,900**	**2,144,198**	**613**	**134,634**	**2,588,183**	**1,186**
Total (A+B)	**2,428,535**	**2,277,860**	**757**	**1,721,009**	**2,786,156**	**1,332**

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

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

Items/Amounts	Total 30/06/2023			Total 31/12/2022		
	L1	L2	L3	L1	L2	L3
1. Debt securities	100,935	-	33,587	38,063	-	41,789
1.1 Structured securities	-	-	1,000	-	-	1,000
1.2 Other debt securities	100,935	-	32,587	38,063	-	40,789
2. Equity instruments	262,677	29,329	42,305	266,088	36,892	32,056
3. UCIT units	2,813,344	-	745,586	2,859,428	-	637,895
4. Loans	-	-	500,085	-	-	514,787
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	500,085	-	-	514,787
Total	**3,176,956**	**29,329**	**1,321,563**	**3,163,579**	**36,892**	**1,226,527**

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 30/06/2023			Total 31/12/2022		
	L1	L2	L3	L1	L2	L3
1. Debt securities	13,330,286	54,161	-	12,477,891	62,952	-
1.1 Structured securities	-	6,307	-	-	6,218	-
1.2 Other debt securities	13,330,286	47,854	-	12,477,891	56,734	-
2. Equity instruments	3,706	113,525	180,033	9,745	113,525	162,578
3. Loans	-	-	-	-	-	-
Total	**13,333,992**	**167,686**	**180,033**	**12,487,636**	**176,477**	**162,578**

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 the 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 30/06/2023						Total 31/12/2022					
	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	**1,063,463**	**-**	**-**	**-**	**-**	**1,063,463**	**1,297,716**	**-**	**-**	**-**	**-**	**1,297,716**
1. Fixed-term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Minimum reserve	1,063,463	-	-	X	X	X	1,297,716	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Loans to banks	**4,438,774**	**-**	**-**	**1,555,796**	**58,897**	**2,796,291**	**4,194,522**	**-**	**-**	**1,213,783**	**60,478**	**2,880,451**
1. Loans	2,792,491	-	-	-	-	2,796,291	2,880,185	-	-	-	-	2,880,451
1.1 Current accounts	-	-	-	X	X	X	-	-	-	X	X	X
1.2. Fixed-term deposits	336,613	-	-	X	X	X	113,414	-	-	X	X	X
1.3. Other loans:	2,455,878	-	-	X	X	X	2,766,771	-	-	X	X	X
- Reverse repurchase agreements	413,412	-	-	X	X	X	792,744	-	-	X	X	X
- Loans for leases	-	-	-	X	X	X	372	-	-	X	X	X
- Other	2,042,466	-	-	X	X	X	1,973,655	-	-	X	X	X
2. Debt securities	1,646,283	-	-	1,555,796	58,897	-	1,314,337	-	-	1,213,783	60,478	-
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	1,646,283	-	-	1,555,796	58,897	-	1,314,337	-	-	1,213,783	60,478	-
Total	**5,502,237**	**-**	**-**	**1,555,796**	**58,897**	**3,859,754**	**5,492,238**	**-**	**-**	**1,213,783**	**60,478**	**4,178,167**

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 30/06/2023						Total 31/12/2022					
	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	**104,336,061**	**2,034,302**	**184,079**	**-**	**-**	**103,714,352**	**105,032,995**	**2,260,700**	**228,303**	**-**	**-**	**104,649,814**
1. Current accounts	8,618,391	147,249	7,922	X	X	X	8,367,448	170,260	34,156	X	X	X
2. Reverse repurchase agreements	3,138,339	-	-	X	X	X	1,883,322	-	-	X	X	X
3. Mortgage loans	79,250,672	1,349,700	98,476	X	X	X	80,358,094	1,554,835	106,840	X	X	X
4. Credit cards, personal loans and salary-backed loans	786,498	11,861	82	X	X	X	953,951	13,902	88	X	X	X
5. Loans for leases	464,556	213,963	1,995	X	X	X	532,078	245,953	2,155	X	X	X
6. Factoring	86,200	-	-	X	X	X	90,585	-	-	X	X	X
7. Other loans	11,991,405	311,529	75,604	X	X	X	12,847,517	275,750	85,064	X	X	X
2. Debt securities	**25,851,540**	**-**	**-**	**23,301,822**	**1,518**	**1,929,727**	**26,125,530**	**-**	**-**	**22,992,888**	**115,720**	**2,233,543**
1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2. Other debt securities	25,851,540	-	-	23,301,822	1,518	1,929,727	26,125,530	-	-	22,992,888	115,720	2,233,543
Total	**130,187,601**	**2,034,302**	**184,079**	**23,301,822**	**1,518**	**105,644,079**	**131,158,525**	**2,260,700**	**228,303**	**22,992,888**	**115,720**	**106,883,357**

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

As at 30 June 2023, 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	-	-	711,252	**711,252**
Unlikely to pay	-	-	1,320,641	**1,320,641**
Non-performing past-due exposures	-	-	55,936	**55,936**
Non-performing loans	**-**	**-**	**2,087,829**	**2,087,829**
Performing exposures	**93,026,406**	**11,440,207**	**-**	**104,466,613**
of which: purchased or originated credit impaired	**-**	**130,553**	**53,526**	**184,079**
Total loans to customers	**93,026,406**	**11,440,207**	**2,087,829**	**106,554,442**

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

Interests in associates and joint ventures subject to significant influence as at 30 June 2023 amounted to 1,628.4 million compared to 1,652.5 million as at 31 December 2022, which was restated to take into account the impact of the first-time adoption of IFRS 17 and IFRS 9 by associated insurance companies.

The decrease of -24.1 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 (+60.7 million), the effects of the reductions of capital of Agos Ducato (-72.1 million), Anima Holding (-15.7 million), Vera Assicurazioni (-7.4 million), Gardant Liberty Servicing (-2.1 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 (+14.1 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 % votes
				Holder	% held	
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	21.708%	21.708%
4. Aosta Factor S.p.A. Share capital € 14,993,000.00	Aosta	Aosta	1	Banco BPM	20.690%	20.690%
5. Calliope Finance S.r.l. in liquidation Share capital € 600,000.00	Milan	Milan	1	Banco BPM	50.000%	50.000%
6. Gardant Liberty Servicing S.p.A. Share capital € 150,000.00	Rome	Rome	1	Banco BPM	30.000%	30.000%
7. Etica SGR S.p.A. (*) Share capital € 4,500,000.00	Milan	Milan	1	Banco BPM	19.444%	19.444%
8. 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%
9. SelmaBipiemme Leasing S.p.A. Share capital € 41,305,000.00	Milan	Milan	1	Banco BPM	40.000%	40.000%

Company name	Registered office	Operational headquarters	Type of relationship (a)	Investment relationship		Available % votes
				Holder	% held	
10. 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%
11. Vera Assicurazioni S.p.A. Share capital € 63,500,000.00	Verona	Verona	1	Banco BPM	35.000%	35.000%
12. Vera Vita S.p.A. Share capital € 219,600,005.00	Verona	Verona	1	Banco BPM	35.000%	35.000%
13. Vorvel SIM S.p.A. Share capital € 7,300,000	Milan	Milan	1	Banca Akros	20.000%	20.000%

(a) Type of relationship:
1 = investment in share capital
(*)Companies subject to significant influence based on partnership agreements or shareholders' agreements with other shareholders.

7.2 Significant interests in associates and joint ventures: book value, fair value and dividends received

Company name		Book value	Fair value	Dividends received
A.	**Companies subject to joint control**			
	N/A			
B.	**Companies subject to significant influence**			
	Agos Ducato S.p.A.	725,282	-	72,150
	Alba Leasing S.p.A.	167,260	-	-
	Anima Holding S.p.A.	248,455	243,535	15,721
	Vera Vita S.p.A.	208,027	-	-
	Total	**1,349,024**	**243,535**	**87,871**

The "Fair value" column shows the value relating to the stock market listing as at 30 June 2023 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 2022, 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

As at 30 June 2023, the only significant interests in associates and joint ventures for which it was necessary to verify the existence of any impairment indicators refer to Vera Vita, recognised in the financial statements at a value of 208.0 million.

The 2022 impairment test on the interests in Vera Vita was carried out by comparing the book value of the company with its recoverable value, calculated as 35% of its Own Funds (only in the T1 Unrestricted + T3 capital components) as at 31 December 2022.
For the analysis as at 30 June 2023, Own Funds (T1 Unrestricted + T3) have increased compared to the figure as at 31 December, and therefore there is no indication of impairment.

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 the 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, which retained the name ProFamily, 100%-owned by Banco BPM and subsequently merged into Banco BPM.

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, extended 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.
Lastly, as part of the project for the evolution of Bancassurance at Banco BPM which, among other things, calls for the launch of a twenty-year commercial partnership with Crédit Agricole Assurances S.A. in the Non-Life and Protection business segment, on 12 May 2023 the deadline for the exercise of the put option was extended for a further two years, i.e. to 31 July 2025. In particular, the extension is immediately effective until 31 January 2024, while the further extension to 31 July 2025 is conditional on the execution of the closing of the acquisition by Crédit Agricole Assurances of the interests in Banco BPM Assicurazioni and Vera Assicurazioni.

Those agreements also provide, in the event that an extraordinary transaction is finalised (understood as: acquisition of control of Banco BPM by a third party operator or several third party operators in concert; merger of Banco BPM with third party operators; acquisition by Banco BPM of another bank or other distribution channels; or acquisition by Banco BPM of a third party operator) the parties shall discuss in good faith, inter alia, depending on the case: i) the possible acquisition by Agos Ducato, at market value, of the entity which, due to the extraordinary transaction, works in the consumer credit segment; ii) the extension of the new Distribution Agreement to the third party operator's distribution network; or iii) the inclusion of the additional distribution channel acquired in the distribution network of Banco BPM Group.

Commitments deriving from bancassurance agreements with Cattolica

On 29 March 2018 - following on from the agreement for the establishment of a strategic partnership in life and non-life bancassurance signed on 9 November 2017 between Banco BPM and Società Cattolica di Assicurazione ("Cattolica") - the purchase of 50% + 1 share of Avipop Assicurazioni (Vera Assicurazioni, at the date of this report) and Popolare Vita (Vera Vita, at the date of this report) was finalised, bringing the interest of Banco BPM Group in the capital of the two insurance companies to 100%. On the same date, the sale to Cattolica of 65% of the total share capital held by the Group in the two insurance companies was finalised.

The Shareholders' Agreement signed on 29 March 2018 by Banco BPM S.p.A. and Cattolica, subsequently amended on 29 October 2018, envisages, among other things, the granting of a put option to Cattolica and a call option to Banco BPM, with regards to the entire interests held by Cattolica in Vera Vita and Vera Assicurazioni.

The triggering events that shall grant Banco BPM the right to exercise the call option include a change of control over Cattolica.
The execution on 23 October 2020 of the corporate and industrial deal between Assicurazioni Generali and Cattolica, announced to the market on 25 June 2020, led, in the opinion of Banco BPM, to a change in control over Cattolica. On the basis of that conviction, on 15 December 2020 the Bank notified Cattolica of the exercise of the call option on the controlling stakes held by Cattolica in the capital of the joint ventures. Cattolica contested the occurrence of a change of control and therefore that the Bank has a right to exercise the call option.

Following discussions between the parties, on 16 April 2021, following up on the agreement reached on 5 March 2021, Banco BPM and Cattolica entered into a new agreement which provides, in exchange for Banco BPM's waiving of the call already exercised, for the recognition to Banco BPM of a right of early exit from the partnership, originally due to end in 2033, which can be exercised in the period between 1 January 2023 and 30 June 2023, and may be extended by the Bank from six-month period to six-month period three times, until 31 December 2024.
In particular, the parties agreed to grant Banco BPM an unconditional purchase option on the 65% stake held by Cattolica in the JV Vera Vita and Vera Assicurazioni. The call option strike price was set at the own funds, excluding subordinated liabilities and including any earnings until the transfer date of the interests, to be calculated to the half-

year prior to the exercise of the option. 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.

On 29 May, Banco BPM exercised the call option with respect to Cattolica Assicurazioni on 65% of the share capital of Vera Vita S.p.A. and Vera Assicurazioni S.p.A.
The acquisition of control over the companies Vera Vita and Vera Assicurazioni is indicatively expected to be finalised in the last quarter of 2023, subject to the issue of the required legal authorisations by the competent Authorities.

As regards the Non-Life/Protection business, following the competitive process aimed at evaluating possible partnership options, on 23 December 2022 Banco BPM signed a binding term-sheet with Crédit Agricole Assurances which provides for (i) the sale of the 65% stake in Banco BPM Assicurazioni's share capital and, subject to the repurchase by the Bank, of the 65% stake currently held by Generali Italia[1] in the share capital of Vera Assicurazioni, which in turn wholly owns Vera Protezione, and (ii) the launch of a 20-year commercial partnership in the Non-Life/Protection business segments.
On 12 May 2023, the long form contracts, which specify in detail the binding agreements already reached between the parties when the term-sheet was signed, were signed with Crédit Agricole Assurances. In particular, the following agreements were signed (as amended and supplemented on 19 June 2023):

(i) the "Framework Agreement", which governs the reference contractual framework within which the transaction will be carried out and therefore the establishment of the partnership between Banco BPM Group and Crédit Agricole Assurances for the non-life and protection business segments;
(ii) the "Sale and Purchase Agreement", which governs the terms, including economic and operational, and conditions of the purchase and sale of interests in associates and joint ventures.

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:

- the sale to Anima Holding of Aletti Gestielle SGR;
- the long-term partnership in the asset management sector between the Banco BPM Group and the Anima Group;
- 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".

[1] On 1 July 2023, the partial proportional demerger of Cattolica in favour of Generali Italia became effective: the interests in associates and joint ventures held by Cattolica in Vera Vita and Vera Assicurazioni, equal to 65% of their share capital, were transferred to the beneficiary Generali Italia, as they were included in the demerger scope. Pursuant to art. 5.2 (a)(i) of the New Shareholders' Agreement, Generali Italia, as of the effective demerger date, signed it, committing to meeting all obligations set forth therein for Cattolica.

Property, plant and equipment – Item 90

Property, plant and equipment totalled 2,825.3 million as at 30 June 2023, compared with the amount of 3,034.7 million of the previous year. In detail, the aforementioned assets are represented by:

- property, plant and equipment used in operations valued at cost of 570.8 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 1,339.0 million;
- property held for investment purposes valued at fair value of 915.5 million.

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

As at 30 June 2023 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 30/06/2023	Total 31/12/2022
1. Owned assets	**71,320**	**74,386**
a) land	-	-
b) buildings	-	-
c) furniture	12,102	12,976
d) electronic systems	51,904	52,879
e) other	7,314	8,531
2. Rights of use acquired through leases	**499,504**	**640,501**
a) land	-	-
b) buildings	465,728	605,978
c) furniture	-	-
d) electronic systems	31,737	34,115
e) other	2,039	408
Total	**570,824**	**714,887**
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 2023, as well as at 31 December of last year, 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 30/06/2023			Total 31/12/2022		
	L1	L2	L3	L1	L2	L3
1. Owned assets	**-**	**-**	**1,339,012**	**-**	**-**	**1,364,519**
a) land	-	-	967,712	-	-	994,246
b) buildings	-	-	318,331	-	-	317,304
c) furniture	-	-	-	-	-	-
d) electronic systems	-	-	-	-	-	-
e) other	-	-	52,969	-	-	52,969
2. Rights of use acquired through leases	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
c) furniture	-	-	-	-	-	-
d) electronic systems	-	-	-	-	-	-
e) other	-	-	-	-	-	-
Total	**-**	**-**	**1,339,012**	**-**	**-**	**1,364,519**
of which: obtained through the enforcement of guarantees received	-	-	19,102	-	-	20,385

The changes that occurred during the half-year, aside from the normal deterioration process for 7.8 million, include the following:

- the transfer of certain operating properties to assets held for investment purposes, following the implementation of the branch closure plan approved in the previous year, for 8.0 million;
- net changes in fair value for a total negative amount of 12.1 million. Said effects are reported in the statement of comprehensive income for 4.7 million and in the item "260. Fair value gains (losses) on property, plant and equipment and intangible assets" for 7.4 million.

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

Asset/Amounts	Total 30/06/2023			Total 31/12/2022		
	L1	L2	L3	L1	L2	L3
1. Owned assets	**-**	**-**	**915,478**	**-**	**-**	**955,283**
a) land	-	-	618,982	-	-	670,863
b) buildings	-	-	296,496	-	-	284,420
2. Rights of use acquired through leases	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
Total	**-**	**-**	**915,478**	**-**	**-**	**955,283**
of which: obtained through the enforcement of guarantees received	-	-	459,736	-	-	475,977

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

- transfers of several properties from assets for business use for a book value of 8.0 million;
- transfers of certain buildings, with a book value of 40.7 million, to assets held for sale;
- net changes in fair value for a total negative amount of 22.8 million euro 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 30/06/2023		Total 31/12/2022 (*)	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	**X**	**56,709**	**X**	**56,709**
A.1.1 attributable to the Group	X	56,709	X	56,709
A.1.2 attributable to non-controlling interests	X	-	X	-
A.2 Other intangible assets	**680,838**	**504,272**	**694,143**	**504,272**
of which: software	401,733	-	398,022	-
A.2.1 Assets at cost:	680,838	504,272	694,143	504,272
a) Internally generated intangible assets	-	-	-	-
b) Other assets	680,838	504,272	694,143	504,272
A.2.2 Assets at fair value:	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
Total	**680,838**	**560,981**	**694,143**	**560,981**

(*) The figures relating to the previous year have been restated following the retrospective application of IFRS 17 by the Group's insurance companies subject to control.

Intangible assets with a finite life include:

- software in the amount of 401.7 million;
- 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 256.8 million, down by 14.4 million compared to December 2022 due to the amortisation process;
- the "Value of Business Acquired" (or VoBA) generated through the acquisition of the controlling interests in the insurance company Banco BPM Vita S.p.A. for 22.1 million (net of amortisation for the half-year of 2.0 million). This is the portion linked only to class III activities; indeed, it should be noted that the part of the VoBA linked to purely insurance activities was reversed with the introduction of IFRS 17 as it was included in the calculation of the Contractual Service Margin.

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 2022, as well as the reduction in the half-year due to the amortisation process described above.

As at 30 June 2023, intangible assets with an indefinite life recognised in the financial statements amounted to a total of 561.0 million (unchanged value compared to 31 December 2022) and referred to:

- 56.7 million in goodwill deriving from the business combination with Banca Popolare Italiana (Bancassurance Protection CGU for 42.9 million, coinciding with the investee Vera Assicurazioni), the acquisition of the controlling interests in the company Oaklins Italy S.r.l. (Banca Akros CGU for 3.8 million) and the acquisition of control of Banco BPM Vita (Banco BPM Vita CGU for 10.0 million) completed in 2022;
- for 504.3 million from business trademarks 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), all allocated to the Retail CGU with the exception of 18.6 million relating to the valuation of the trademark of Banca Akros (Banca Akros CGU).

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 2023, 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 561.0 million, represented for 504.3 million by trademarks and for 56.7 million by goodwill, in line with the values set forth in the 2022 financial statements.

As at 31 December 2022, 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, comprised of Private Customer and Retail Business segments, based on the revision of current customer portfolios in place at the end of 2022, consistent with 2022 Segment Reporting, to verify the trademarks recognised following the business combination with the former Banca Popolare Italiana Group in 2007 (222.2 million) and with the former Banca Popolare di Milano Group in 2017 (263.5 million);
- Banca Akros CGU, consisting of Banca Akros S.p.A., coinciding with the Investment Banking segment of Segment Reporting excluding the Oaklins impact, to test the corresponding trademark following the business combination with the former Banca Popolare di Milano Group in 2017 (18.6 million);
- Oaklins CGU, set up by Oaklins, wholly owned by Banca Akros S.p.A. acquired in 2021 (3.8 million);
- Bancassurance Protection CGU, consisting of the investee Vera Assicurazioni S.p.A. for the purposes of the goodwill impairment test relative to this operating segment, following the business combination with the former Banca Popolare Italiana Group in 2007 and which amounted to 42.9 million as at 31 December 2022 following the impairment of 8.1 million recognised in the first half of 2022;
- Banco BPM Vita CGU: coinciding with Banco BPM Vita, for the purposes of impairment testing goodwill (10.0 million) referring to this operating segment, following the outcome of the PPA conducted on the investment following the acquisition of full control by Banco BPM during 2022.

The impairment test carried out as at 31 December 2022 could benefit from the following valuation margins ("headroom"):

- Retail CGU: 4,462 million, equal to the excess between the recoverable value of the CGU (7,631 million) and the relative book value (3,169 million);
- Banca Akros CGU: 47 million, equal to the excess between the recoverable value of the trademarks (66 million) and the relative book value (19 million);
- Oaklins CGU: 11 million, equal to the excess between the recoverable value of the CGU (16 million) and the relative book value (6 million);
- Bancassurance Protection CGU: 46 million, equal to the excess between the recoverable value of the CGU (175 million) and the relative book value (129 million);
- Banco BPM Vita CGU: 146 million, equal to the excess between the recoverable value of the CGU (468 million) and the relative book value (322 million).

Procedures for verifying the existence of any indications of impairment

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) do not 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.

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 2023 comes to 4.25 euro compared to 3.34 euro as at 31 December 2022 (3.34 euro), recording performance better than the indices of the Italian banking sector (FTSE Italia All-Share Bank Index) and the European sector (Euro Stoxx Bank Index) which, during the first half of 2023, recorded a negative change of 25.9% and 12.0%, 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 2023 highlights a significant increase compared to what has been observed with reference to the end of the previous year and the second half of 2022.
In light of the above, although Banco BPM's stock market capitalisation as at 30 June 2023 (6.4 billion) shows a significant discount compared to tangible shareholders' equity (12.3 billion), a circumstance that can be found for all Italian banks for many years now, it is higher than that as at 31 December 2022 (5.1 billion).
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 as at 31 December 2022 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 income flows used for the last impairment test as at 31 December 2022 were constructed in line with the Commercial Network data for the year 2023 and with the estimates for 2024 and 2025 of volumes and spreads consistent with development at consolidated level, approved by the Board of Directors on 20 December 2022. To prepare the consolidated interim report as at 30 June 2023, the analyses carried out on the evolution of these income flows during the first half of the year did not highlight elements such so as to call into question the recoverability of the values subject to formal testing as at 31 December 2022. In fact, the final figures are in line with or even higher than the forecasts assumed in the cash flow projections used in the 2022 impairment test, benefitting in particular from higher interest rates. Therefore, there are no indications of impairment and it is not necessary to repeat the impairment test for the trademark in question.

With reference to the Banca Akros trademark, the recoverability of which was verified as at 31 December 2022 with the "royalties rate" methodology, there are no significant changes in the projections of operating income for the 2023-2025 period, which represent the flows used as a reference for the impairment test with the above-mentioned method. In particular, to prepare the consolidated interim report as at 30 June 2023, the analyses carried out on the evolution of these income flows during the first half of the year did not highlight elements such so as to call into question the recoverability of the values subject to formal testing as at 31 December 2022. In fact, the available final figures are in line with or even higher than the forecasts assumed in the cash flow projections used in the 2022 impairment test, benefitting in particular from higher interest rates. Therefore, there are no indications of impairment and it is not necessary to repeat the impairment test for the trademark in question.

With reference to Oaklins goodwill, the recoverability of which was verified as at 31 December 2022, there are no significant changes in the profit projections for the 2023-2025 period, which represent the flows used as a reference for the impairment test with the income-based approach. Performance in the first half of 2023 also marked a slight slowdown both for the company and for the entire M&A sector in Italy, but overall a recovery is expected in the second part of the current year, also thanks to the company's current pipeline of transactions, and the expectations for the next two years remain confirmed, not affecting the overall stability of future flows as a result of impairment. Therefore, it is not necessary to repeat the impairment test for the goodwill in question.

With reference to the goodwill of the Banco BPM Vita CGU, the recoverability of which was verified as at 31 December 2022, there are no significant changes in the profit projections for the 2023-2025 period, which represent the flows used as a reference for the impairment test. The results of the first half of the current year - which incorporate the adoption of the new accounting standard IFRS 17 - are aligned with the forecasts assumed in the projections used for the 2022 impairment test. Therefore, there are no indications of impairment and it is not necessary to repeat the impairment test for the goodwill in question.

Finally, as regards the Bancassurance Protection CGU, the economic and financial forecasts used for the 2022 impairment test are still valid for the purposes of the 2023 interim report.
These flows were prepared using as a basis the business plan included in the binding term-sheet of 22 December 2022 and confirmed in the contracts signed on 12 May 2023 with Crédit Agricole Assurance regarding the implementation of the strategic partnership on Non-Life and Protection bancassurance, which will become effective, subject to obtaining the necessary authorisations, in the fourth quarter of 2023.

Internal factors - other valuation parameters

As regards the profile of the valuation parameters, a Cost of Equity was used for the 2022 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 2022:

- 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;
- 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, was determined using: *(i)* for the Retail CGU: the average indicator relating to a sample of comparable companies (Italian listed banks), *(ii)* for the Banca Akros and Oaklins CGUs, the average indicator relating to a sample of companies active in Investment Banking, *(iii)* for the Bancassurance Protection CGU and the Banco BPM Vita CGU, the average indicator relating to a sample of companies active in the insurance sector;
- the market risk premium (MPR) was determined with a methodology aligned with valuation practice.

These parameters were updated with reference to 30 June 2023, using the same methodologies. It should be noted that, with respect to the impairment test as at 31 December 2022:

- the risk-free component (Rf) increased from 3.13% to 4.05%;
- the beta coefficient (ß): for the Retail CGU it increased from 1.06 to 1.07, for the Banca Akros and Oaklins CGU it went from 1.12 to 1.11, for the Bancassurance Protection CGU and the Banco BPM Vita CGU it decreased from 1.01 to 0.98.
- The market risk premium (MRP) remains unchanged at 5.2%.

With the update of the parameters, as at 30 June 2023, the cost of equity (Ke) relating to the various CGUs therefore changes as follows:

- that relating to the Retail CGU increases from 8.62% to 9.63%;
- that relating to the Banca Akros and Oaklins CGUs increases from 8.92% to 9.83%;
- that relating to the Bancassurance Protection CGU and the Banco BPM Vita CGU increases from 8.39% to 9.14%.

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 in order to determine the terminal value used is confirmed at 2% in line with the inflation target as part of 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 2022 impairment test.

Conclusions on the existence of potential indications of impairment

In light of the above, taking into account the changes in the “Ke” discount rate and the sensitivity analyses carried out for the 2022 impairment test with respect to the parameter in question, no potential indication of impairment was identified.

An update of the sensitivity analyses with respect to those laid out in the 2022 financial statements is provided below for the Retail, Banca Akros, Oaklins, Bancassurance Protection and Banco BPM Vita CGUs, based on the hypotheses and assumptions previously considered for the calculation of the recoverable value.
For the Retail CGU, the following table shows that, with the updating of the cost of equity to 9.63%, all other factors being equal, the positive difference between the recoverable value and the book value would be 3.5 billion, down from 4.5 billion recorded as at 31 December 2022.
The table shows that, all other factors being equal, there would be an elimination of the margin following an increase in the cost of capital to the value of 19.74%.

Retail CGU Growth rates of terminal value "g"/Discount rates "Ke" (difference between recoverable value and reference value in millions of euro) (percentage impact on the central recoverable value)					
		(Ke)			
		9.63%		19.74%	
(g)	1.50%	3,203	47.9%	-45	-0.7%
	2.00%	3,512	52.6%	0	0.0%
	2.50%	3,863	57.8%	48	0.7%

For the CGU in question, the sensitivity analysis on the cost of equity (Ke) was also updated, in light of any changes in income flows.
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.

Retail CGU % Change in net profit/Discount rates "Ke" (difference between recoverable value and reference value in millions of euro) (percentage impact on the central recoverable value)					
		Ke			
		9.63%		19.74%	
PROFIT	5.00%	3,825	57.3%	140	2.1%
	0.00%	3,512	52.6%	0	0.0%
	-5.00%	3,198	47.9%	-140	-2.1%
	-56.0%	0	0.0%	-1,567	-23.5%

For the Banca Akros CGU, the following table shows that, with the updating of the cost of equity to 9.83%, the positive difference between the recoverable value and the book value would be 40 million, down from 47 million as at 31 December 2022.
The table shows that, all other factors being equal, there would be an elimination of the margin following an increase in the cost of capital to the value of 26.27%.

Banca AKROS CGU Growth rates of terminal value "g"/Discount rates "Ke" (difference between recoverable value and reference value in millions of euro) (percentage impact on the central recoverable value)					
		(Ke)			
		9.83%		26.27%	
(g)	1.50%	37	62.9%	-0.2	-0.4%
	2.00%	40	68.1%	0.0	0.0%
	2.50%	43	74.0%	0.3	0.4%

For Oaklins, the table shows that, all other factors being equal, there would be an elimination of the margin following an increase in the cost of capital to the value of 21.99%.

Oaklins Growth rates of terminal value "g"/Discount rates "Ke" (difference between recoverable value and reference value in millions of euro) (percentage impact on the central recoverable value)					
		(Ke)			
		9.83%		21.99%	
(g)	1.50%	8	56.8%	-0.1	-0.6%
	2.00%	9	62.1%	0.0	0.1%
	2.50%	10	68.1%	0.1	0.8%

For the Bancassurance Protection CGU, the following table shows that, with the updating of the cost of equity to 9.14%, all other factors being equal, the positive difference between the recoverable value and the book value would be 26 million, down from 46 million recorded as at 31 December 2022.
The table shows that, all other factors being equal, there would be an elimination of the margin following an increase in the cost of capital to the value of 10.42%.

Bancassurance Protection CGU Growth rates of terminal value "g"/Discount rates "Ke" (difference between recoverable value and reference value in millions of euro) (percentage impact on the central recoverable value)					
		(Ke)			
		9.14%		10.42%	
(g)	1.50%	10	6.1%	-11	-7.3%
	2.00%	26	16.6%	0	0.0%
	2.50%	36	23.0%	7	4.4%

For the CGU in question, the sensitivity analysis on the cost of equity (Ke) was also updated, in light of any changes in income flows.
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.

Bancassurance Protection CGU Change in flows/Discount rates "Ke" (difference between recoverable value and reference value in millions of euro) (percentage impact on the central recoverable value)					
		(Ke)			
		9.14%		10.42%	
PROFIT	10.00%	41	26.4%	13	8.1%
	0.00%	26	16.6%	0	0.0%
	-5.00%	18	11.7%	-6	-4.1%
	-16.98%	0	0.0%	-21	-13.8%

For the Banco BPM Vita CGU, the following table shows that, with the updating of the cost of equity to 9.14%, all other factors being equal, the positive difference between the recoverable value and the book value would be 100 million, down from 146 million recorded as at 31 December 2022.
The table shows that, all other factors being equal, there would be an elimination of the margin following an increase in the cost of capital to the value of 11.54%.

Banco BPM Vita CGU Growth rates of terminal value "g"/Discount rates "Ke" (difference between recoverable value and reference value in millions of euro) (percentage impact on the central recoverable value)					
			(Ke)		
		9.14%		11.54%	
(g)	1.50%	76	18.1%	-13	-3.0%
	2.00%	100	23.6%	0	0.0%
	2.50%	126	30.0%	14	3.4%

For the CGU in question, the sensitivity analysis on the cost of equity (Ke) was also updated, in light of any changes in income flows.
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.

Banco BPM Vita CGU Change in flows/Discount rates "Ke" (difference between recoverable value and reference value in millions of euro) (percentage impact on the central recoverable value)					
			(Ke)		
		9.14%		11.54%	
PROFIT	10.00%	136	32.3%	27	6.4%
	0.00%	100	23.6%	0	0.0%
	-5.00%	81	19.3%	-14	-3.2%
	-27.16%	0	0.0%	-73	-17.4%

It should also be noted that if the sensitivity analyses described above had been conducted with the use of a risk-free rate equal to the average over a shorter time horizon, their results would not have led to conclusions different from those reached.

Tax assets - Item 110 and Item 130 in the assets

Deferred tax assets

A. Deferred tax assets – breakdown

As at 30 June 2023, total DTAs amounted to 4,040.6 million (4,319.9 million as at 31 December 2022), of which 3,667.0 million had an impact on the income statement, while 373.6 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 2023, 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 2,073.6 million (2,278.2 million as at 31 December 2022). 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 2023, 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 1,456.1 million (1,613.4 million as at 31 December 2022);
- temporary deductible differences relative to goodwill and other intangible assets recognised in previous years for 617.5 million (664.8 million as at 31 December 2022).

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 2023 amounts to 24.1 million.

As at 30 June 2023, residual deferred tax assets (non-convertible DTAs) amounted to 1,967.0 million (2,041.7 million as at 31 December 2022), of which 875.9 million deriving from IRES tax losses, which can be carried forward (874.9 million as at 31 December 2022) and 1,091.1 million deriving from costs and value adjustments deductible in years subsequent to those of recognition in the financial statements (1,166.8 million as at 31 December 2022).
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 2023 in relation to the absence of the relative assumptions came to 23.3 million, all of which refers to the Parent Company, of which 4.6 million of IRES DTAs and 18.7 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 transformed into tax credits, equal to 2,073.6 million - corresponding to 51.32% of the total DTAs posted in the financial statements as at 30 June 2023 - 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 1,967.0 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 Banco BPM Group or Banco BPM for the 2023 - 2025 period;
- 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.

B.1 Estimated future taxable income

The estimate of future taxable income took place starting from the most recent income projections of Banco BPM and the Group for the years 2023-2025 prepared for the ICLAAP in March 2023.

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 baseline scenario, an adverse scenario and a favourable scenario were drawn up, to which probabilities of occurrence of 50%, 30% and 20% respectively were assigned, consistent with the other valuation processes.
As at 31 December 2022, the above-mentioned probabilities were the same.
For long-term profitability, starting from 2026, we took as reference the expected income in 2025, 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 2027, 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 5.59% 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 5.2%, multiplied by the Beta coefficient (ß), equal to 1.074%, 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 5.59%, applied according to the compound capitalisation formula, from 2026 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 2023, which can be recovered through the income generated by all the companies belonging to the Group, amount to 1,587.7 million. Full recovery of those DTAs is expected by the end of 2032 (10 years), one year prior to the results as at 31 December 2022.
The IRES DTAs recognised based on the additional tax rate of 3.5% as at 30 June 2023, which can be recovered through the income generated in the separate financial statements of Banco BPM, amount to 245.4 million. The full

recovery of the DTAs in question is expected to take place by the end of 2033 (11 years), two years prior to what emerged from the test as at 31 December 2022.

Lastly, referring to the IRAP DTAs of Banco BPM as at 30 June 2023, which can be recovered through income generated individually by Banco BPM, of 114.9 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% (1,587.7 million, equal to 86.4% of the total non-convertible IRES DTAs).
To this end, a sensitivity analysis was conducted on the main hypotheses and assumptions relating to the recovery time horizon; in particular, the sensitivity analyses were developed on the basis of the following factors:

- discount rate of forecasts of future taxable income: any 1.5% increase/decrease in the adjusting factor (7.09% and 4.09% respectively) would result in the confirmation of recovery by the end of 2032;
- long-term income growth rate (g): a reduction of 0.5% (from 2% to 1.5%) would not have significant impacts on the horizon for recovery, which would be confirmed as by the end of 2032;
- a "normalised" taxable income expected from 2027 onwards: a 10% reduction in that income would lengthen the expected return of the DTAs by 1 year.

Furthermore, as previously discussed in the event that the projections of taxable income developed based on income flows not adjusted using the adjusting factor were confirmed by the results that the Group will generate in the future, the full recovery of the DTAs, including those relating to previous years' tax losses, would be unchanged in the year 2032 (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 2023 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 30/06/2023	Discount factor (+1.5%)	Discount factor (-1.5%)	Growth factor g (-0.5%)	Expected taxable income at the end of the explicit period (-10%)	
31/12/2027 (5 years)	36.2%	35.8%	36.7%	36.1%	34.4%	37.1%
31/12/2031 (9 years)	92.1%	88.2%	95.6%	91.1%	83.4%	95.6%
31/12/2032 (10 years)	100.0%	100.0%	100.0%	100.0%	96.2%	100.0%
31/12/2033 (11 years)					100.0%	

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

Note that as at 30 June 2023, the DTAs deriving from IRES tax losses that can be carried forward amount to 875.9 million, compared to 874.9 million as at 31 December 2022.
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	30/06/2023	31/12/2022 (*)
A)	**As balancing entry in the Income Statement**					
	A.1) Convertible DTAs pursuant to Italian Law 214/2011	**1,845,990**	**227,598**	**-**	**2,073,588**	**2,278,228**
	Write-downs of loans deductible in subsequent years	1,340,389	115,735	-	1,456,124	1,613,410
	Costs deductible in subsequent years deriving from the tax relief on goodwill and other intangible assets	505,601	111,863	-	617,464	664,818
	A.2) DTAs - Other types	**1,531,029**	**62,383**	**-**	**1,593,412**	**1,636,974**
	Tax losses that can be carried forward	875,851	-	-	875,851	874,920
	ECL adjustments of FTAs pursuant to IFRS 9 on loans to customers deductible in the subsequent years	201,212	40,681	-	241,893	263,884
	Provisions and value adjustments deductible in subsequent years	88,838	75	-	88,913	102,136
	Personnel expenses and provisions for employee severance pay deductible in subsequent years	77,994	870	-	78,864	96,377
	Value adjustments to real estate deductible in subsequent years	258,407	16,961	-	275,368	264,908
	Book values lower than the recognised tax values resulting from value adjustments to goodwill and other intangible assets	18,308	3,727	-	22,035	22,821
	Book values lower than the recognised tax values resulting from fair value measurement of financial assets	1,094	48	-	1,142	1,164
	Other cases of misalignment between book and tax values	9,325	21	-	9,346	10,764
	Total A	**3,377,019**	**289,981**	**-**	**3,667,000**	**3,915,202**
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	255,934	56,977	-	312,911	343,915
	Other cases of misalignment between book and tax values	50,860	9,809	-	60,669	60,815
	Total B	**306,794**	**66,786**	**-**	**373,580**	**404,730**
	Total (A+B)	**3,683,813**	**356,767**	**-**	**4,040,580**	**4,319,932**

(*) The figures relating to the previous year have been restated following the retrospective application of IFRS 17 by the Group's insurance companies subject to control.

Other assets: receivables due from tax authorities

Item 130 "Other assets" as at 30 June 2023 includes receivables due from tax authorities of 3,198.6 million (3,027.3 million as at 31 December 2022), mainly represented by:

- receivables resulting from claims for the refund of direct taxes totalling 314.4 million concerning:
  - receivables of 212.4 million relating to 2018, the refund of which was requested in 2019;
  - IRPEG/ILOR receivables of 95.0 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. On the other hand, the Court of Cassation upheld the two grounds of the appeal of the Tax Authority aimed at asserting, from a procedural perspective, the nullity of the ruling on appeal as it did not have the necessary support, ordering the referral of the case to the appeal judge. At that time, the Bank's arguments, already successfully asserted in the first and second instance proceedings, regarding the receivables requested for reimbursement will be reiterated;
  - IRES and IRAP receivables of 3.7 million attributed following the liquidation of Group companies;
  - receivables of 3.8 million, for which Bipielle Real Estate has requested a refund, purchased in 2003 by Fondazione Cassa di Risparmio di Pescara e Loreto Aprutino as the part payment of the transfer price of the ownership of several properties. The company has repeatedly solicited the payment by the Tax Authority of the refund of the receivables. Even though the Tax Authority initially stated that it was willing to pay them, it 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 Tax Authority, also assessing, based on an analysis of the deed of

sale by the Foundation, any recourse against the same. On this basis, it had been considered prudent to allocate a bad debt provision in the year 2021 of 50% of the amount of receivables, namely 1.9 million;
  - IRES and IRAP receivables of 1.4 million relating to Banco BPM Vita, of which 1.1 million arising from declarations relating to 2018 and 2019 and 0.3 million relating to the request for reimbursement for withholdings incurred in 2005;
- IRES receivables due to non-deduction of IRAP of 0.8 million, of which 0.5 million relating to Banco BPM and 0.3 million relating to Banco BPM Vita. The receivable of Banco BPM relates to the residual amount not repaid, equal to 1.2 million of the receivable due to the former Banco Popolare. An appeal was filed with the Provincial Tax Commission for this receivable and a specific bad debt provision of 0.7 million was recognised in 2021. The Provincial Tax Commission of Venice partially accepted the Bank's appeal and declared the discontinuance of the matter in issue concerning the repayment of the sum of 0.25 million. The Bank filed a cross appeal before the Veneto Tax Court of Justice of the second instance;
- receivables resulting from claims for the refund of VAT and indirect taxes totalling 17.6 million concerning:
  - 7.4 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 year 2022 in the amount of 161.9 million, following the ruling during the resumption of the proceedings of the Regional Tax Commission 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 credit was not accepted.

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

    The residual amount of 7.4 million (after the write-off of interest of 1.2 million in 2022) consists of interest accrued and not yet repaid. A further appeal was filed with the Court of Cassation;
  - 7.6 million referring to the dispute of the former Mercantile Leasing S.p.A. relating to the partial refusal of the VAT refund for the first and second quarters of 2007. Of this amount, 4.5 million was requested as a refund in the declaration and is not disputed. For the amount of 6.8 million, against the refusal of the reimbursement by the Tax Authority for the amount of 3.7 million, the Bank prudentially had recognised a specific bad debt provision of the same amount in the financial statements of the year 2021, although filing the dispute in any event;
  - 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 210.0 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 which will be recovered through offsetting in the total amount of 255.9 million;
- various receivables due from the Tax Authorities of 46.6 million mainly relating to the payment of the advance of substitute tax on capital gains;
- tax credits connected with the interest accrued on loans disbursed to customers resident in areas hit by earthquakes for 71.9 million;
- tax credits connected with the VAT payment for 1.1 million;

- Ecobonus credits of 2,159.7 million;
- municipal tax (IMU) credits of 0.2 million. Against the total amount of 0.4 million, of which 0.2 million referring to the absorbed company Release S.p.A., in previous years a bad debt provision of 0.2 million was prudently set aside;
- 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 of 1 million, net of the bad debt provision of 0.4 million that had been prudently made by Banca Aletti;
- tax credits due from Foreign tax authorities on dividends paid of 2.2 million;
- tax credits on mathematical reserves (Law 265/02) of 117.0 million relating to Banco BPM Vita;
- tax credits on insurance (Law 282/04) of 0.2 million relating to Banco BPM Vita.

In light of the above, the gross value of the tax credits is 3,214.9 million and the write-downs made amount to 16.3 million. Therefore, the net value of receivables due from the Tax Authority recognised in the financial statements is 3,198.6 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 30/06/2023	Total 31/12/2022 (*)
A. Assets held for sale		
A.1 Financial assets	320,496	51,860
A.2 Interests in associates and joint ventures	-	-
A.3 Property, plant and equipment	146,710	132,993
of which: obtained through the enforcement of guarantees received	82,431	78,272
A.4 Intangible assets	1,184	1,052
A.5 Other non-current assets	17,578	9,887
Total A	**485,968**	**195,792**
of which at cost	283,950	11,102
of which at fair value level 1	55,992	51,860
of which at fair value level 2	-	-
of which at fair value level 3	146,026	132,830
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	(224,590)	(19,655)
C.2 Securities	-	-
C.3 Other liabilities	(20,902)	(6,166)
Total C	**(245,492)**	**(25,821)**
of which at cost	(245,492)	(25,821)
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	-	-

(*) The figures relating to the previous year have been restated following the retrospective application of IFRS 17 by the Group's insurance companies subject to control.

As at 30 June 2023, assets held for sale included the following types:

- owned properties for which sales negotiations in progress render probable the completion of the sales during the next year for 146.3 million (132.8 million as at 31 December 2022), indicated under item A.3 "Property, plant and equipment";
- net assets attributable to the investee Banco BPM Assicurazioni S.p.A., for which a term-sheet was signed with Crédit Agricole Assurances S.A. in December 2022 for the sale of 65% of the interests in associates and joint ventures, represented by assets for 64.3 million and liabilities for 30.7 million (63.0 million in assets as at 31 December 2022 and the corresponding liabilities as at the same date came to 25.8 million, restated as a result of the application of IFRS 17);
- assets for 216.6 million and liabilities for 214.6 million relating to the e-money business and the investee Tecmarket, following the negotiations aimed at establishing a strategic partnership for the development of a new Italian and independent company in the digital payments sector. In greater detail, the equalised e-money business, represented by prepaid cards, is shown for 205.4 million under item A.1 "Financial assets" and for the same amount in item C.1 "Payables";
- financial assets attributable to loans classified as bad and unlikely to pay for which assignment has been approved, amounting to 58.8 million. The assignments are expected to be finalised in the second half of the year.

For further details on the accounting of the agreement relating to the e-money business, refer to the paragraph entitled "Other significant aspects relating to Group accounting policies" contained in Part A.1 of these Explanatory Notes.

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 30/06/2023				Total 31/12/2022			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**17,818,752**	X	X	X	**26,332,411**	X	X	X
2. Due to banks	**5,053,656**	X	X	X	**6,304,095**	X	X	X
2.1 Current accounts and demand deposits	299,116	X	X	X	250,742	X	X	X
2.2 Fixed-term deposits	195,202	X	X	X	279,818	X	X	X
2.3 Loans	3,847,840	X	X	X	4,714,191	X	X	X
2.3.1 Repurchase agreements	3,735,247	X	X	X	4,526,453	X	X	X
2.3.2 Other	112,593	X	X	X	187,738	X	X	X
2.4 Payables for commitment to repurchase own capital instruments	-	X	X	X	-	X	X	X
2.5 Lease payables	826	X	X	X	683	X	X	X
2.6 Other payables	710,672	X	X	X	1,058,661	X	X	X
Total	**22,872,408**	**-**	**-**	**22,871,829**	**32,636,506**	**-**	**-**	**32,636,506**

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 2023, there are TLTRO III long-term refinancing operations for a nominal value of 17.7 billion (26.7 billion as at 31 December 2022). The reduction compared to the amount outstanding as at 31 December 2022 is attributable to the repayment of 9.0 billion of an issue maturing on 28 June 2023.

For more details, please see the section "Other significant aspects relating to Group accounting policies", found in Part A of these Explanatory Notes.

1.2 Financial liabilities at amortised cost: breakdown by product for amounts due to customers

Transaction type/Amounts	Total 30/06/2023				Total 31/12/2022			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	100,908,444	X	X	X	103,410,941	X	X	X
2. Fixed-term deposits	432,448	X	X	X	288,335	X	X	X
3. Loans	1,941,892	X	X	X	1,984,183	X	X	X
3.1 Repurchase agreements	1,435,470	X	X	X	1,460,568	X	X	X
3.2 Other	506,422	X	X	X	523,615	X	X	X
4. Payables for commitment to repurchase own capital instruments	-	X	X	X	-	X	X	X
5. Lease payables	496,321	X	X	X	627,238	X	X	X
6. Other payables	1,519,203	X	X	X	1,996,370	X	X	X
Total	**105,298,308**	**-**	**-**	**105,296,668**	**108,307,067**	**-**	**-**	**108,307,067**

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 30/06/2023				Total 31/12/2022			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	16,329,526	9,851,525	6,212,064	-	12,922,521	8,866,975	3,697,759	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	16,329,526	9,851,525	6,212,064	-	12,922,521	8,866,975	3,697,759	-
2. other securities	3,928	-	-	3,928	8,000	-	-	8,000
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	3,928	-	-	3,928	8,000	-	-	8,000
Total	**16,333,454**	**9,851,525**	**6,212,064**	**3,928**	**12,930,521**	**8,866,975**	**3,697,759**	**8,000**

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

Debt securities in issue as at 30 June 2023 amounted to 16.3 billion (12.9 billion as at 31 December 2022).

As specified in the section "Significant events during the period" in the Interim report on operations, in January, the placement of a 750 million 4-year Green Senior Preferred bond issue for institutional investors was concluded, which is included within the Bank's Green, Social and Sustainability Bond Framework of the Euro Medium Term Notes Programme.
The bond, issued at a price of 99.613%, pays a fixed coupon of 4.875%.
In June 2023, a further 750 million five-year Green Senior Non Preferred bond issue was added to this transaction.
The bond, which is part of the Green, Social and Sustainability Bond Framework, gives the possibility of early redemption in June 2027 and provides for a fixed-rate coupon of 6%.
Please also note that at the end of June 2023, Banco BPM concluded the placement of a new 750 million 5-year Covered Bond issue for institutional investors as part of its Covered Bank Bond programme.

During the half-year, bonds amounting to an approximate nominal value of 1.7 billion matured or were repaid.

Financial liabilities held for trading – Item 20

2.1 Financial liabilities held for trading: breakdown by product

Transaction type/Amounts	Total 30/06/2023					Total 31/12/2022				
	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	10,569,315	44,297	9,262,619	-	9,306,916	5,314,482	43,544	4,492,767	-	4,536,311
2. Due to customers	9,842,754	14,095	9,101,593	-	9,115,688	1,280,733	33,248	1,034,244	-	1,067,492
3. Debt securities	1,816,368	-	1,713,491	-	1,687,350	1,918,962	-	1,803,459	-	1,780,321
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	1,816,368	-	1,713,491	-	1,687,350	1,918,962	-	1,803,459	-	1,780,321
3.2.1 Structured	1,816,368	-	1,713,491	-	X	1,918,962	-	1,803,459	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total (A)	**22,228,437**	**58,392**	**20,077,703**	**-**	**20,109,954**	**8,514,177**	**76,792**	**7,330,470**	**-**	**7,384,124**
B. Derivative instruments										
1. Financial derivatives	-	152,177	2,299,725	-	-	-	104,146	2,670,142	-	-
1.1 Held for trading	X	152,177	1,818,168	-	X	X	104,146	2,349,902	-	X
1.2 Connected with the fair value option	X	-	481,549	-	X	X	-	320,148	-	X
1.3 Other	X	-	8	-	X	X	-	92	-	X
2. Credit derivatives	-	-	1,331	-	-	-	-	142	-	-
2.1 Held for trading	X	-	1,331	-	X	X	-	142	-	X
2.2 Connected with the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total (B)	**X**	**152,177**	**2,301,056**	**-**	**X**	**X**	**104,146**	**2,670,284**	**-**	**X**
Total (A+B)	**X**	**210,569**	**22,378,759**	**-**	**X**	**X**	**180,938**	**10,000,754**	**-**	**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 30/06/2023					Total 31/12/2022 (*)				
	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
- financial guarantees given	-	X	X	X	X	-	X	X	X	X
2. Due to customers	**1,495,996**	**-**	**1,476,068**	**19,928**	**1,495,996**	**1,460,125**	**-**	**1,459,075**	**18,295**	**1,477,370**
2.1 Structured	-	-	-	-	X	-	-	-	-	X
2.2 Other	1,495,996	-	1,476,068	19,928	X	1,460,125	-	1,459,075	18,295	X
of which:										
- commitments to disburse funds	-	X	X	X	X	-	X	X	X	X
- financial guarantees given	-	X	X	X	X	-	X	X	X	X
3. Debt securities	**3,398,618**	**-**	**3,271,760**	**-**	**3,235,009**	**2,645,465**	**-**	**2,478,393**	**-**	**2,457,650**
3.1 Structured	3,398,618	-	3,271,760	-	X	2,635,465	-	2,467,534	-	X
3.2 Other	-	-	-	-	X	10,000	-	10,859	-	X
Total	**4,894,614**	**-**	**4,747,828**	**19,928**	**4,731,005**	**4,105,590**	**-**	**3,937,468**	**18,295**	**3,935,020**

(*) The figures relating to the previous year have been restated following the retrospective application of IFRS 17 by the Group's insurance companies subject to control.
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

Item "2. Due to customers" refers for 1,476.1 million to insurance company liabilities for the issue of Unit-linked policies.

In item "3. Debt securities", structured debt securities refer to certificates with guaranteed capital.
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 866.0 million (988.9 million as at 31 December of last year) and include the provisions for employee severance pay of 245.7 million (258.5 million at the end of last year), pension plans of 88.9 million (99.3 million as at 31 December 2022), risk provisions for commitments and guarantees given of 129.3 million (144.2 million as at last 31 December) and other provisions for risks and charges of 402.1 million (486.9 million at the end of 2022).

The latter include:

- provisions for legal and tax disputes amounting to 70.8 million;
- provisions for personnel expenses of 198.8 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 132.4 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.

10.1 Provisions for risks and charges: breakdown

Items/Components	Total 30/06/2023	Total 31/12/2022
1. Provisions for credit risk relating to commitments and financial guarantees given	45,274	55,933
2. Provisions for other commitments and guarantees given	84,025	88,231
3. Company pension funds	88,892	99,330
4. Other provisions	402,071	486,901
4.1 legal and tax disputes	70,801	83,695
4.2 personnel expenses	198,827	263,535
4.3 other	132,443	139,671
Total	**620,262**	**730,395**

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.

Furthermore, as permitted by paragraph 92 of the reference international accounting standard (IAS 37), the disclosure set out below does not include the information that could harm the position of the Group banks involved in the actions to protect their position in the case and in the pending disputes.
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 Explanatory 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 clawback actions, total 70.8 million.

Legal disputes with customers

The high number of disputes prevents us from providing a detailed list, while their diverse nature makes it extremely difficult, if not impossible, to group them into categories of similar nature.
Below, a brief description is provided of the main legal disputes pending as at 30 June 2023, whose settlement is deemed could entail a probable or possible use of financial resources:

- 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.
- Compagnia Finanza e Servizi S.r.l. (Co.Fi.Se.) and Paolo Tabellini, as shareholders of Società Italiana Calzature S.r.l. (now bankrupt), summoned the Bank before the court on 8 November 2016, together with a leasing company, to obtain compensation for damages totalling 15 million. The first two instances ended with the rejection of the plaintiff's claims. The appeal ruling was challenged before the Court of Cassation by Tabellini alone, reducing the claim for compensation to 10 million, and the risk was dismissed as remote.
- On 4 September 2018, La Redenta Società Cooperativa Agricola summoned Banco BPM before the court together with the Directors, Statutory Auditors and six other credit institutions for alleged complicity in the aggravation of the company's liabilities.
  The Court of Appeal of Brescia, with a final ruling of 14 March 2023, rejected the plaintiff's claims, confirming the first instance decision.
- 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 its ruling of 11 January 2023, the Milan Court of Appeal confirmed the decision in favour of the Bank handed down in 2020 by the Court of Milan. The case is pending in the Court of Cassation.
- 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 20 December 2019, Banco BPM was summoned before the court, together with a pool of banks, by the receivership of the company Privilege Yard for allegedly abusive lending. 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). With a ruling dated 11 October 2022, the Court of Rome ordered the banks, jointly and severally, to pay 57.1 million. Banco BPM enforced the ruling for the portion due and, together with the other institutions involved, challenged the measure before the Court of Appeal.

- 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 Court of Rome, with ruling of 21 November 2022, fully rejected the claims of Malenco. The appeal proceedings are pending.
- CE.DI.SISA Centro Nord S.p.A. (in liquidation) – On 5 August 2020 the Bank was summoned for a liability action against Directors, Statutory Auditors, the Independent Auditors and consultants of the bankrupt company and the banks that colluded with the management body in aggravating liabilities. The Bank, which never granted loans but operated through advances on invoices, lodged a preliminary objection to the statute of limitations of the claim formulated. The total remedy sought against all the banks is 120 million. The hearing for the examination of the court-appointed expert is scheduled for 24 January 2024.
- 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. In June 2023, proceedings were terminated as a result of a settlement agreement, without any economic impact.
- On 23 December 2022, the extraordinary receivers of Società Italiana per Condotte d'Acqua S.p.A. summoned the members of its Management and Supervisory Boards, the auditing firm and the banking class, including Banco BPM, and some insurance companies to court, to obtain a joint and several sentence of all defendants to pay the sum of over 389 million. The amount is requested by way of compensation for the alleged damages also caused by the abusive granting of credit by the banking class, which would have allowed the company to continue to operate despite the crisis situation, also causing the serious impoverishment of the company's net assets. The proceedings are in the initial stage.
- 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.
  With regard to one of the portions of the site, on 7 March 2022, a settlement agreement was finalised with one of the current owners, regarding the reclamation of the portion of the former Necchi area it owns. The agreement envisages, inter alia, the contribution of Partecipazioni Italiane to bearing the reclamation costs for an amount of 1.4 million plus VAT (half of which already paid at the time of finalisation of the agreement and half to be paid to the counterparty on announcement of the start of the reclamation activities), already accounted for in the financial statements as at 31 December 2021. In February 2023, the counterparty informed Partecipazioni Italiane of the need to postpone the deadline set forth in the above-mentioned settlement agreement to 7 March 2024 for the submission to the Authorities of the Operational Reclamation Project. This postponement is due to the need, shared with the Authorities, to also consider the fill materials in the Characterisation Plan, following a legislative amendment.
  For the portion of the former Necchi area owned by INAIL and currently occupied by the Pavia Police Headquarters, through the technical consultant WSP Italia S.r.l. (formerly Golder Associates S.r.l.), the subsidiary completed the characterisation activities of the portion of the area, as per Characterisation Plan approved by decision of the Municipality of Pavia on 21 March 2022. As a result of the above-mentioned activities, WSP Italia provided an initial estimate of the costs for probable future activities and for the

reclamation as 160 thousand euro plus VAT, recognised in the financial statements of the company as at 31 December 2022.
For the other two areas into which the site is divided, given the uncertainty of the interventions to be carried out, it is not possible to reliably estimate any expenses borne by the investee, even within a certain range.

In light of the successful outcomes in the courts of first instance and/or the existence of valid grounds on which to challenge the claims made by the claimants with regard to proceedings under way, the claims classified as possible but unlikely amount to a total of 1,069.0 million.
Claims classified as probable amount to a total of 233.6 million, against which 63.9 million has been allocated under the item Provisions for risks and charges.

Tax disputes

The total claims made by the Tax Authorities as part of the tax disputes initiated involving Banco BPM and its subsidiaries amounted to 225.0 million as at 30 June 2023[1] (unchanged compared to claims as at 31 December 2022). During the half-year, no new claims arose, nor did any events change the amount of the claims already existing at the beginning of the year.

Details of pending disputes as at 30 June 2023

The main tax disputes pending as at 30 June 2023 (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. On 18 January 2023, the ruling of the Court of Cassation was published, which recognised the validity of the appeal filed by the Bank for the effective lack of a specific provision of regional law that exempts, for tax year 2006, the system suspending the application of the increase in the IRAP rate set forth by state law. However, the Court pointed out that following the suspension of the effectiveness of the increase in the IRAP rate for 2002 for banks and insurance companies, it believes that the rate of 4.75%, already envisaged at national level for 2002 by Art. 45, paragraph 2 of Italian Legislative Decree no. 446 of 1997, should be applied instead of the ordinary rate of 4.25%. The Court therefore overturned the decision of the Regional Tax Commission, referring to the second instance Tax Court of Veneto, which will have to redetermine the Bank's tax liability by applying the rate of 4.75%. The dispute therefore remains pending due to its referral to the second instance Tax Court. However, the latter will no doubt reduce the amount of the claim and order the consequent reimbursement of the taxes and relative interest already paid following the ruling overturned.
- Banca Akros - formal notification received in December 2021 relating to the alleged infringement of the transmission obligations to the Tax Authority envisaged by Article 1, of Italian Decree Law 167 of 1990 with the application of the minimum sanction envisaged by Art. 5, paragraph 1, for the amount of 2.3 million. On 30 November 2022, the Office served a decision to impose penalties with which it rejected the defensive arguments made by the Bank and imposed a penalty of 2.3 million against it. Considering the reasons contained in the decision contradictory and unfounded, on 30 January 2023, the Bank filed an appeal to the Milan Tax Court of first instance.
- 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

[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.

Popolare Italiana with relation to the attempted takeover of Banca Antonveneta). The claims amount to 199.8 million (including interest and tax collection fees). With separate judgements filed on 15 October 2014, no. 8562 (IRES) and no. 8561 (IRAP), the Section 22 of the Provincial Tax Commission of Milan fully rejected the appeals submitted by the Bank, though not justifying in any way the rationale underlying the confirmation of the tax demand. Said judgement was appealed against before the Lombardy Regional Tax Commission. The discussion of the appeals filed on 3 February 2015 was held before Section 2 of the Milan Regional Tax Commission on 6 May 2015. With judgement no. 670 filed on 19 May 2015, also lacking adequate justification, the Commission rejected the joint appeals submitted and confirmed the challenged judgements. On 18 December 2015, 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. Therefore, the notices of assessment 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 2023.

<u>Audit activities in progress at the date of preparation of the consolidated condensed financial statements as at 30 June 2023</u>

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. There has been no new communication from the Tax Police.

On 21 September 2022, the economic and financial police unit of the Italian Tax Police initiated an audit of IRES and IRAP against Banca Akros and in order to verify the application of substitute tax pursuant to Presidential Decree 600/1973 for the 2016 tax period. The audit was completed on 19 January 2023. In the report on findings drawn up on that date, it was indicated that the audit did not lead to any findings.

On 24 January 2023, the Italian Tax Authority, Lombardy Regional Department, Large Taxpayers Office initiated a tax audit of the Parent Company Banco BPM for IRES, IRAP, VAT and withholding tax obligations for the 2017 and 2018 tax periods.

On 21 June 2023, the Italian Tax Authority - Lombardy Regional Department - Large Taxpayers Office announced the initiation of a tax audit relating to the 2018 tax period for direct taxes, IRAP, VAT and withholding agent obligations with respect to the subsidiary Banca Akros.
The substantive audit began on 4 July.

On 11 July 2023, the Italian Tax Authority - Verona Provincial Office initiated a tax audit of the subsidiary Tecmarket Servizi with regard to IRES, IRAP, VAT and withholdings relating to the 2020 tax period.

10.6.2 Other provisions - personnel expenses

These amounted to 198.8 million and included the amount (net of payments already made) of 117.4 million allocated for the charges expected for the use of the extraordinary benefits of the Solidarity Fund and for early retirement incentives following the agreements reached with the trade unions announced to the market on 30 December 2020 for early retirement on a voluntary basis of more than 1,600 resources. On 17 February 2023, an agreement was signed with the trade unions which, inter alia, extended the Solidarity Fund already activated for an additional 250 workers, with a further expense of roughly 8.5 million, which was charged to the income statement for the first half of 2023.
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; and ii) 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 132.4 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 (33.9 million);
b) estimate of probable reimbursements of fees consequent to the possible early termination of insurance policies by customers (20.5 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 (39.6 million);
d) risks associated with guarantees given for sales of non-performing loans already finalised as at 31 December 2022 (14.6 million);
e) charges relating to the restructuring of the distribution network (8.5 million).

Category a) includes the provision made against residual risks associated with reporting activities carried out of customers interested in purchasing diamonds to the specialised company Intermarket Diamond Business S.p.A. ("IDB"). Almost all of those reporting activities were carried out from 2003 to 2016 and, thus, prior to the merger that gave rise to Banco BPM. That activity was suspended in the initial months of 2017 and then definitively stopped. In relation to these transactions, criminal proceedings were initiated before the Milan Public Prosecutor's Office, as part of which, on 19 February 2019, the Milan Public Prosecutor's Office served the Bank with a pre-judgement attachment order for a total amount of 84.6 million, which was later reduced to 83.8 million following a partial release from seizure.
As described in the 2022 Annual Financial Report, in the section dedicated to significant events that occurred after the end of the year, please recall that on 16 February 2023 the Verona Public Prosecutor's Office, having acknowledged the customer care activity carried out by the Bank and, on this basis, also agreeing with the Bank's legal arguments,

ordered the release from seizure of the sum of 80.3 million, retaining the remaining 3.5 million for reasons of prudence.

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 2023, over 24,400 claims had been received, and over 1,300 disputes notified (partly preceded by a claim) for total relief sought of around 720.2 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 total relief sought of 654.2 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 30.3 million as at 30 June 2023.
The total provision made over the years, from 2017, was 391.5 million, against which drawdowns for refunds to customers of 361.2 million were made.
As at 31 December 2022, the provision amounted to 41.5 million; during 2023, drawdowns for refunds of 12.7 million were made, and a further provision of 1.5 million was added, to take into account the updated estimates relating to the total expected remedy and the percentages of compensation.

Item a) also includes a provision of 3.6 million relating to the estimated reimbursements to customers following bank transparency checks and Constitutional Court ruling no. 263 of 22 December 2022 on the repayment to customers of up-front costs relating to the early termination of certain loan agreements.

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. As regards production-related targets, the new agreement introduced a new system of additional penalties and commissions. As at 30 June 2023, the objectives were deemed reachable and as a result the use of financial resources for the payment of penalties/indemnities is not expected.

With reference to the agreements with Anima Holding, on the basis of the amending agreements reviewed in 2020, a system of penalties is envisaged in the event of failure to achieve the Net Funding targets set for the two periods January 2020 – December 2022 and January 2023 – February 2025. Against the failure to achieve the target for the first sub-period (January 2020 - December 2022) and a forecast of the evolution of net funding in the second sub-period (January 2023 - February 2025), allocations were recognised for a total of 27.1 million, of which 18.3 million recorded in the previous year.

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 previous years.

Lastly, item e) refers to the rationalisation of the branch network of the Parent Company approved by the Board of Directors during the year, which entailed the closure of 69 branches.

Disclosure on provisions for employee severance pay and pension funds

Items/Components	Total 30/06/2023	Total 31/12/2022
Provisions for severance pay	245,721	258,457
Company pension funds	88,892	99,330
Total	**334,613**	**357,787**

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 245.7 million; 258.5 million was the balance at the end of last year. The negative change is mainly to be found in payments made (8.6 million) and in the changes to some of the actuarial assumptions listed below which resulted in an overall decrease in the provision of 8.8 million, attributable to:

- changes in financial assumptions of 6.8 million. In detail, these are losses relating to the change in the discount rate by 3.5 million and the change in the inflation rate of 3.3 million;
- the other actuarial assumptions for a negative amount of 2.0 million attributable to the differences between the previous demographic actuarial assumptions used and what actually occurred.

Pension funds amounted to 88.9 million compared to 99.3 million at the end of last year; also for these provisions, the negative change is mainly due to payments made (4.1 million) and changes in the actuarial assumptions which resulted in an overall decrease in the provision of 8.1 million, attributable to:

- changes in financial assumptions of 3.3 million. In detail, these are losses relating to the change in the discount rate by 2.0 million and gains relating to the change in the inflation rate of 1.3 million;
- the other actuarial assumptions of 4.8 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 16.9 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 12.3 million.

The main actuarial assumptions used by the Group as at 30 June 2023, compared with those used as at 31 December 2022, are given below:

Main actuarial assumptions for measuring provisions for employee severance pay		
Demographic assumptions	**30/06/2023**	**31/12/2022**
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	**30/06/2023**	**31/12/2022**
Yearly discounting rate (*):	weighted average of the rates in the Eur Composite AA curve depending on the duration of the plan	
	from 3.88% to 4.19%	from 3.71% to 3.98%
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	**30/06/2023**	**31/12/2022**
Employee mortality rate	IPS55 with Age-Shifting.	
Financial assumptions	**30/06/2023**	**31/12/2022**
Yearly discounting rate (*):	weighted average of the rates in the Eur Composite AA curve depending on the plan	
	from 3.95 to 3.97%	from 3.49% to 3.69%
Yearly inflation rate (**)	weighted average of the rates in the European Zero-Coupon Inflation-Indexed Swap curve:	
	2.50%	2.90%

(*) 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%	(7,462)	(3.04%)
-0.5%	7,844	3.19%
- Inflation rate:		
+0.5%	5,246	2.13%
-0.5%	(5,109)	(2.08%)

(*) 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%	(2,550)	(2.87%)
-0.5%	2,707	3.05%
- Inflation rate:		
+0.5%	1,580	1.78%
-0.5%	(1,511)	(1.70%)

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

Insurance liabilities - Item 110

As at 30 June 2023, insurance liabilities amounted to 4,342.8 million (4,283.5 million as at 31 December 2022), referring entirely to insurance contracts issued by the subsidiary Banco BPM Vita. The insurance liabilities of the subsidiary Banco BPM Assicurazioni, held for sale, are recognised under item "70. Liabilities associated with assets classified as held for sale".
As shown in the table below, almost all the insurance liabilities in question are measured on the basis of the "Variable Fee Approach" method, illustrated in Part A - Accounting policies, to which reference is made for further details.

Insurance liabilities - breakdown by measurement model	30/06/2023	31/12/2022
VFA - Variable Fee Approach	4,332,331	4,276,362
GMM - General Measurement Model (Building Block Approach)	7,915	4,740
PAA - Premium Allocation Approach	2,513	2,424
Total	**4,342,759**	**4,283,526**

The tables below provide information on the trend in the first half of 2023 in the book value of insurance liabilities relating to insurance contracts issued, measured on the basis of the VFA model, highlighting:

- liabilities for residual coverage and for claims;
- the underlying elements, represented by the present value of cash flows, the adjustment for non-financial risks and the contractual service margin.

Trends in the book value of insurance contracts issued - VFA - liabilities for residual coverage and for claims

Items/Liabilities	Liabilities for residual coverage 30/06/2023		Liabilities for claims 30/06/2023	Total 30/06/2023
	Net of loss	Loss		
A. Opening book value				
1. Insurance contracts issued - liabilities	4,252,963	-	23,399	4,276,362
2. Insurance contracts issued - assets	-	-	-	-
3. Net book value as at 1 January	**4,252,963**	**-**	**23,399**	**4,276,362**
B. Insurance revenues	**(31,104)**	**-**	**-**	**(31,104)**
C. Costs for insurance services				
1. Claims and other directly attributable costs	-	-	17,916	17,916
2. Changes in liabilities for claims	-	-	458	458
3. Losses and related recoveries on onerous contracts	-	253	-	253
4. Amortisation of contract acquisition costs	374	-	-	374
5. Total	**374**	**253**	**18,374**	**19,001**
D. Profit (loss) on insurance services (B+C)	**(30,730)**	**253**	**18,374**	**(12,103)**
E. Net costs/revenues of a financial nature				
1. Relating to insurance contracts issued	148,044	-	-	148,044
1.1 Recorded in the income statement	66,884	-	-	66,884
1.2 Recorded in the statement of comprehensive income	81,160	-	-	81,160
2. Effects associated with changes in exchange rates	-	-	-	-
3. Total	**148,044**	**-**	**-**	**148,044**
F. Investment components	**(463,112)**	**-**	**463,112**	**-**
G. Total amount recorded in the income statement and the statement of comprehensive income (D+E+F)	**(345,798)**	**253**	**481,486**	**135,941**
H. Other changes	**-**	**-**	**-**	**-**
I. Cash movements				
1. Premiums received	393,733	-	-	393,733
2. Payments associated with contract acquisition costs	(2,454)	-	-	(2,454)
3. Claims paid and other cash outflows	-	-	(471,251)	(471,251)
4. Total	**391,279**	**-**	**(471,251)**	**(79,972)**
L. Closing net book value (A.3+G+H+I.4)	**4,298,444**	**253**	**33,634**	**4,332,331**
M. Closing book value				
1. Insurance contracts issued - liabilities	4,298,697	-	33,634	4,332,331
2. Insurance contracts issued - assets	-	-	-	-
3. Closing net book value	**4,298,697**	**-**	**33,634**	**4,332,331**

Trends in the book value of insurance contracts issued broken down by elements underlying the measurement valued according to the VFA method

Items/Elements underlying measurement	Elements underlying the measurement of the book value of insurance contracts issued			
	Present value of cash flows 30/06/2023	Adjustment for non-financial risks 30/06/2023	Contractual service margin 30/06/2023	Total 30/06/2023
A. Opening book value				
1. Insurance contracts issued - liabilities	4,170,152	54,179	52,031	4,276,362
2. Insurance contracts issued - assets	-	-	-	-
3. Net book value as at 1 January	**4,170,152**	**54,179**	**52,031**	**4,276,362**
B. Changes relating to current services				
1. Contractual service margin recorded in the income statement	-	-	(10,715)	(10,715)
2. Change for past due non-financial risks	-	(2,735)	-	(2,734)
3. Changes associated with experience	633	-	-	633
4. Total	**633**	**(2,735)**	**(10,715)**	**(12,816)**
C. Changes relating to future services				
1. Changes in the contractual service margin	45,775	(14,021)	(31,753)	-
2. Losses on groups of onerous contracts and related recoveries	-	-	253	253
3. Effects of contracts initially recognised in the reference year	(8,857)	2,371	6,486	-
4. Total	**36,918**	**(11,650)**	**(25,014)**	**253**
D. Changes relating to past services				
1. Adjustments to liabilities for claims	458	-	-	458
2. Changes related to experience	-	-	-	-
3. Total	**458**	**-**	**-**	**458**
E. Profit (loss) on insurance services (B+C+D)	**38,009**	**(14,385)**	**(35,729)**	**(12,105)**
F. Costs/revenues of a financial nature				
1. Relating to insurance contracts issued	73,821	-	74,224	148,045
1.1 Recorded in the income statement	73,821	-	(6,937)	66,884
1.2 Recorded in the statement of comprehensive income	-	-	81,161	81,161
2. Effects associated with changes in exchange rates	-	-	-	-
3. Total	**73,821**	**-**	**74,224**	**148,045**
G. Total amount of changes recorded in the income statement and the statement of comprehensive income (E+F)	**111,830**	**(14,385)**	**38,495**	**135,940**
H. Other changes	**-**	**-**	**-**	**-**
I. Cash movements				
1. Premiums received	393,733	-	-	393,733
2. Payments associated with contract acquisition costs	(2,454)	-	-	(2,454)
3. Claims paid and other cash outflows	(471,250)	-	-	(471,250)
4. Total	**(79,971)**	**-**	**-**	**(79,971)**
L. Net book value as at 30 June (A.3+G+H+I.4)	**4,202,011**	**39,794**	**90,526**	**4,332,331**
M. Closing book value				
1. Insurance contracts issued - liabilities	4,202,011	39,794	90,526	4,332,331
2. Insurance contracts issued - assets	-	-	-	-
3. Net book value as at 30 June	**4,202,011**	**39,794**	**90,526**	**4,332,331**

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

13.1 "Share capital" and "Own shares": breakdown

As at 30 June 2023, 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 6,979,418 shares of the Parent Company, fully held by the same, for a book value of 23.0 million.

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

	Ordinary	Other
A. Outstanding shares at the beginning of the year	**1,515,182,126**	**-**
- fully paid-up	1,515,182,126	-
- not fully paid-up	-	-
A.1 Own shares (-)	(6,159,480)	-
A.2 Shares in issue: opening balances	**1,509,022,646**	**-**
B. Increases	**1,598,917**	**-**
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	1,598,917	-
B.3 Other changes	-	-
C. Decreases	**(2,418,855)**	**-**
C.1 Cancellation	-	-
C.2 Purchase of own shares	(2,418,855)	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares in issue: closing balances	**1,508,202,708**	**-**
D.1 Own shares (+)	6,979,418	-
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 March, in execution of the resolution of the Ordinary Shareholders' Meeting of Banco BPM S.p.A. of 7 April 2022, 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 2023, no convertible bond instruments issued by the bank were in circulation.

Equity instruments: breakdown

Equity instruments outstanding as at 30 June 2023 amounted to 1,389.8 million (unchanged since the end of the previous year) and were represented by four issues of Additional Tier 1 securities: the first in April 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 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 2023, shareholders' equity decreased by 35.4 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 Explanatory Notes.

Valuation reserves: breakdown

The following table shows the breakdown of valuation reserves.

(thousands of euro)	30/06/2023	31/12/2022 (*)
Financial assets measured at fair value through other comprehensive income	(621,408)	(712,267)
Property, plant and equipment	371,843	375,712
Foreign investment hedges	(1,585)	(1,475)
Cash flow hedges	(26,226)	(27,655)
Exchange rate differences	16,664	16,369
Financial liabilities designated at fair value through profit and loss (changes to its own credit risk)	(24,831)	(13,977)
Actuarial gains/(losses) on defined benefit pension plans	(48,045)	(60,315)
Share of valuation reserves related to interests in associates and joint ventures carried at equity	(28,433)	(32,905)
Revenues or costs of a financial nature relating to insurance contracts issued	100,650	66,483
Total	**(261,371)**	**(390,030)**

(*) The figures relating to the previous year have been determined following the retrospective application of IFRS 17 by the Group's insurance companies, as well as IFRS 9 for associates.

As regards financial assets measured at fair value through other comprehensive income, the reserves resulting from the fair value measurement of debt securities totalled a negative 515.9 million euro as at 30 June 2023, net of taxes, with -489.7 million euro referring to government securities (-59.0 million euro relating to Italian government securities and -430.7 million euro to securities of other countries).

Reserves: other information

Group Reserves recognised under item 150 of the Balance sheet liabilities amount to a total of 4,557.7 million, classified as follows:

- profit reserves of 4,215.3 million;
- other reserves of 342.4 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 2023.

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 2023	Total I half 2022
1. Financial assets at fair value through profit and loss:	8,760	4,138	-	12,898	9,163
1.1 Financial assets held for trading	5,929	1,217	-	7,146	5,291
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	2,831	2,921	-	5,752	3,872
2. Financial assets measured at fair value through other comprehensive income	110,145	-	X	110,145	45,618
3. Financial assets at amortised cost:	279,934	2,349,786	-	2,629,720	1,017,084
3.1 Loans to banks	18,526	428,003	X	446,529	36,869
3.2 Loans to customers	261,408	1,921,783	X	2,183,191	980,215
4. Hedging derivatives	X	X	162,629	162,629	(46,809)
5. Other assets	X	X	34,969	34,969	15,906
6. Financial liabilities	X	X	X	415	232,899
Total	**398,839**	**2,353,924**	**197,598**	**2,950,776**	**1,273,861**
of which: interest income on impaired financial assets	49	55,956	-	56,005	39,427
of which: interest income on finance leases	X	15,211	X	15,211	7,766

1.3 Interest and similar expense: breakdown

Items/Technical forms	Payables	Securities	Other transactions	Total I half 2023	Total I half 2022
1. Financial liabilities at amortised cost	(837,000)	(174,309)		(1,011,309)	(182,577)
1.1 Due to central banks	(367,751)	X	X	(367,751)	-
1.2 Due to banks	(113,814)	X	X	(113,814)	(28,465)
1.3 Due to customers	(355,435)	X	X	(355,435)	(30,118)
1.4 Debt securities in issue	X	(174,309)	X	(174,309)	(123,994)
2. Financial liabilities held for trading	(218,977)	-	(32)	(219,009)	(645)
3. Financial liabilities designated at fair value	-	(62)	-	(62)	(45)
4. Other liabilities and provisions	X	X	(60)	(60)	(621)
5. Hedging derivatives	X	X	(129,245)	(129,245)	26,287
6. Financial assets	X	X	X	(116)	(85,049)
Total	**(1,055,977)**	**(174,371)**	**(129,337)**	**(1,359,801)**	**(242,650)**
of which: interest expense relating to lease payables	(3,108)	X	X	(3,108)	(3,726)

Item "1.1 Due to Central Banks" refers for 367.6 million to interest accrued, negative, relating to the TLTRO III loan transactions with the ECB (as at 30 June 2022, the amounts, positive for 193.3 million, were recorded under interest income in item "6. Financial liabilities").
The negative evolution of fees during the half-year period resulted from the increase in interest rates decided by the ECB, as well as the discontinuation of the advantageous remuneration mechanisms established for the period from 24 June 2020 to 23 June 2022 (-0.5% bonus) and for the period from 24 June 2022 to 22 November 2022 (mechanism of the average of the "main interest period").
For additional details, including the relative accounting treatment, please refer to the paragraph entitled "Other significant aspects relating to Group accounting policies" contained in Part A - "Accounting Policies" of these Explanatory Notes.

Fees and commissions – Items 40 and 50

2.1 Fee and commission income: breakdown

Service type/Amounts	Total I half 2023	Total I half 2022
a) Financial instruments	67,308	59,953
1. Placement of securities	5,179	9,432
1.1 With underwriting commitments and/or on the basis of an irrevocable commitment	929	-
1.2 Without irrevocable commitment	4,250	9,432
2. Receipt and transmission of orders and execution of orders for customers	44,482	33,665
2.1 Receipt and transmission of orders for one or more financial instruments	30,846	21,223
2.2 Execution of orders for customers	13,636	12,442
3. Other fees and commissions relating to activities associated with financial instruments	17,647	16,856
of which: own account trading	-	-
of which: individual portfolio management	13,588	14,302
b) Corporate Finance	3,062	5,462
1. Merger and acquisition advisory services	2,947	4,433
2. Treasury services	115	1,029
3. Other fees and commissions with corporate finance services	-	-
c) Investment advisory activities	1,033	522
d) Offsetting and settlement	-	-
e) Collective portfolio management	-	-
f) Custody and administration	6,179	4,852
1. Custodian bank	-	-
2. Other fees and commissions related to custody and administration activities	6,179	4,852
g) Central administrative services for collective portfolio management	-	-
h) Trust activities	887	911
i) Payment services	308,791	279,073
1. Current accounts	128,083	128,664
2. Credit cards	13,447	13,164
3. Debit cards and other payment cards	41,858	37,583
4. Bank transfers and other payment orders	122,191	95,932
5. Other fees and commissions relating to payment services	3,212	3,730
j) Distribution of third party services	335,644	413,957
1. Collective portfolio management	230,664	281,529
2. Insurance products	51,177	72,320
3. Other products	53,803	60,108
of which: individual portfolio management	574	690
k) Structured finance	185	85
l) Servicing for securitisation transactions	-	-
m) Commitments to disburse funds	-	-
n) Financial guarantees given	44,611	42,239
of which: credit derivatives	-	-
o) Financing operations	78,324	73,290
of which: for factoring transactions	-	-
p) Foreign currency trading	1,588	1,877
q) Commodities	-	-
r) Other fee and commission income	153,535	149,839
of which: for management of multilateral trading facilities	-	-
of which: for management of organised trading facilities	-	-
Total	**1,001,147**	**1,032,060**

2.2 Fee and commission expense: breakdown

Services/Amounts	Total I half 2023	Total I half 2022
a) Financial instruments	(9,237)	(10,270)
of which: financial instrument trading	(5,512)	(5,286)
of which: placement of financial instruments	(3,724)	(4,984)
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	(6,414)	(6,016)
e) Collection and payment services	(29,696)	(28,267)
of which: credit cards, debit cards and other payment cards	(24,644)	(23,791)
f) Servicing for securitisation transactions	-	-
g) Commitments to receive funds	-	-
h) Financial guarantees received	(28,039)	(16,942)
of which: credit derivatives	-	-
i) Off-site offer of financial instruments, products and services	(1,480)	(2,549)
j) Foreign currency trading	(3)	(3)
k) Other fee and commission expense	(18,000)	(10,418)
Total	**(92,869)**	**(74,465)**

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	**166,557**	**77,784**	**(32,576)**	**(57,620)**	**154,145**
1.1 Debt securities	5,018	10,488	(4,114)	(2,284)	9,108
1.2 Equity instruments	160,748	65,392	(27,915)	(55,060)	143,165
1.3 UCIT units	43	410	(547)	(116)	(210)
1.4 Loans	748	-	-	-	748
1.5 Other	-	1,494	-	(160)	1,334
2. Financial liabilities held for trading	**11,769**	**2,563**	**(22,940)**	**(32,512)**	**(41,120)**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	471	2,119	(1,422)	(11,379)	(10,211)
2.3 Other	11,298	444	(21,518)	(21,133)	(30,909)
Financial assets and liabilities: exchange rate differences	**X**	**X**	**X**	**X**	**(55,427)**
3. Derivative instruments	**1,436,560**	**1,702,314**	**(1,474,574)**	**(1,781,122)**	**(96,322)**
3.1 Financial derivatives:	1,436,231	1,700,729	(1,472,893)	(1,779,240)	(94,673)
- On debt securities and interest rates	950,288	1,179,146	(928,652)	(1,278,105)	(77,323)
- On equity instruments and share indices	477,088	346,400	(536,472)	(325,586)	(38,570)
- On currencies and gold	X	X	X	X	20,500
- Other	8,855	175,183	(7,769)	(175,549)	720
3.2 Credit derivatives	329	1,585	(1,681)	(1,882)	(1,649)
of which: natural hedges connected with the fair value option	X	X	X	X	-
Total	**1,614,886**	**1,782,661**	**(1,530,090)**	**(1,871,254)**	**(38,724)**

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 2023	Total I half 2022
A. Income relating to:		
A.1 Fair value hedging derivatives	485,803	1,634,928
A.2 Hedged financial assets (fair value)	1,069,310	183,330
A.3 Hedged financial liabilities (fair value)	45,726	823,372
A.4 Cash flow hedging derivatives	1,808	-
A.5 Assets and liabilities in foreign currency	166	1,029
Total gains on hedging derivatives (A)	**1,602,813**	**2,642,659**
B. Charges relating to:		
B.1 Fair value hedging derivatives	(552,862)	(823,162)
B.2 Hedged financial assets (fair value)	(945,893)	(1,823,167)
B.3 Hedged financial liabilities (fair value)	(107,342)	(1,930)
B.4 Cash flow hedging derivatives	(1,808)	-
B.5 Assets and liabilities in foreign currency	-	(1,029)
Total losses on hedging derivatives (B)	**(1,607,905)**	**(2,649,288)**
C. Fair value gains/losses on hedging derivatives (A - B)	**(5,092)**	**(6,629)**
of which: gains/losses of hedging on net positions	-	-

Gains (losses) on disposal/repurchase - Item 100

6.1 Gains (losses) on disposal/repurchase: breakdown

Items/Income components	Total I half 2023			Total I half 2022		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets						
1. Financial assets at amortised cost	30,914	(31,361)	(447)	199,221	(244,185)	(44,964)
1.1 Loans to banks	-	-	-	-	-	-
1.2 Loans to customers	30,914	(31,361)	(447)	199,221	(244,185)	(44,964)
2. Financial assets measured at fair value through other comprehensive income	10,435	(5,663)	4,772	32,131	(69,306)	(37,175)
2.1 Debt securities	10,435	(5,663)	4,772	32,131	(69,306)	(37,175)
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**41,349**	**(37,024)**	**4,325**	**231,352**	**(313,491)**	**(82,139)**
Financial liabilities at amortised cost	-	-	-	-	-	-
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities in issue	706	(727)	(21)	(445)	(1,584)	(2,029)
Total liabilities (B)	**706**	**(727)**	**(21)**	**(445)**	**(1,584)**	**(2,029)**

The result shown under item "1.2 Loans to customers" essentially includes profits and losses deriving from the assignment of receivables for a net negative amount of 3.4 million (of which 31.4 million in losses and 27.9 million in gains).
After deducting this component, the net result of this item was impacted by the sale of debt securities for approximately 3.0 million, of which 2.7 million relating to the single sale of HTC securities during the half-year.

For further details on the disposal of HTC securities, refer to the paragraph entitled "Other significant aspects relating to Group accounting policies" contained in Part A - "Accounting Policies" of these Explanatory 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	**37,710**	**-**	**(59,911)**	**(16,419)**	**(38,620)**
2.1 Debt securities in issue	37,710	-	(59,911)	(16,419)	(38,620)
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	**37,710**	**-**	**(59,911)**	**(16,419)**	**(38,620)**

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	**60,479**	**20,059**	**(35,762)**	**(3,463)**	**41,313**
1.1 Debt securities	706	997	(7,172)	-	(5,469)
1.2 Equity instruments	9,140	15,224	(6,056)	-	18,308
1.3 UCIT units	32,008	3,838	(21,364)	(363)	14,119
1.4 Loans	18,625	-	(1,170)	(3,100)	14,355
2. Financial assets in foreign currency: exchange rate differences	**X**	**X**	**X**	**X**	**(1,583)**
Total	**60,479**	**20,059**	**(35,762)**	**(3,463)**	**39,730**

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 2023	Total I half 2022
	Stage 1	Stage 2	Stage 3		Acquired or originated impaired							
			Write-offs	Other	Write-offs	Other	Stage 1	Stage 2	Stage 3	Acquired or originated impaired		
A. Loans to banks	**(548)**	**-**	**-**	**-**	**-**	**-**	**794**	**70**	**-**	**-**	**316**	**(1,147)**
- Loans	(12)	-	-	-	-	-	523	60	-	-	571	(233)
- Debt securities	(536)	-	-	-	-	-	271	10	-	-	(255)	(914)
B. Loans to customers	**(9,117)**	**(2,654)**	**(17,708)**	**(485,118)**	**(259)**	**(5,066)**	**5,361**	**10,121**	**242,885**	**12,209**	**(249,346)**	**(132,888)**
- Loans	(8,097)	(2,548)	(17,708)	(482,619)	(259)	(5,066)	1,515	9,906	242,885	12,209	(249,782)	(130,704)
- Debt securities	(1,020)	(106)	-	(2,499)	-	-	3,846	215	-	-	436	(2,184)
Total	**(9,665)**	**(2,654)**	**(17,708)**	**(485,118)**	**(259)**	**(5,066)**	**6,155**	**10,191**	**242,885**	**12,209**	**(249,030)**	**(134,035)**

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 2023	Total I half 2022
	Stage 1	Stage 2	Stage 3		Acquired or originated impaired							
			Write-offs	Other	Write-offs	Other	Stage 1	Stage 2	Stage 3	Acquired or originated impaired		
A. Debt securities	(1,187)	-	-	-	-	-	1,093	-	-	-	(94)	(2,209)
B. Loans	-	-	-	-	-	-	-	-	-	-	-	-
- To customers	-	-	-	-	-	-	-	-	-	-	-	-
- To banks	-	-	-	-	-	-	-	-	-	-	-	-
Total	**(1,187)**	**-**	**-**	**-**	**-**	**-**	**1,093**	**-**	**-**	**-**	**(94)**	**(2,209)**

Profit (loss) on insurance services - Item 160

In the first half of 2023, the profit on insurance services was 20.9 million, equal to the difference between the profit of insurance contracts issued (+21.3 million) and the reinsurance loss (-0.4 million). The contribution of the corresponding period of the previous year is nil as the acquisition of control of the insurance companies (Banco BPM Vita and Banco BPM Assicurazioni) that contribute to the item in question took place on 1 July 2022.
In greater detail, the profit on insurance contracts issued refers for 12.2 million to the subsidiary Banco BPM Vita and for 9.1 million to the subsidiary held for sale, Banco BPM Assicurazioni.
Insurance revenues and costs as at 30 June 2023 deriving from the insurance contracts issued by the subsidiary Banco BPM Vita, broken down by basis of aggregation, are shown below.

Insurance revenues and costs deriving from insurance contracts issued: breakdown

Items/Basis of aggregation	Basis A1 30/06/2023	Basis A2 30/06/2023	Total 30/06/2023
A. Insurance revenues deriving from insurance contracts issued valued on the basis of GMM and VFA			
A.1 Amounts associated with changes in assets for residual coverage	**30,731**	**3,740**	**34,471**
1. Claims and other expected costs for insurance services	17,282	3,150	20,432
2. Changes in the adjustment for non-financial risks	2,734	175	2,909
3. Contractual service margin recorded in the income statement for services provided	10,715	613	11,328
4. Other amounts	-	(198)	(198)
A.2 Insurance contract acquisition cost recoveries	**373**	**-**	**373**
A.3 Total insurance revenues deriving from insurance contracts issued valued on the basis of GMM or VFA	**31,104**	**3,740**	**34,844**
A.4 Total insurance revenues deriving from insurance contracts issued valued on the basis of PAA			**2,127**
- Life business segment	X	X	-
- Non-Life business segment - motor	X	X	-
- Non-Life business segment - non-motor	X	X	2,127
A.5 Total insurance revenues deriving from insurance contracts issued	**31,104**	**3,740**	**36,971**
B. Costs for insurance services deriving from insurance contracts issued – GMM or VFA			
1. Claims and other directly attributable costs	(18,611)	(3,590)	(22,201)
2. Changes in liabilities for claims	(458)	(323)	(781)
3. Losses on onerous contracts and recoveries of such losses	(253)	-	(253)
4. Amortisation of insurance contract acquisition costs	(374)	-	(374)
5. Other amounts	-	-	-
B.6 Total costs for insurance services deriving from insurance contracts issued – GMM or VFA	**(19,696)**	**(3,913)**	**(23,609)**
B.7 Total costs for insurance services deriving from insurance contracts issued valued on the basis of PAA			**(1,176)**
- Life business segment	X	X	-
- Non-Life business segment - motor	X	X	-
- Non-Life business segment - non-motor	X	X	(1,176)
C. Total net costs/revenues deriving from insurance contracts issued (A.5+B.6+B.7)	**11,408**	**(173)**	**12,186**

Basis A1 = Basis of aggregation referring to insurance contracts issued with direct participation features - Life business segment
Basis A2 = Basis of aggregation referring to insurance contracts issued without direct participation features - Life business segment

Balance of revenues and costs of a financial nature relating to insurance activities - Item 170

The balance of revenues and costs of a financial nature relating to insurance activities in the first half of 2023 was negative for 66.8 million, equal to the difference between the balance relating to insurance contracts issued (-66.9 million) and that of the reinsurance (+0.1 million). The contribution of the corresponding period of the previous year

is nil as the acquisition of control of the insurance companies (Banco BPM Vita and Banco BPM Assicurazioni) that contribute to the item in question took place on 1 July 2022.
In greater detail, the financial profit on insurance contracts issued refers for 66.8 million to the subsidiary Banco BPM Vita and for 0.1 million to the subsidiary held for sale, Banco BPM Assicurazioni.
The financial result as at 30 June 2023 relating to insurance contracts issued by the subsidiary Banco BPM Vita, broken down by basis of aggregation, is shown below.

Net costs and revenues of a financial nature relating to insurance contracts issued

Items/Basis of aggregation	Basis A1 30/06/2023	Basis A2 30/06/2023	Basis A4 30/06/2023	Total 30/06/2023
1. Interest accrued	-	-	-	-
2. Effects of changes in interest rates and other financial assumptions	-	-	-	-
3. Changes in fair value of assets underlying contracts measured on the basis of VFA	(66,884)	-	-	(66,884)
4. Effects of changes in exchange rates	-	-	-	-
5. Other	-	16	(15)	1
6. Total revenues/costs of a financial nature relating to insurance contracts issued recorded in account	**(66,884)**	**16**	**(15)**	**(66,883)**

Basis A1 = Basis of aggregation referring to insurance contracts issued with direct participation features - Life business segment
Basis A2 = Basis of aggregation referring to insurance contracts issued without direct participation features - Life business segment
Basis A4 = Basis of aggregation referring to insurance contracts issued without direct participation features - Non-Life Non-Motor business segment

Other operating expenses/income – Item 230

16.1 Other operating expenses: breakdown

	Total I half 2023	Total I half 2022
Expenses on leased assets	(13,389)	(12,661)
Other	(18,399)	(17,905)
Total	**(31,788)**	**(30,566)**

16.2 Other operating income: breakdown

	Total I half 2023	Total I half 2022
Income on current accounts and loans	3,333	3,213
Tax recoveries	125,995	133,228
Expense recoveries	8,867	8,090
Rental income on real estate	18,499	17,913
Other	42,924	41,133
Total	**199,618**	**203,577**

Gains (losses) on disposal of investments – Item 280

During the half-year, losses from the sale of property, plant and equipment of 0.2 million were recorded; in the same period of the previous year, profits of 1.5 million were recognised.

Earnings per Share

	30/06/2023		30/06/2022 (*)	
	Basic EPS	**Diluted EPS**	**Basic EPS**	**Diluted EPS**
Weighted average of ordinary shares (number)	1,507,539,147	1,507,539,147	1,508,565,022	1,508,565,022
Attributable profit (loss) (thousands of euro)	624,433	624,433	350,997	350,997
EPS (euro)	**0.414**	**0.414**	**0.233**	**0.233**

(*) The figures for the previous period have been reclassified to provide a like-for-like comparison.

Please note that, as at 30 June 2023, 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 2023, 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. Particularly with reference to the RAF of the Insurance Companies, as significant Legal Entities, the revision of the 2023 RAF was completed by the Parent Company's Risk Function and the Insurance Companies' Risk Function.

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 2023, the ESG (Environmental, Social and Governance) area was reinforced further through the introduction of new RAF indicators, consistent with the ESG project defined by the Group. Given the significance of the matter, specific ESG indicators referring to the Legal Entities have also been established and new indicators have been introduced at individual Business Line level.

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 & Structure, 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. In line with the Trigger values, a system of limits used for operating purposes is also defined ("Risk Limits").
- 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.
Following the finalisation of the acquisition of control of Banco BPM Vita and Banco BPM Assicurazioni, in the second half of 2022 the Parent Company's Risk Function and the Insurance Companies' Risk Function collaborated in the revision of the RAF related to the Insurance Companies, aligning it with the Group RAF structure.

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. In the credit area, the scope of application of the ex-ante opinions of the Risk Function envisages the issue of a prior opinion also for transactions defined as Significant, allowing the preventive assessment of a significantly higher number of loan transactions, both in the disbursement phase - with reference also to the SME portfolio - and in the phase of classification from higher to lower risk, and vice versa. The scope of MST and ST in the credit area was expanded during the first half of 2023, including the assessments relating to "Project Finance" transactions and assessments relating to the review of the credit lines of the first 10 groups, which will be implemented in the second half of 2023.

The Group also provides specific training activities and dedicated training courses in order to disseminate and promote a solid and robust risk culture within the Bank, with reference, for example, to operational, credit and financial risks and risks linked to the Administrative Liability of Entities, MiFID and Anti-Money Laundering.
As part of the "Bancassurance Internationalisation Project", in the first two months of 2023 Banco BPM completed the training plan dedicated to Parent Company functions, including the CRO, for the acquisition and strengthening of technical and regulatory skills in the insurance realm. The topics covered concerned:

- the governance and operating model adopted by Banco BPM;
- the characteristics of the insurance business and the reference regulatory framework;
- the accounting standards and financial statements referring to the Group Insurance and Consolidated Financial Statements;
- Solvency II regulations for the definition and measurement of insurance risks.

A number of specific issues were also examined, such as regulations on the production and distribution of insurance and anti-money laundering products; in addition, training sessions were held on the management impacts deriving from the application of accounting standards.
In the first half of 2023, the training activities launched in 2022 were completed, to support the introduction of new credit policies, new processes and tools for the assessment of credit risk integrated with ESG factors and the new FFS tool.
Also in the credit risk area, training was also launched in June to support the pilot phase of the Credit RWA Project.
Lastly, please note that in the first half of the year, the Group was involved in the 2023 EU-wide Stress Test conducted by the European Banking Authority (EBA) in collaboration with the European Central Bank (ECB), the European Systemic Risk Board (ESRB) and the European Commission, intended to test the business model and the resilience of banks on the basis of 2 scenarios, baseline and adverse, developed by the Regulator. The results of the banks that participated in the exercise under the guidance of the EBA will be published by the EBA at the end of July 2023.

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. It should be noted that, at Insurance Company level, monitoring is carried out directly by the Company's Risk Function; the Parent Company's Risk Function integrates this information in its periodic reporting in order to provide complete information on the Group's performance. Furthermore, at least on a quarterly basis an update is provided in integrated reporting on Recovery Plan indicator trend with the support of the Recovery & Resolution Plans 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 Banco BPM Group, making use of the main findings and the risk metrics reported in the EBA Risk Dashboards, ECB Supervisory Banking Statistics 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 internal 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, at least 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.
It 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 2023, no significant gaps emerged in the methodologies used by the Group for risk measurement.

ESG Risk Factors

As part of the periodic update of the Risk Identification process, the Banco BPM Group has identified and analysed the various ESG risk factors, breaking them down between those specifically linked to climate/environmental aspects and those concerning governance and social sustainability.

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 take proactive steps to meet the growing interest of the various stakeholders in this issue. 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) and the Net-zero Banking Alliance (NZBA) 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 Group's specific disclosure documentation: Non-Financial Statement and Pillar 3 Disclosure.

Main interactions with 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), judged for the Banco BPM Group to be complete and adequate. The results aggregated at European system level have been made available by the ECB.

With reference to the latter document, 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 progressively 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.

Please also note that during 2022, the Group was engaged in carrying out the 2022 Climate Risk Stress Test, performed by the ECB on the entire European banking sector. This test, the first on climate issues, represented a "learning exercise" for both banks and the Regulator, with a view to collecting 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.

At the same time, starting from January 2022, the ECB conducted a specific thematic review process of the risk management strategies, governance and frameworks related to the climate and the environment *Thematic Review*). The final result of this process was provided by the ECB in the third quarter of 2022 and contributed qualitatively to the overall 2022 Supervisory Review and Evaluation Process (SREP), which also included the results of the 2022 Climate Stress Testing exercise. The limited remediation actions shared with the Supervisory Authority are basically being resolved as described in greater detail below, in line with shared timescales, moreover made public at European system level by the ECB, which also indicated a set of initial best practices.

The main initiatives implemented in the first half of 2023

In the first half of 2023, 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).

More specifically, the activities completed by Banco BPM in the first quarter, in accordance with the deadline set for the banking system by the ECB, concern the complete assessment of the materiality of environmental and climate risks, which can be further broken down into the following main objectives achieved:

- *Concentration analysis*: with a view to identifying the risks materially impacted by climate factors in terms of risk exposures. This analysis was carried out on all of the Bank's main risks, extending it, inter alia, for credit risk also to environmental risks for which a specific score was defined;
- *Materiality horizons*: for each risk significantly impacted by climate and environmental factors, through a single definition, formalised in both Pillar III and the Non-Financial Statement, of the short-medium-long term time horizon within which these factors could emerge;
- *Sensitivity analysis*: with the aim of providing additional information with respect to the risk measures already integrated in the operational assessments of economic capital in the Group's Internal Capital and Liquidity Adequacy Assessment Process (ICLAAP). For each materially impacted risk, sensitivity analyses were also carried out on the time horizons considered.

Some of the additional main activities carried out in the first half of 2023 are summarised below.

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 2023 Risk Appetite Framework was strengthened further in the ESG area with the introduction of new indicators. It should be noted that the ESG indicators are defined across three different levels of analysis (strategic, management and early warning) that cover the different risk areas in question.
In particular, new indicators have been established to monitor energy consumption and the scope 1 and scope 2 emissions of the Banco BPM Group, in addition to the opening by Business Line of the indicator (horizontal cascading) referring to green disbursements. In line with NZBA targets, overall risk reporting was also enhanced with a specific focus on the performance of lending to priority sectors.
With a view to continuously developing the framework, future implementations that the Group will carry out with regard to this area are currently under review.

In order to enhance and strengthen current ESG reporting, an initial structured disclosure to the main corporate bodies was also prepared, on the issue of emissions financed by the Group (i.e. the GHG emissions of borrowers, in terms of scope 1, 2 and 3), with a view to reporting on the evolution of the overall loan portfolio also in relation to the upcoming definition of specific sector targets (selected as part of the above-mentioned NZBA initiative).

In addition, it should be noted that, in compliance with the express requirements of current legislation on the matter, the Banco BPM Group prepared and published its first Pillar 3 ESG disclosure as at 31 December 2022.

For an illustration of the impacts of ESG factors on credit processes, please refer to the following section on Credit risk.

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.
Credit risk monitoring at portfolio level 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 in uncertainties in the reference macroeconomic context and other risk factors not intercepted by expected loss calculation models, 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 2022.

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 the inclusion of 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.

While making reference to what is described in the 2022 financial statements for a thorough examination of how ESG factors were included in the Group's credit processes, it should be noted that during the first half of 2023 the assessment of ESG factors and the impacts of potential risks linked to climate change on the economic and financial outlooks of the companies to which the Banco BPM Group is exposed were integrated within the Credit Policies framework. In this regard, the assessment was extended to all Bank segments, including Small Business (through a simplified model), and the assessment of physical risk was integrated, with reference to both counterparties and collateral. The risk mitigation actions implemented by the counterparty to which the Group is exposed were also evaluated.

In the first half of 2023, also after the Bank joined the Net Zero Banking Alliance, stricter credit policies were introduced for those sectors defined as "priority" in that they are characterised by a higher level of emissions.

Lastly, project activities continued as part of the implementation of the "EU Taxonomy", with the aim of integrating the alignment of exposures of financed counterparties with the taxonomy into processes and products.
Starting from December 2022, in the estimate of expected credit losses (ECL) on performing credit exposures, the Group introduced a specific adjustment to factor the risks deriving from the exposure of debtor counterparties to climate and environmental factors. In particular, the impacts on the PD and LGD risk parameters of the counterparties were estimated, assuming a transition risk and a physical risk developed on the basis of the scenarios illustrated below.
With reference to transition risk, the Orderly Transition scenario prepared by the EBA for the 2022 Climate Stress Test was considered, based on the assumptions of the Net Zero 2050 scenario of the Network for Greening the Financial System (NGFS). With respect to the possible alternative scenarios (Disorderly Transition and Hot House World), the selection of the Orderly Transition scenario was the most prudent with reference to the time horizon of

the credit exposures to be assessed, as it assumes an immediate and stringent intervention of climate policies, as described in more detail below.
This scenario was incorporated in the PD parameters by assessing its impact on the financial statement items of corporate customers, which are then used as input for financial models developed internally by the Group. These models deliver prospective PD values.
On the basis of the changes in PD obtained, the effects of the ecological transition are then transmitted, with a special mathematical function, also to the LGD parameter. A specific physical risk shock was also applied to the latter parameter, to consider the possible impact on mortgage collateral following a possible write-down of properties based on flood risk, as per the NGFS 2022 Flood scenario.
For further details on the methodology for calculating the adjustments in question and the relative impacts, please refer to the paragraph below “Use of post-model adjustment and management overlays”.
For a better understanding of the assumptions underlying the transition scenario considered by the Group with respect to the alternative scenarios, an illustration of the main assumptions of each scenario is provided below.
The Orderly Transition scenario is based on the NGFS Net Zero 2050 scenario, which envisages a maximum increase in global temperature of 1.5 °C, achieved through the immediate and gradually more stringent introduction of policies to reduce carbon dioxide emissions, which are considered zero in 2050. In this type of scenario, the transition risk and the physical risk are limited: in fact, the gradual transition ensures that the necessary costs and investments in innovation are minimised. At the same time, the increase in the maximum global temperature of 1.5 °C reduces the risk of extreme events.
The Disorderly Transition scenario, which is instead based on the NGFS Delayed Transition scenario, assumes a delayed and net introduction of climate policies starting from 2030, in order to limit the increase in global temperature to below 2 °C; carbon dioxide emissions are therefore higher than in the previous scenario to comply with the objectives of the Paris agreement. The scenario therefore entails a higher transition risk, due to the higher costs required by the delayed introduction of climate policies, while the increase in global temperature increases physical risk in terms of greater frequency and importance of extreme events.
Lastly, the Hot House World scenario is calibrated on the NGFS Current Policies scenario, which captures the long-term impact of physical risk on the economic and financial system resulting from the failure to introduce emission reduction measures. Although emissions at European level are gradually decreasing, global emissions continue to grow until 2080 with an increase in global temperature of around 3 °C. This will lead to greater and more significant natural catastrophes, with a considerable increase in insurance and reconstruction costs linked to these events. In this scenario, there is therefore no transition risk, but the transition costs that would have occurred in previous scenarios are more than offset by the strong impact of extreme physical risk in the economy.

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 Credit 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 2023, the expected credit 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 0.41% 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 on the performing portfolio model perimeter, the last figure available) amounted to 2.77% 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.

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.

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 business models. However, there are elements for further improvements of the portfolios guaranteed by real estate that still need to be studied, especially for the private segment.

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

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.

With regard to credit exposures to Group customers (cash loans and unsecured loans), an illustration is provided below of the quantitative and qualitative criteria defined by the Group in order to classify a performing exposure in Stage 1 or Stage 2.
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). More specifically, the chosen metric is based on the "Forward" PD concept. This approach entails identifying the forward PD curve on the Lifetime PD curve observed at the origination date, with the reference date as a node and the residual duration as holding period.
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 (Businesses/Private Customers)[2];
- rating class;
- residual life;
- ageing of the position (distance between the origination date and the reporting date).

Thus, the change in credit risk is measured by comparing the parameter defined as a logarithm of the "Lifetime PD Ratio - LPDR" of individual exposures, as defined above, and the specific estimated internal thresholds. Exceeding the above thresholds, with the exception of cases in which the annualised PD observed at the reference date is lower than the threshold of 0.30% (threshold considered to express a low credit risk - Low Credit Risk Exemption), represents a significant increase in credit risk and the consequent transfer of the individual credit line 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 operating model, after calculating the logarithm of the LPDR for each position included in the estimate sample, the Group selected the optimal threshold for each cluster (given by the intersection of the risk driver methods considered relevant) that would allow it to optimise the model's performance measured using the Matthews

[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]With reference to exposures belonging to the scope of "Structured Finance Operations - SFO" (Income Producing Real Estate, Real Estate Development and Project Financing), the same thresholds developed for the Businesses segment are applied.

correlation coefficient (MCC). The performance aims to describe the ability of the model to correctly anticipate, with a Stage 2 classification, the positions that, within 12 months from the reference date, show signs of risk represented not only by default but also by additional elements that denote a high level of risk (the presence of a number of consecutive days past-due/overdue exceeding the 30-day threshold, the granting of a forbearance measure, the presence of the counterparty within exposures subject to strict monitoring).
With reference to exposures to banks, the methodology developed is also based on the calculation of the LPDR parameter, using the thresholds developed for the Businesses segment.
Following the changes introduced, as illustrated previously, it should be noted that exceeding of the SICR threshold - which determines a Stage 2 classification - is observed on positions that show, with respect to the origination date, a relative increase in PD Lifetime included on average in a range from +100% to +200% depending on the risk segment.

In addition to the quantitative criterion illustrated above, the stage allocation model adopted by the Group is also founded on qualitative criteria and backstops. In greater detail, the following entails classification in Stage 2:

- the presence of a number of consecutive days past-due/overdue exceeding 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[1], 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.[2]

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 credit 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 credit 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.

Following the stage assignment and ECL calculation process, a Stage Manual Adjustment was carried out, involving the classification in Stage 2 of loans potentially included in the scope of application of Decree Law no. 61 of 1 June 2023 ("Flood Decree"), as they are attributable to counterparties with operational headquarters located in the areas affected by the recent flood in Emilia Romagna. The intervention involved a total exposure migrated to Stage 2 of 1.75 billion, corresponding to a simultaneous ECL increase of 2.5 million. The intervention carried out aims to maximise, within the IFRS 9 framework, the use of all available information in order to capture a potential future significant increase in credit risk, through the collective staging approach already referred to in the accounting standard.

For more details, please see the information provided in the section on "Moratoria for Emilia Romagna flood victims", in "Other significant aspects relating to Group accounting policies", found in Part A of these Explanatory Notes.

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

[1]Note that, for loan granting processes, the rating classes envisaged by the internal model are grouped into 5 homogeneous risk bands ("Low", "Medium-low", "Medium", "Medium-high" and "High").
[2] See previous note.

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]. 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 2023.
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).

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 equally influenced by both quantitative criteria based on the change in the probability of default and qualitative criteria, including positions classified in Stage 2 through Manual Adjustment. 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: Other exposures[3]
Quantitative criteria	51.04%	43.40%	56.41%	48.22%	54.75%	78.54%	34.21%	100.00%	10.98%
Qualitative criteria	48.67%	56.60%	43.59%	51.57%	44.83%	21.46%	65.37%	0.00%	81.11%
Exposures over 30 days past due	0.28%	0.00%	0.00%	0.20%	0.42%	0.00%	0.42%	0.00%	7.90%

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.

[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.
[3] Non-segmented counterparties or those belonging to the ProFamily portfolio.

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.

Please recall that in the course of 2020 and 2021, 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.
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 2022, in line with the provisions of internal processes, the risk parameters were updated to incorporate in their estimation the effect of updating the time series on the PD, LGD, EAD risk parameters and thresholds to identify the SICR.

<u>Estimating the PD parameter</u>

The PD values are obtained on the basis of regulatory ones, which are anchored to the average level of risk observed in the long term, suitably calibrated to reflect the current conditions of the economic cycle (Point in Time approach). Subsequently, the PD values are adjusted, from a Forward Looking perspective, through the application of the sector satellite models developed by the Group. Said values must be estimated not only with reference to the time horizon of the twelve months following the reporting date, but also in the future years, for the purpose of calculating lifetime provisions. The lifetime PD curves were constructed by multiplying, using a Markov approach, the migration matrices of the rating at 12 months, separately by risk segment (Large Corporate, Mid Corporate, Mid Corporate Plus, Small Business, Private) impacted by the forward-looking macroeconomic scenarios. Each rating class assigned to the counterparties using the AIRB internal models is associated with its related lifetime PD curve. The main methodological steps used to estimate the lifetime PD parameter are provided below:

- the construction of historical Point in Time (PiT) migration matrices for each risk segment defined by the rating models and on the basis of the average of these matrices and the attainment of the long-term Through The Cycle (TTC) migration matrices for each risk segment;
- the determination of future PiT matrices for the first three years following the reporting date, obtained on the basis of PiT matrices conditioned on the basis of macroeconomic scenarios;

[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%.

- 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.

As regards the so-called "Structured Finance operations - SFO" (Income Producing Real Estate, Real Estate Development and Project Financing), the PD Lifetime values are obtained through the use of the internal model developed for management purposes.1 The dedicated model provides for the calculation of the risk parameters related to the individual transaction to better exploit the specific characteristics deriving, for the most part, from the related business plans. The values thus obtained are then conditioned to the economic cycle in a forward-looking perspective through the use of internal PD satellite models. It should be noted that these simulation models are being phased out in line with the recent formalisation to the ECB of the regulatory model change application with the resulting transition to the slotting criteria method. In order to anticipate the effects linked to the introduction of the new modelling, a specific post model adjustment was made in the measurement of expected losses as at 30 June 2023, as described in the following paragraph "Use of post model adjustments and management overlays".

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

<u>Estimating the LGD parameter</u>

LGD values are assumed to be equal to the regulatory recovery rates calculated through the economic cycle (TTC) and suitably adjusted in order to remove some of the prudential elements established by the regulatory models, which are represented by indirect costs, the MoC (Margin of Conservatism) and the component associated with the adverse economic cycle (the downturn component), as well as to reflect the most current recovery rates (PiT), the difference between the discount rate used to estimate the regulatory parameters[2] 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.

As regards the so-called "Structured Finance operations - SFO" (Income Producing Real Estate, Real Estate Development and Project Financing), the LGD values are obtained through the use of the internal model developed for management purposes.[3] The dedicated model provides for the calculation of the risk parameters related to the individual transaction to better exploit the specific characteristics deriving, for the most part, from the related business plans. The values thus obtained are then conditioned by the economic cycle in a forward-looking perspective through the use of internal LGD satellite models.
It should be noted that these simulation models are being phased out in line with the recent formalisation to the ECB of the regulatory model change application with the resulting transition to the slotting criteria method.
In order to anticipate the effects linked to the introduction of the new modelling, a specific post model adjustment was made in the measurement of expected losses as at 30 June 2023, as described in the following paragraph "Use of post model adjustments and management overlays".

[1] It should be noted that compared to December 2022, the positions belonging to the Leveraged & Acquisition Finance scope were valued with the business model following the phase-out of the simulation models used for management purposes starting from March 2022.
[2] 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%.
[3] It should be noted that compared to December 2022, the positions belonging to the Leveraged & Acquisition Finance scope were valued with the business model following the phase-out of the simulation models used for management purposes starting from March 2022.

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 and appropriately calibrated internal models and using the standardised approach for the remaining exposures.

Inclusion of forward-looking factors

In accordance with IFRS 9, when estimating expected losses it is necessary to take forward-looking information into account, conditioning the risk parameters according to the different macroeconomic scenarios in which it is expected to operate.

With a view to overcoming potential inconsistencies in the results determined by the satellite models ordinarily used before the impact of the Covid-19 emergency, sector satellite models were adopted from 2020 with a view to evaluate the highly diverse consequences of the pandemic on the different sectors of the Italian economy.
Lastly, as set forth in internal regulations, to calculate the ECL as at 30 June 2023, the macroeconomic scenarios and the relative probabilities of occurrence were updated, based on the analyses conducted by the Scenario Council[1]. To this end, the macroeconomic forecasts supplied by the leading provider, made available between the months of March and April 2023, were considered, as they are deemed prudent with respect to the evolutions taking place subsequently, with reference to three different scenarios: "baseline", "adverse" and "favourable".[2] 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 characteristics of the three scenarios and the uncertainty with respect to the evolution of inflation in the Eurozone and developments of the Russia-Ukraine conflict, 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[3] has been surpassed.

[1] 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.
[2] The forecasts released by Prometeia in July 2023 indicate an improvement in expectations for Italian economic growth compared to the previous forecast. Prometeia estimates that in 2023 Italian GDP therefore stands at 1.1% compared to 0.7% in the previous forecast. On the other hand, the changes in estimates for the next two years are limited. The update of its forecasts published by the Bank of Italy on 14 July 2023 also confirms the improvement in expectations with respect to the projections taken as a reference for the assessments supporting the preparation of the consolidated condensed financial statements as at 30 June 2023.
[3] Threshold established as a change in GDP of over 0.5%.

The following table shows the annual average values (expressed in terms of annual percentage changes/absolute values for rates of return and the unemployment rate) of the main macroeconomic indicators for the 2023-2026 period 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**	**2023**	**2024**	**2025**	**2026**
adverse	GDP Italy	0.2	0.0	0.3	0.5
baseline	**GDP Italy**	**0.7**	**0.6**	**0.9**	**0.9**
favourable	GDP Italy	1.2	1.4	1.5	1.3
adverse	Unemployment rate	7.84	8.23	9.02	9.48
baseline	**Unemployment rate**	**7.75**	**7.69**	**7.79**	**7.69**
favourable	Unemployment rate	7.63	7.08	6.48	5.76
adverse	Index of residential property prices	0.88	0.46	1.38	1.54
baseline	**Index of residential property prices**	**1.19**	**1.55**	**1.94**	**2.08**
favourable	Index of residential property prices	1.39	1.75	2.51	2.60
adverse	Household consumption	0.3	0.1	0.3	0.3
baseline	**Household consumption**	**0.6**	**0.8**	**1.0**	**0.9**
favourable	Household consumption	1.0	1.6	1.6	1.5
adverse	Gross fixed investments	0.9	-2.3	-2.4	-0.3
baseline	**Gross fixed investments**	**2.3**	**0.7**	**0.1**	**1.3**
favourable	Gross fixed investments	3.7	3.9	1.8	2.9
adverse	Construction investments	0.9	-4.5	-5.0	-1.1
baseline	**Construction investments**	**2.2**	**-2.1**	**-2.6**	**0.0**
favourable	Construction investments	3.6	0.4	-1.0	1.3
adverse	3-month Euribor	3.60	3.95	3.72	3.39
baseline	**3-month Euribor**	**3.28**	**3.44**	**3.21**	**2.89**
favourable	3-month Euribor	3.29	3.45	3.22	2.90
adverse	ECB rate	4.19	4.06	3.50	3.25
baseline	**ECB rate**	**3.88**	**3.56**	**3.00**	**2.75**
favourable	ECB rate	3.88	3.56	3.00	2.75
adverse	Return on Italian 10-year government bonds	4.71	5.99	5.77	5.61
baseline	**Return on Italian 10-year government bonds**	**4.56**	**5.64**	**5.36**	**5.23**
favourable	Return on Italian 10-year government bonds	4.48	5.34	4.96	4.77
adverse	BTP/Bund Spread	2.13	2.30	2.32	2.24
baseline	**BTP/Bund Spread**	**1.92**	**1.85**	**1.81**	**1.77**
favourable	BTP/Bund Spread	1.83	1.53	1.39	1.29
adverse	Italian consumer price index	5.6	3.0	2.4	2.2
baseline	**Italian consumer price index**	**5.1**	**2.2**	**2.0**	**2.1**
favourable	Italian consumer price index	4.8	1.5	1.9	1.9
adverse	Imports	1.8	-0.1	1.7	1.6
baseline	**Imports**	**2.4**	**3.1**	**3.3**	**2.9**
favourable	Imports	3.4	5.7	4.5	4.2
adverse	Exports	1.6	0.2	1.8	2.4
baseline	**Exports**	**2.0**	**2.0**	**2.5**	**2.8**
favourable	Exports	2.7	3.5	3.2	3.3
adverse	Public administration expenditure	0.0	0.1	0.1	0.0
baseline	**Public administration expenditure**	**0.0**	**0.2**	**0.1**	**0.0**
favourable	Public administration expenditure	0.1	0.3	0.2	0.1

The global economy progressively slowed down during 2022, due to the effects of inflation returning to levels not seen in many countries since the 1990s and the ensuing prevailing restrictive monetary policies, against the backdrop of the ongoing Russia-Ukraine conflict and other uncertainties connected to the macroeconomic scenario.

Therefore, 2023 began with widespread expectations of stagnation or low growth, if not recession, in many of the major economic areas. However, economic activity in many countries has shown considerable resilience, also justified by the gradual return to normal of energy prices after they surged and the fact that the feared interruptions in energy supplies did not actually take place. Employment remains solid and on the rise in many regions, and unemployment has fallen to lows particularly in the USA and the Eurozone. The global supply chain dysfunctions that arose during the pandemic have largely subsided. In addition, China's abandonment of the Zero Covid policy and the resulting "reopening" of its economy at the beginning of 2023 has improved operator expectations.

In this economic context, the "base" scenario is first and foremost based on the assumption that the conflict in Ukraine will continue but will not worsen. Over the forecast horizon, raw material prices remain at the low levels reached in recent months, but those of gas and metals remain higher than prior to the crisis. The fight against inflation by the Fed and the ECB is successful without bringing the economy into recession. The reference rates reach their maximum level in 2023: in the Eurozone they remain at these levels until the end of 2024, in the USA they fall earlier. Inflation, albeit remaining high to a certain degree in 2023, by virtue of the downstream transfer of cost increases, therefore gradually returns towards the target.
The Italian economy is constantly expanding over the forecast horizon, although at rather moderate rates. The positive growth differential with respect to the EMU average experienced over the last two years will tend to narrow. Development outlooks remain conditioned to a certain extent by the actual construction of the works financed by NRRP funds. Investment trends will be weakened by the reduction in tax incentives for energy efficiency improvements (110% bonus). Lower inflation will favour a recovery in real income, thus supporting household consumption, in a context in which fiscal policy will not be capable of providing significant support to end customer demand. The evolution of the above factors in the baseline scenario would correspond to the following:

- Italian GDP, after a positive 2022, will grow to a limited extent in 2023, by +0.7%; outlooks for the next three years are also not too promising, so much so that GDP growth never reaches the 1% threshold, while growth in the EMU is at Italian levels in 2023, but starting from 2024 and in the two following years, takes on a more sustained pace;
- the unemployment rate will improve slightly, dropping to 7.8% in 2023, remaining basically around this level for the entire following three-year period as well;
- inflation will also remain high in 2023, albeit at a lower level than in the previous year, settling at 5.1%, with a return to a level close to the ECB's target of 2% only in 2024, remaining stable in the 2 subsequent years as well;
- the yield on Italian government bonds, in the wake of the general rise in interest rates, will jump to 4.56% in 2023, increasing by a further percentage point in 2024, to remain above 5% in the following two years as well; there is a slight increase in the BTP/Bund spread to 192 bps in 2023, but already in 2024 it returns to lower levels than in 2022, to then experience a fairly limited decline over the following two years.

As regards the "adverse" scenario, energy prices remain under tension due to the efforts of OPEC to limit oil production and a certain degree of difficulty in gas procurement. The increase in the prices of energy raw materials from the production stage is transferred to the consumption stage. Higher inflation reduces wage purchasing power, with negative repercussions on household spending.
The tone of monetary policy in the Eurozone becomes even more restrictive, and the increase in the reference interest rates is expected to be higher than in the baseline scenario.
International relations remain tense due to the dragging on of the war in Ukraine and the growth of international trade attenuates further. Greater uncertainty and the effects of rising interest rates would limit business investments. In Italy, the difficulty in implementing the spending plans set forth in the NRRP reduces their stimulus of end customer demand. This context of lower growth and higher interest rates complicates the management of public accounts: higher interest expenses and the reintroduction of the rules of the Stability and Growth Pact will limit the possibility of implementing expansionary budget policies. More specifically, the following is expected:

- weak growth in Italy's GDP in 2023 (+0.2%), stagnation in 2024, with a return to growth at a very slow pace in 2025, which becomes more sustained in 2026 at +0.5%. Slightly more positive trends for EMU GDP, particularly in the 2025 and 2026 two-year period, when growth is always above 0.8%;
- an unemployment rate that drops to 7.8% in 2023, but resumes steady growth in 2024, already exceeding the level of 2022 in the same year, until reaching 9.5% in 2026;
- a sharp slowdown in the trend of gross fixed investments, which in 2023 would record +0.9% growth, with growth more than ten times lower than in the previous year. In the 2024-2025 two-year period, there

is a reduction in gross fixed investments of -2% per year. Investments in construction are particularly affected, which for the two-year period mentioned above record -4.5% and -5.0% respectively;
- almost zero growth, combined with the general increase in interest rates, is reflected in a substantial increase in 10-year BTP yields, which rise to 4.71% in 2023, and then reach 6% in 2024; in the following two years, there is a slight decline in the rate, which, however, always remains above 5.50%. The BTP-Bund Spread continues to grow until 2025, when it reaches 232 bps, and then falls slightly in 2026, settling at 224 bps.

Finally, the "favourable" scenario assumes a gradual but stable solution to the Russia-Ukraine conflict in a not too long time and the absence of new geopolitical tensions, which would lead, among other positive effects on the international economy, to a further reduction in energy prices, which however would not return to pre-energy crisis levels. Lower tensions on the price side would facilitate the duty of monetary policy: inflation would return to targets earlier than in the base scenario, despite the more lively economic situation. The end of the conflict and the definitive end of the pandemic would contribute to a clear improvement in the climate of confidence of households and businesses, which would favour tourism and services in general. The Italian economy would experience higher growth over the forecast horizon than that assumed in the baseline scenario in all domestic demand components, demonstrating more liveliness than the Eurozone average. In particular, investments would grow on average by 1.8% more per year than in the baseline scenario. The drop in inflation would allow household disposable income to recover, contributing to a rebound in domestic demand. The stability of public accounts would be favoured by the context of higher GDP growth. The BTP/Bund spread would be significantly lower, while lower debt burdens would allow greater room for fiscal policy manoeuvres. Specifically:
- GDP grows in 2023, but rather modestly, marking +1.2% (less than half compared to 2022); the growth trend continues for the entire following three-year period, recording +1.4% in 2024, +1.5% in 2025, with slightly more modest growth in 2026 of +1.3%;
- the unemployment rate steadily decreases starting from 2023, reaching a level of less than 6% in 2026;
- a significant drop in inflation as early as 2024, when the increase in the price level reaches just +1.5%; in the following two-year period, on the other hand, a slight increase in the rate is observed, which however always remains below the 2% threshold;
- the yield on 10-year Italian government bonds increases only as a result of the substantial rise in rates, favoured by central banks with a view to combating inflation. BTP/Bund spreads constantly narrowing starting from 2023, falling below 130 bps in 2026.

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

In addition to the amendments illustrated above ("in-model adjustments"), when the consolidated condensed interim financial statements as at 30 June 2023 were prepared, it was deemed appropriate to proceed, as was done in previous periods, with the application of additional top-down corrections ("post model adjustments/management overlays").

These management overlays, which in fact significantly reduce the positive economic impacts that would otherwise have been recorded by applying the models in use, are mainly justified by the fact that the aforementioned models may not capture all the phenomena considered relevant for the purpose of determining the expected losses on performing credit exposures to customers (cash loans and unsecured loans).
In greater detail, for the above-mentioned exposures, the application of the overlays in question entailed the recognition of higher value adjustments for a total of around +200 million, compared to the expected credit losses quantified on the basis of the models in use, which amount to around 245 million.
The quantification of these amounts was determined by conducting specific analyses, in a laboratory environment, based on the following interventions:

1) removal of the potential distorting effects on the risk parameters deriving from the Covid-19 pandemic and the consequent government measures to support household and business liquidity[1], which in 2020 and 2021 led to a break in the historical relationship between economic conditions and levels of risk of borrowers:
   - in 2020, against a marked reduction in Italy's GDP, default rates continued to decline, benefiting from government support measures;

[1] The decision had been based on 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.

- in 2021, given the substantial rebound in economic conditions in our country, default rates showed a further but slight reduction.

To remove the distorting effects deriving from the pandemic and the consequent government support measures from the PD Point in Time estimate, in line with previous adjustments, it was deemed appropriate to eliminate the data relating to the defaults observed in 2020 and 2021 (so-called "Covid year removal") from the historical series. The sterilisation of the Covid years contributed to increasing the level of risk with an impact in terms of ECL of +109.5 million;

2) consideration of the foreseeable impacts that will result from the revision of the internal A-IRB models for the calculation of the regulatory risk parameters, currently being validated by the ECB, which are used as a starting point to determine the point-in-time, lifetime and forward-looking parameters needed to calculate ECLs in full compliance with IFRS 9. Note that the new A-IRB models have been re-developed to achieve full compliance with EBA guidelines (EBA/GL/2017/16). The main effects of the new model framework as regards LGD IFRS 9 are linked to the changes made to the discounting methodology of the recovery flows that entail particular increases on mortgage and products paid by instalments. In terms of ECL, the impact recorded was +32.5 million. Like what was stated for the LGD parameter, in addition to what was quantified in the 2022 financial statements, the effects of the introduction of the new A-IRB rating system used for the construction of the point-in-time, lifetime and forward-looking PD curves, as well as for the calculation of the SICR, were also quantified, with an impact in terms of ECL of +3.8 million;
3) assessment of the possible ESG effects deriving from the inclusion of physical and transition risk on the PD and LGD parameters, in compliance with the ESG operating plans communicated by the Group to the Regulator as part of the Targeted Review on Climate-related and Environmental Risks (known as the "Inclusion of ESG effects"), obtaining an impact in terms of higher ECL of +36.0 million, up compared to the impact as at 31 December 2022 (which was 20.4 million). This change is mainly explained by the increase in the first half of 2023 of expected losses on those sectors particularly exposed to ESG factors, which represents the calculation basis for the adjustment in question, particularly with reference to agriculture and secured loans. In addition, the extension of the internal rating models of companies to Leveraged & Acquisition Finance exposures in the first half of 2023 allowed for a more accurate estimate of forward-looking PD values, which overall led to an increase in the adjustment under review. In greater detail, for transition risk, the Orderly Transition scenario prepared by the EBA for the 2022 Climate Stress Test was considered, based on the assumptions of the Net Zero 2050 scenario of the Network for Greening the Financial System (NGFS); for physical risk, the impact on mortgage collateral was assessed following a possible write-down of properties based on flood risk, as per the NGFS Flood 2022 scenario. Specifically, real estate depreciation was measured through changes in residential and commercial property price indices inferred from the above-mentioned scenario, assuming a proportional impact on the recovery rates underlying the LGD calculation. For further details on the scenarios used and how they are incorporated for the purposes of calculating the PD and LGD risk parameters, please refer to the previous paragraph "Information on the inclusion of ESG factors in credit processes".

With respect to what was done during the preparation of the 2022 financial statements, following the application of the post-model adjustments illustrated above, the following additional PMA was introduced:

4) anticipation of the effects of the transition to the slotting criteria method with reference to the valuation of receivables attributable to specialised loans (Income Producing Real Estate, Real Estate Development and Project Financing) in line with the recent formalisation to the ECB of the regulatory model change application. Specifically, the slotting category assigned to the Real Estate and Project Finance segmented positions was remapped on the rating scale of the Mid Corporate model (segment with more similar size characteristics) relating to the new A-IRB rating system, at the same time attributing an LGD defined on the basis of specific analyses conducted on these portfolios, adopting the fixed values provided by Supervisory Regulations, obtaining an impact in terms of higher ECL of +17.6 million.

It should be noted that the combined effect of the Post Model Adjustments described above and the Manual Stage Adjustments led to a further increase in ECL of +1.0 million.

Without prejudice to the transitory nature of the post-model adjustments linked to the adoption in IFRS 9 of the new model framework currently being validated in the regulatory sphere, to the progressive rejuvenation of the estimated time series with the gradual exclusion of the data impacted by Covid-19, in addition to the consideration that the results deriving from the models to calculate expected credit losses are influenced by macroeconomic scenarios largely dependent on phenomena not fully consolidated and in any case still subject to extreme variability and uncertainty.

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 basis for the sensitivity analyses is represented by the ECL provision, before the application of management overlays and determined by the models in use, which amounts to approximately 244 million, referring to credit exposures to the Group's customers (cash loans and unsecured loans). However, it is believed that these adjustments have the same sensitivity to changes in the scenario and, for this reason, the results shown below can be extended to the total of the ECL including post model adjustment/management overlays.

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 +89.8 million with respect to that calculated by adopting the multi-scenario approach (around +37% in percentage terms), against an increase in the percentage of exposures classified in Stage 2 of +1.94%;
- assignment of a 100% probability of occurrence to the baseline scenario: in this case, the ECL amount would decrease by -5.6 million with respect to the amount of ECLs calculated by adopting the multi-scenario approach (around -2% in percentage terms), against a decrease in the percentage of exposures classified in Stage 2 of -0.49%;
- assignment of a 100% probability of occurrence to the favourable scenario: in this case, the ECL amount would decrease by -60.1 million with respect to the amount of ECLs calculated by adopting the multi-scenario approach (around -25% in percentage terms), against a decrease in the percentage of exposures classified in Stage 2 of -1.58%.

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 2022. 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.

In addition to what was described above, in line with the targets for the sale of non-performing credit exposures, established on each occasion by the Board of Directors, the quantification of expected losses of the aforesaid exposures includes forward-looking elements, via the introduction of specific sales scenarios, where the Group's NPL strategy establishes that the aforementioned loans may be recovered through sale on the market, with a view to pursuing a de-risking strategy aimed at reducing the NPL ratio, i.e. the percentage of non-performing exposures compared to total loans. The assignment targets concern exposures classified as both bad loans and unlikely to pay. Consequently, the estimate of the expected losses of these positions reflects not only the recovery through ordinary operations (work out), but also the presence, appropriately calibrated, of the sales scenario and therefore, of the relevant cash flows. As expressly provided for by the ITG1 of the IASB, it is possible to consider the flows recoverable through sale when determining the expected losses, to the extent that it is possible to develop expectations and assumptions inferred on the basis of reasonable and demonstrable information (please see the following document: "Meeting Summary – 11 December 2015 - Inclusion of cash flows expected from the sale on default of a loan in the measurement of expected credit losses"). In line with the sales targets established on each occasion by the Board of Directors, the Group's exposures classified as bad loans or unlikely to pay, are valued by configuring two different estimates of expected cash flows:

- the first is determined assuming recovery from the debtor based on internal activity, according to the ordinary valuation guidelines followed by the Group as illustrated above (work out scenario);
- the second is determined assuming recovery by assigning the receivable (sale scenario), whose estimate is taken from the amount defined for internal recovery. The estimate of recoverable flows is therefore equal to the weighted average of the probabilities assigned to the two scenarios of the estimated cash flows that the Group expects to receive in the two aforesaid scenarios. Expected losses are therefore determined on the basis of the difference between the gross value of the credit exposure and the estimated lower recoverable flows.

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 credit losses.

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).

Starting from March 2023, the internal method (Shortcut Method), previously used for management purposes to estimate risk exposures in OTC derivatives subject to Collateral Agreements (CSA), was prudentially replaced by the standard approach (SA-CCR) also adopted in the Supervisory reporting area, which entered into force in June 2021 and applied to the entire scope of derivative transactions.
With an eye to improving risk mitigation relative to the counterparties with which it has derivative transactions, ISDA Master Agreement and Credit Support Annexes (CSA) can be prepared, which respectively provide for netting and payment of financial guarantees.
Counterparty risk exposures relating to Securities Financing Transactions (e.g. Repurchase agreements and Securities Lending), are estimated for supervisory and management purposes on the basis of the Line-by-Line Method with Supervisory Adjustments (EU Reg. no. 575 art. 225).
Risk deriving from the execution of securities loan transactions and repurchase agreements is mitigated through Global Master Securities Lending Agreements (GMSLA) and Global Master Repurchase Agreements (GMRA) with the aim of establishing a system of guarantees.
In accordance with the Basel III Framework Regulation, additional capital requirements regarding the following are to be calculated:

- own funds for the Credit Valuation Adjustment (CVA Risk) through the adoption of the Standardised Approach, as established by Regulation (EU) no. 575/2013 for banks that are not authorised to use the Internal Model Method (IMM) for counterparty risk;
- exposures relating to operations with Qualifying Central Counterparties (QCCP) by adopting the methods envisaged by Arts. 306-308 of Regulation (EU) no. 575/2013.

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

With regard to fair value measurement for the purposes of the accounting valuation of financial instruments, the Parent Company and Banca Akros also estimate fair value adjustments (Valuation Adjustment) in order to reflect counterparty risk on OTC derivative exposures.
Such adjustments are made with reference to both credit exposures (CVA - Credit Valuation Adjustment) and debt exposures (DVA - Debit Valuation Adjustment), to take into account the probability of bankruptcy of the counterparty and the Reporting Bank, respectively. In order to determine the exposure, an advanced simulation approach (Monte Carlo) is adopted for the quantification of the CVA and DVA, in line with market best practices.

Financial risks

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.

With reference to the internal model for the calculation of capital absorption against market risk, it should be noted that, starting from the 31 December 2020 reporting date, Banco BPM Group has used the extended model to calculate the Market Risk capital requirement. Said requirement is therefore calculated on the basis of the VaR, Stressed VaR – including the specific risk of debt securities – and of the IRC.
On 11 January 2023, the Final Decision was received from the ECB that approved the implementation of the relative change in the IRC calculation method requested in January 2022. The new method guarantees a more accurate estimate of the P&Ls associated with rating migration events through a greater number of financial instruments used to calibrate the spread levels of the worst rating classes. A forward structure with different maturities (1, 3, 5, 7, 10 years) for the different rating classes and sectors was also introduced in the Asset Swap Spread matrix and a CDS spread matrix was created to calculate the P&L associated with the shock spreads of the CDS, with the same forward structure (1, 3, 5, 7, 10 years). Therefore, the new method has been used to calculate capital absorption/RWA starting from the first quarter of 2023. The ECB decision in question also provides for the removal of the 10% IRC add-on. As regards the latter metric, a limitation was actually in place with a 10% add-on on an individual and consolidated basis, until several relative methodological findings were resolved.

Parent Company's Portfolio

Two main types of trading operations can be identified within the Parent Company:

- the investment portfolio, which represents the major source of interest-rate risk and equity risk, that are recorded in the accounting category Trading. At the end of June 2023, the Parent Company's bond portfolio amounted to a nominal value of 48 million, almost entirely consisting of foreign government securities (United States and Germany). The sensitivity to the overall interest rate risk as at 30 June, calculated assuming a parallel change in the interest rate curve of 1 basis point, was approximately +55 thousand euro per basis point, and derives from a net prevalence of short-term exposure on the Euro rate curve. This portfolio also presents a negligible overall exposure to credit spread risk of around -10 thousand euro, considering a 1 basis point shock. In addition to the bond portfolio, there is the price risk component of the equity trading portfolio, which has a small exposure of approximately 7 million;
- the Treasury portfolio contained no securities at the date of the financial statements.

The above-cited risk exposures of the Parent Company are monitored on a daily basis to verify their compliance with the operating thresholds, on the entire portfolio and on the single underlying assets, set by the Board of Directors.

Trading book of Banca Akros, held as part of its Investment Banking activities

Banca Akros holds a trading book, the main interest rate risk exposures of which concern transactions on both money markets and the associated hedging derivatives, as well as those on the markets for OTC derivatives and structured products and listed derivatives.
Transactions in both plain vanilla and structured instruments and listed and unlisted derivatives, including trades on the secondary market of structured products issued or sold by the banks of the Group. The destructuring of complex transactions based on the underlying enables the centralised management of the interest rate, exchange rate and price risks within the specific offices of the Bank's Global Markets Department, which use sophisticated position keeping systems.
Trading in interest rate derivatives mainly consists of optimising the flows generated by the need to hedge interest rate risk by institutional customers (for example, Banks, Funds and Insurance companies), and corporate customers of Banca Akros and the Parent Company, taking on the risk as its own and managing it using dynamic hedging strategies. Banca Akros operates as a market maker on OTC derivatives, mainly on the Euro interest rate curves. The

process of rebalancing risks on an ongoing basis entails, also based on market liquidity, the use of trading in regulated futures and the related options on short and medium/long-term interest rates.
Trading in bonds issued by financial companies or corporates, traded on the secondary market (Eurobonds) derives from the need to meet customer requests, mainly from institutional customers. On the secondary market, the Bank operates as a market maker on bonds from corporate, financial and supranational issuers, primarily denominated in Euro, through trading on multilateral trading facilities or OTC.
More specifically, at the end of June, net bond exposure, excluding Banco BPM issues, amounted to a nominal value of around 215 million, represented by 139 million in Italian Financial securities, 66 million in Corporate bonds, 4 million in Supranational bonds and a short position in German government bonds (-40 million) and foreign Financial bonds (-20 million), the latter mainly comprised of financial CDS Itraxx to hedge the positions in financial securities.
The exposure to credit spread risk totalled approximately -23 thousand euro (net of Banco BPM issues), considering a shock of 1 basis point, deriving mainly from financial securities (credit spread sensitivity: approximately -27 thousand euro), most of which Italian. Instead, the exposure to Italian government bonds at the end of the year was substantially nil, equal to a credit spread sensitivity of around -3 thousand euro, considering a shock of 1 basis point.
The sensitivity (delta) to the overall interest rate risk at the end of June, net of long and short exposures on the various currencies and yield curve nodes, was +68 thousand euro, assuming a parallel change in the interest rate curve of 1 basis point. The greatest exposure to interest rate risk was recorded on the Euro (66 thousand euro, positive rho) and HKD (3 thousand euro, positive rho) curves.

The main exposures to equity risk are related to trading on cash markets and associated listed or plain vanilla derivatives on the derivatives and OTC structured products market and the listed derivatives market.
Specifically, the scope includes portfolios of equities and related listed derivatives, held for trading purposes, for market making transactions on individual stock futures and options and for activities related to specialist services (continuous exposure of proposals to buy/sell), as well as transactions in structured instruments and listed derivatives.
The destructuring of complex operations based on the underlying enables the centralised management of the interest rate, exchange rate and price risks within the specific offices, which use a sophisticated position keeping system specialised in interest rate and credit spread, exchange rate and price risks. The system is integrated with pricing models and risk measurement (Greeks) developed in-house by the Financial Engineering function and validated by the Parent Company's Risk Function.
At the end of June 2023, the overall exposure to the price risk of the equity portfolio is equivalent to a delta equivalent short position of about -5 million, concentrated in the Eurozone (-6 million) and the USA (+0.6 million).
With regard to the indicator Vega (sensitivity to changes in the implicit volatility of the underlying), relating to the equity risk class, at the end of June the exposure was a positive roughly +242 thousand euro, considering a parallel shock of 1% on volatility levels. That exposure mainly originates from liquid share indices and "Large Cap" single stocks.
Lastly, the sensitivity to the dividend risk factor, considering a parallel shock of 10% on the levels of this parameter, was approximately +666 thousand euro at 30 June, concentrated mainly in the Oil&Gas and Utilities sectors.

Banca Akros' risk to the aforementioned exposures are monitored daily to ensure that the operating limits set by the Board of Directors are complied with for the entire portfolio and for the individual underlying assets.

Interest-rate risk and price risk management processes and measurement methods

The task of controlling the financial risk management, with a view to identifying the different types of risk, defining the methods to measure the same, to controlling limits at strategic level and verifying the consistency between the operations of the same and the risk/return targets assigned, is centralised in the Parent Company under the responsibility of the Risk Function for all Group banks.
Financial risks are monitored on a daily basis, both through the use of deterministic indicators (sensitivity to market risk factors and indicators referred to the issuer) and probabilistic indicators (Value at Risk - VaR). The VaR, which indicates the maximum potential loss associated with market movements in unexceptional conditions, over a certain time horizon and with a certain confidence interval, represents a synthetic risk measurement. The approach used to calculate the VaR is based on historical simulation. The values calculated are provided with a confidence interval of 99% and a time horizon of one day. The correlations used are those implicit in the historical scenarios of risk factors applied to estimate the empirical distribution of values in the trading book.
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 (June

2008 - June 2009 for the Parent Company) as the most severe scenario. The period of stress is monitored with a frequency and a method defined by internal regulations, which enable it to be promptly identified when changes in the composition of the portfolio occur, at the same time guaranteeing a certain degree of stability.
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).

Regulatory trading book: internal models and other sensitivity analysis methods

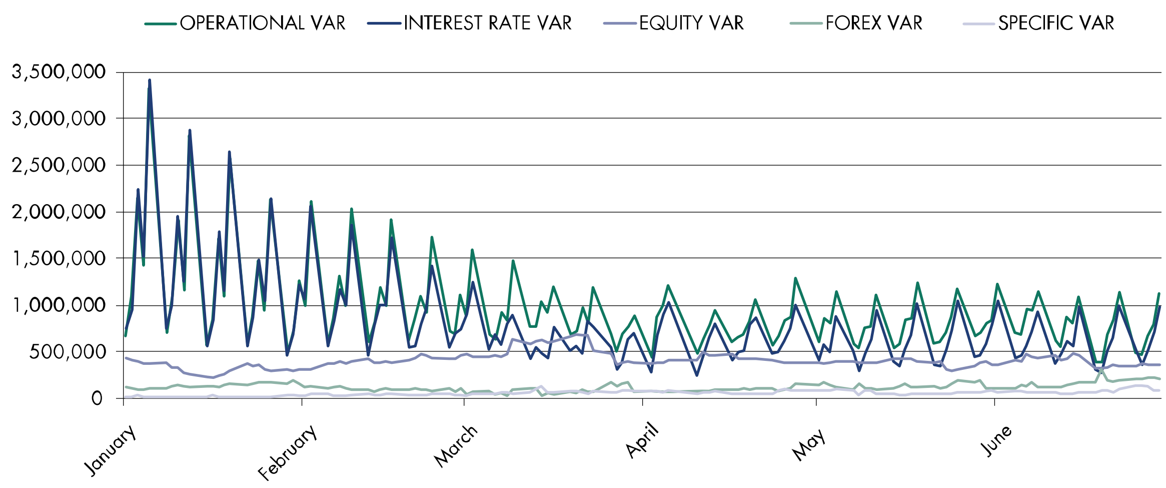
The Value at Risk (VaR) measurement considers interest rate risk, equity risk, exchange rate risk and credit spread risk, as well as the benefit of correlation between risks. Correlation risk and dividend risk are also considered, measured through stress testing techniques, with the benefit of diversification with respect to the first risk group cited.

A table containing the operational VaR figures is shown below for the first half of 2023, along with a performance graph, referring to the regulatory trading book of Banco BPM.

Regulatory trading book *(in millions of euro)*	**1st half 2023**			
	30-Jun	**Average**	**maximum**	**minimum**
Interest Rate Risk	0.983	0.818	3.409	0.247
Exchange Rate Risk	0.208	0.121	0.315	0.027
Equity Risk	0.365	0.406	0.690	0.222
Dividend and Correlation Risk	0.080	0.071	0.203	-0.000
Specific Debt Securities Risk	0.089	0.056	0.134	0.009
Total uncorrelated	1.726			
Diversification effect	-0.600			
Combined risk (*)	1.126	0.966	3.326	0.387

(*) Overall operational VaR

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



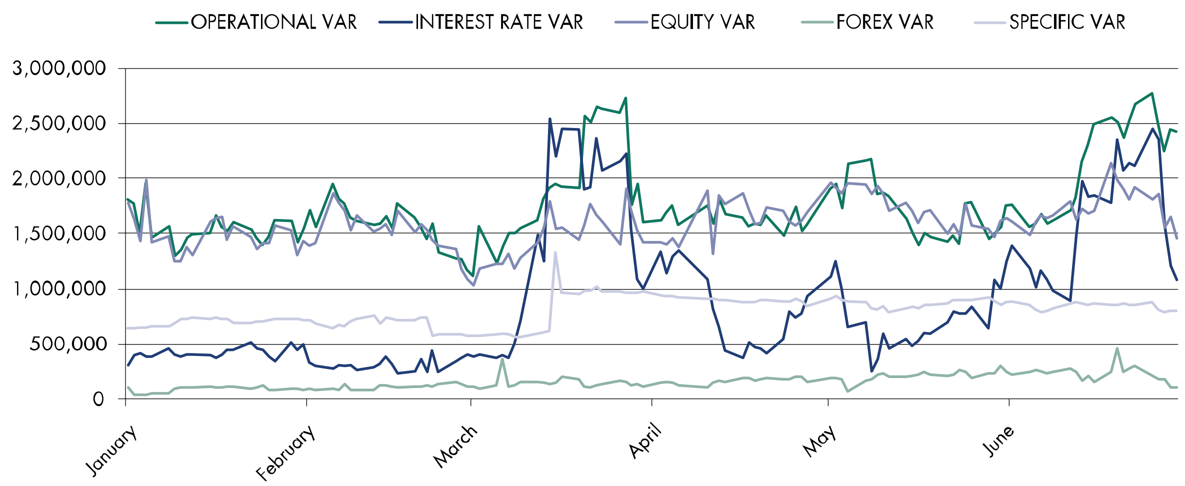
The prevalent risk component in the first half of 2023 is that relating to interest rate risk, largely due to the Parent Company's repo positions, the main cause of the variability of the interest VaR component and of the operational VaR.

A table containing the operational VaR figures and the performance graph for the first half of 2023 are shown below, referring to the regulatory trading book of Banca Akros.

Regulatory trading book *(in millions of euro)*	**1st half 2023**			
	30-Jun	**Average**	**Maximum**	**Minimum**
Interest Rate Risk	1.074	0.885	2.535	0.236
Exchange Rate Risk	0.107	0.159	0.461	0.033
Equity Risk	1.460	1.591	2.138	1.034
Dividend and Correlation Risk	0.505	0.559	1.008	0.031
Specific Debt Securities Risk	0.805	0.797	1.329	0.561
Total uncorrelated	3.951			
Diversification effect	-1.525			
Combined risk (*)	2.426	1.757	2.774	1.109

(*) Overall operational VaR

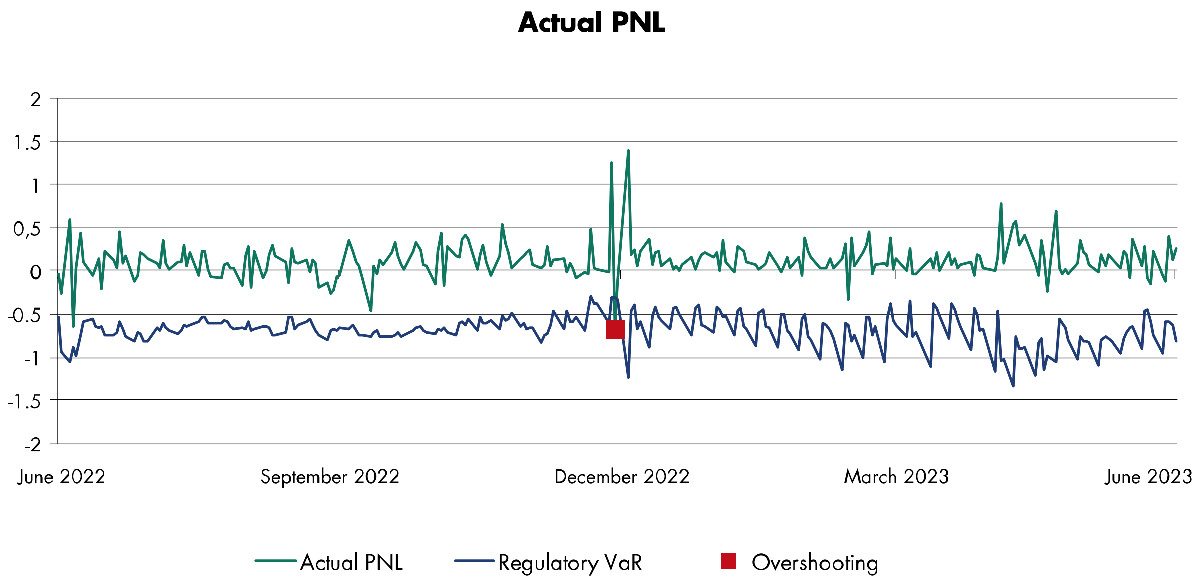
Daily VaR and VaR by risk factor
Banca Akros: Trading book

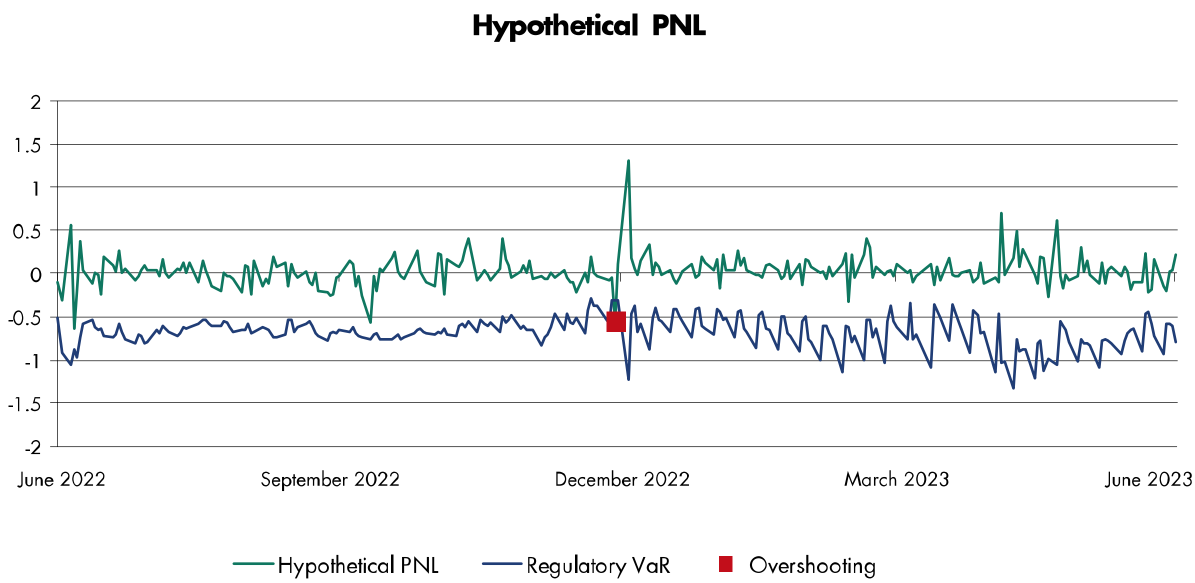


From the analysis of the graph, the preponderance of equity risk can be noted (with reference to both the delta component and the vega component), deriving from positions in equity instruments, both derivatives and cash. In March and June, there was also an increase in the interest rate risk component.

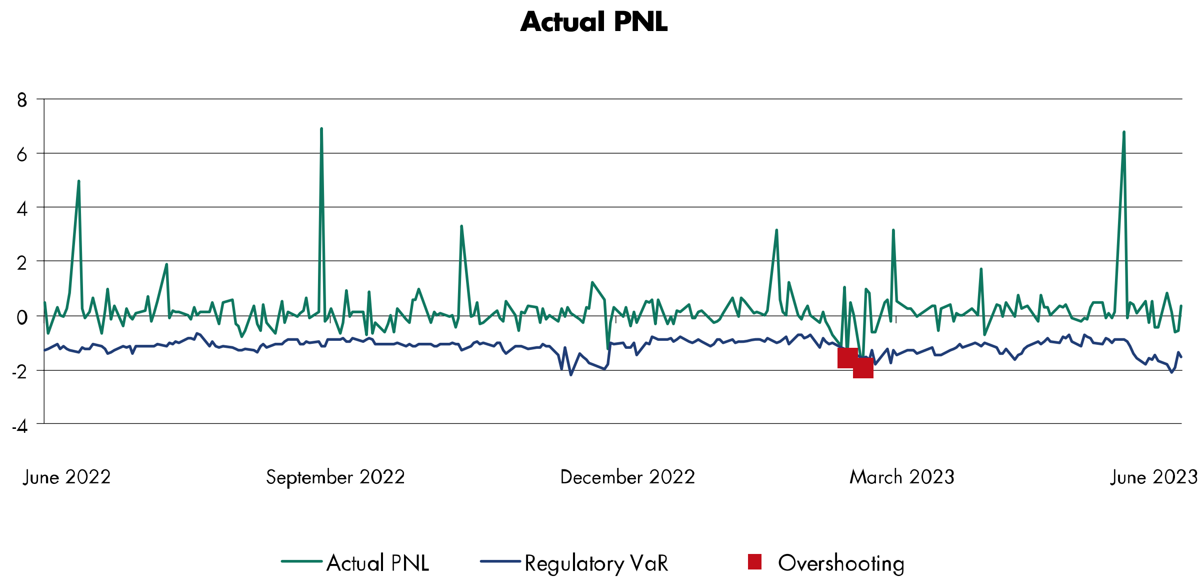
In line with the validation of the internal model for the calculation of the capital requirement relating to market risks, backtesting is conducted on a daily basis, with a view to verifying the solidity of the VaR model adopted. These tests are conducted on the regulatory trading book of Banco BPM and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

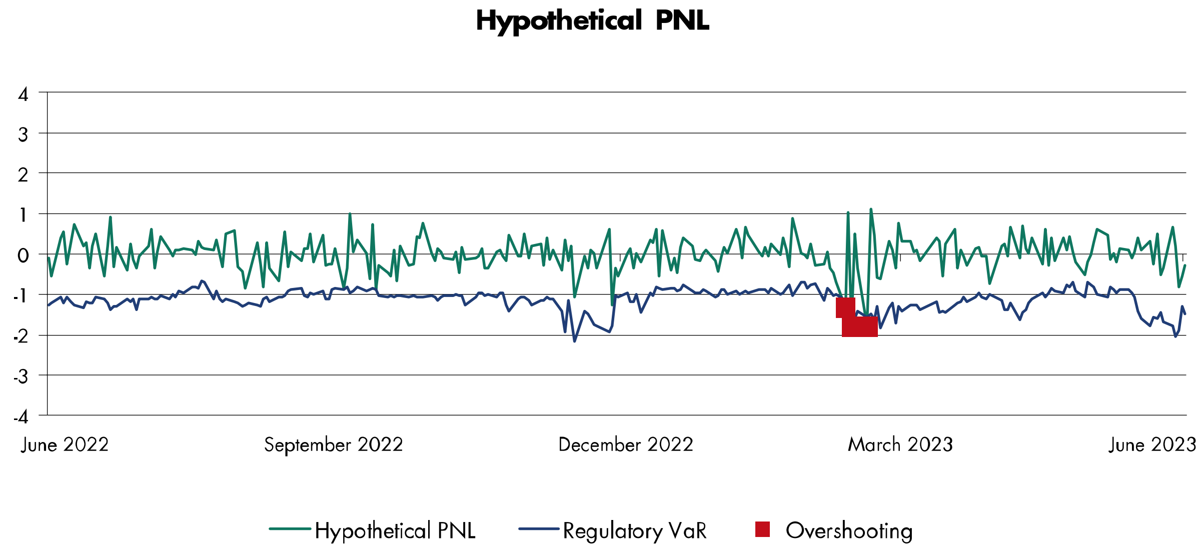
Banco BPM backtesting





Banca Akros backtesting





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 SMR2, which, inter alia, incorporate the initial rules for the implementation of the FRTB defined by the Basel Committee. The package entered 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.

On 8 November 2022, the European Council published a proposal to amend the text of CRR II, making methodological changes to the calculation of the capital requirement for market risk. On 9 March 2023, discussions began between the Council and the European Parliament on the amendments to the text of "CRR III 2021/0342" and "CRD VI 2021/0341", and a provisional agreement was reached on 27 June 2023. This agreement will therefore need to be confirmed by the Council and the Parliament before it can be formally adopted. Reporting on the Standardised Approach continues to be transmitted to the Regulator according to the current reference legislation (CRR II 2019/876) until the date of application of CRR III, expected for 1 January 2025, unless subsequent amendments are made. The publication of CRR III will also provide information on the start date of the calculation of Pillar I absorption with FRTB requirements.
To guarantee an adequate level of capitalisation of banks against market risk and to take a structured approach to resolving several shortcomings of current legislation that emerged during the crisis, the FRTB Framework has set out the following objectives:

- clear definition of the distinction between the prudential portfolios (trading and banking book) with more stringent restrictions on movement between portfolios;
- radical change of the metrics to measure the capital requirement for market risk according to a more prudent and risk-sensitive approach, distinguishing, inter alia, between the Standardised Approach – SA and the Internal Model Approach - IMA, subject to the approval of the Regulator. Note that the banks authorised to adopt the IMA are required, in any event, to calculate the capital requirement with the SA model; 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. Since 2020, Banco BPM Group therefore has 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.

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.
In the first half of 2023, the usual periodic maintenance and updating of the internal models were carried out; in addition, the rate risk measurement system continues to be adjusted to take into account the new 2022 EBA guidelines and the introduction of management monitoring of the expected “supervisory outlier test” on net interest income as specified in the EBA RTS, but not yet approved by the European Commission, Council and Parliament.
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 (over a time horizon of twelve months in keeping with both a dynamic and static approach to the financial statements) following a parallel shock of the spot rate curves of +/- 100 basis points;
- the change in economic value following a parallel shock to 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 early warning RAF indicator.

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 the first half of 2023, interest rate risk exposure, from income and capital perspectives, generally 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 2023 in accordance with operational risk measures.

Risk ratios (%)	2023				2022	
	30 June	average	maximum	minimum	30 June	average
For shift + 100 bps						
Financial margin at risk/Financial margin	3.7%	4.4%	5.1%	3.7%	22.0%	21.5%
For shift - 100 bps						
Financial margin at risk/Financial margin	-6.1%	-6.2%	-5.6%	-7.1%	-24.4%	-16.4%
For shift + 100 bps						
Economic value at risk/Economic value of capital	-2.8%	-4.2%	-2.8%	-6.1%	-3.1%	-2.3%
For shift - 100 bps						
Economic value at risk/Economic value of capital	-3.8%	-0.9%	1.8%	-3.8%	-1.0%	-0.2%

Outcomes of internal validation activities

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 2023 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

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

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

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

Liquidity Risk

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 intraday 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 2023, 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 2023 did not highlight any particular aspects of improvement.

Covered bond transactions and securitisations

Covered bonds

Significant events during the period

In May 2023, by signing the related contracts, as part of the BPM CB1 Programme, Banco BPM sold a new portfolio of residential mortgage loans, including disbursements to employees of the Group, and commercial mortgage loans ("Fifth Banco BPM Portfolio") for a total residual debt of 1.6 billion to the SPE BPM Covered Bond S.r.l.
In addition, in May 2023, as part of all three Covered Bond Issue Programmes of the Group, Banco BPM repurchased "en bloc" (i) the positions that as at 30 April 2023 were classified as bad loans, (ii) a portion of loans previously transferred to the SPE and no longer classifiable as "eligible", including all loans which at 7 May 2023 had expired mortgage collateral and (iii) some positions classified as unlikely to pay as at 5 April 2023.
In May 2023, (i) the special purpose entity BPM Covered Bond S.r.l. paid the purchase price for the new portfolio by using the respective subordinated credit lines available at Banco BPM and (ii) Banco BPM settled the consideration for the repurchase of bad loans and mortgage loans in favour of the special purpose entity.

In the context of the BP Residential CB Programme ("BP CB1") (i) on 20 March 2023, the Final Terms of the retained floating-rate Seventh Series, with a notional amount of 1 billion, were amended in order to extend the maturity from 31 March 2023 to 31 March 2024 and (ii) at the maturity date of 31 March 2023, the CB Sixth Series was repaid in full by Banco BPM for a nominal value of 150 million.

In April 2023, the Shareholders' Meeting of Registered Covered Bondholders approved the transfer of the 100 million Registered Covered Bond from the original BP Residential CB Issue Programme ("BP CB1") to the BPM Covered Bond 2 Programme ("BPM CB2") and the contractual documentation was signed to finalise the change of Guarantor from the SPE BP Covered Bond S.r.l. to the SPE BPM Covered Bond 2 S.r.l. In May 2023, in the SPE BPM Covered Bond 2 S.r.l. the Converted Loan was adjusted by 100 million as a balancing entry to the subordinated Term Loan.

In June 2023, as part of the annual update of the BPM CB2 issue programme, the changes were implemented to the contractual documentation necessary to align the programme with the new reference regulatory framework resulting from the issue by the Bank of Italy, in March 2023, of new supervisory provisions on "covered bank bonds" that incorporate the changes introduced by Directive (EU) no. 2019/2162 (Covered Bond Directive) and Regulation (EU) no. 2019/2160 (Covered Bond Regulation).

As part of the BPM CB2 Programme, (i) at the maturity of 8 June 2023, Banco BPM fully repaid, after it reached its natural maturity, the CB Third Series issued for a nominal value of 750 million and proceeded with the adjustment in the same amount of the Converted Loan as a balancing entry to the subordinated Term Loan and (ii) on 27 June 2023, Banco BPM issued the CB "Eighth Series" for a nominal value of 750 million, listed on the Luxembourg Stock Exchange, placed with institutional investors, coupon at a fixed rate of 3.75% per annum, maturity on 27 June 2028 and the subordinated Term Loan was converted to the Converted Loan for the same amount. This is the first European Covered Bond issue (Premium) by Banco BPM in compliance with Directive (EU) no. 2019/2162 adopted on 30 March 2023 and Regulation (EU) no. 2019/2160.

As part of the Group's three CB programmes, on the Guarantor Payment Dates of the first half of 2023, the subordinated loan granted by Banco BPM to the SPE BPM Covered Bond S.r.l. was repaid for a total of 710 million, the one granted to the SPE BPM Covered Bond 2 S.r.l. was repaid for a total of 455 million and the one granted to the SPE BP Covered Bond S.r.l. was repaid for a total of 345 million.

Significant events after the end of the interim period

On the occasion of the Guarantor Payment Dates in July 2023, the SPEs BPM Covered Bond S.r.l. and BPM Covered Bond 2 S.r.l. repaid the subordinated loan to Banco BPM for 560 million and 220 million respectively.

Traditional securitisations acting as originator

Significant events during the period

As concerns the Tevere SPV S.r.l. transaction (Project Argo), Lastly, in January 2023, the sale to the SPE Tevere SPV of a further three revolving credit facilities was completed, which concerned a total amount of approximately 0.7 million.
The sale was financed by the reserves that the SPE had already set up and there was no need to revise the structure of the notes.

Regarding the "Profamily SPV" securitisation transaction, on 20 February 2023 the rating agency DBRS increased the rating of the Senior Class A Securities from "AA" to "AAA".

With regard to the "BPL Mortgages 5" securitisation, on 24 February 2023 the rating agency DBRS increased the rating of the Senior Class A1, A2 and A3 Securities from "AA" to "AAA".

With regard to the "BPL Mortgages 8" securitisation (i) on 17 February 2023, the rating agency Moody's Investors Services increased the rating of the Class A Notes ("Senior Notes") from "A2" to "Aa3" and (ii) on 27 April 2023 the rating agency DBRS increased the rating of the Class A Notes ("Senior Notes") from "A" to "A high".

Significant events after the end of the interim period

No significant events to report.

Synthetic securitisations acting as originator

New transactions during the period

Synthetic securitisation Large 2023 - Project Grace

In June 2023, Banco BPM concluded a synthetic securitisation transaction with the involvement of two market investors.
The securitised portfolio consists of approximately 3.3 billion in performing loans granted to 226 Corporate companies.
The structure of the transaction envisages, net of retention, the risk of which remains with the Bank in order to meet the requirement of maintaining a net economic interest of at least 5% (retention rule), the subdivision of the portfolio into two tranches with an increasing level of risk, with the junior risk hedged by the investors.

Other 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 first half of 2023 the transaction finalised in 2020 was closed, with the Bank exercising the early termination option.

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) no. 2017/2402, and as senior investor.
As at 30 June 2023, there were two transactions in place: Sun Spv - lot 1 and Sun Spv - lot 3, currently in the revolving phase, with an investment of 44.5 million and 21.2 million, respectively. There were no significant elements to report during the first half of 2023.

Investments in traditional securitisations

The Group also holds ABS securities relating to three securitisation transactions of loans structured in 2021, for which Banca Akros acted as Arranger. These were joined by two trade receivable transactions in 2022.
In the first half of 2023, Senior securities of two new securitisation transactions were also subscribed.
The transactions envisaged the issue of different classes of ABS (Asset-Backed Securities) by several SPEs established pursuant to Italian Law no. 130/99.
Banco BPM intervened by purchasing all or part of the Senior tranche alone.

New transactions during the period

Alba 13 SPV S.r.l.

The transaction concerns a portfolio of performing loans originated by Alba Leasing S.p.A. and deriving from real estate, operating and registered movable asset lease contracts.
The purchase price was financed with the issue of four tranches of securities with a different degree of subordination in the absorption of any portfolio losses, with ratings assigned by Moody's, Scope and DBRS, excluding the junior class.
Banco BPM purchased approximately 9.57% of the nominal value of the senior A1 class for a total value of 50 million. The transaction is static in nature (i.e. there is no ramp-up period), so Banco BPM's investment as at 30 June 2023 amounted to 50 million.

Tricolore 2019 S.r.l.

The transaction concerns a portfolio of performing loans granted to SMEs originated by Banca Privata Leasing S.p.A. and deriving from real estate, operating and registered movable asset lease contracts, of which roughly 30% backed by FdG guarantee for a weighted average guarantee percentage equal to approximately 80% of the loan amount.
The purchase price was financed with the issue of four tranches of securities: Senior A1 class, Senior A2 class, Mezzanine class and Junior class.
Banco BPM subscribed 100% of A2 class for a total value of 50 million. The transaction includes a 12-month ramp-up, and Banco BPM's investment as at 30 June 2023 amounted to 20 million.

Other significant events during the period

Securitisation of the Steel Sector - SPV Project 2104

The securitisation programme concerns the sale without recourse of trade receivables originated by a company operating in the steel sector.
Since May 2023, the transaction has been in the amortisation phase, and as at 30 June 2023 the Senior class had been fully repaid.

General SPV securitisation

The securitisation programme concerns the sale without recourse of loans deriving from factoring contracts originated by a company operating in the financial sector as part of factoring activities.
The securitisation is currently in the revolving phase, and the investment as at 30 June 2023 is equal to 16.1 million.

SPV Project 2011 S.r.l.

The transaction regarded several Project Finance loans disbursed to companies operating in the wind power and photovoltaic sector.
The securitisation is currently in the security repayment phase and the residual investment as at 30 June 2023 amounts to 3.9 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.
As at 30 June 2023, the transaction is in amortisation, and the residual investment of Banco BPM amounts to 47.4 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.
During the first half of 2023, the ramp-up phase continued; the investment amounted to 23.9 million as at 30 June 2023.

Multi-originator sales of loans to mutual investment funds

During the first half of the year and in previous years, the Banco BPM Group concluded several sales of multi-originator non-performing credit exposures to mutual investment funds in exchange for units of those funds.

The tables below summarise the transactions outstanding as at 30 June 2023:

Fund name	Book value as at 30/06/2023(*)	Asset Management Company	First closing date/subsequent contributions	Fund investment policy
IDeA Corporate Credit Recovery I	1,242	Dea Capital Alternative Funds SGR	23 June 2016 27 June 2017 4 July 2019	Past due loans, unlikely to pay or corresponding or similar categories of loans and/or loans subject to restructuring disbursed to target companies, participating financial instruments or shares issued by the above and, possibly, short-term loans deriving from self-liquidating credit lines granted to said target companies
IDeA Corporate Credit Recovery II	27,256	Dea Capital Alternative Funds SGR	28 December 2017 18 February 2019 4 April 2023	Past due loans, unlikely to pay or corresponding or similar categories of loans and/or loans subject to restructuring disbursed to target companies, from participating financial instruments or shares issued by the above and, possibly, short-term loans deriving from self-liquidating credit lines granted to said target companies
IDeA Corporate Credit Recovery II – USD Shipping segment	22,344	Dea Capital Alternative Funds SGR	21 December 2018	Past due loans, unlikely to pay or corresponding or similar categories of loans and/or loans subject to restructuring disbursed to target companies operating in the field of shipping and maritime transport, without specific sector restrictions, from participating financial instruments or shares issued by the above and, possibly, short-term loans deriving from self-liquidating credit lines granted to said target companies
Clessidra Restructuring Fund	22,615	Clessidra SGR	25 September 2019	Past due loans, unlikely to pay, forborne performing and non-performing loans, performing high risk loans disbursed to target companies, from participating financial instruments/shares/convertible bonds issued by said companies, loans disbursed in the form of debtor in possession financing transactions to support the target companies in restructuring the debt disbursed
Back2bonis	52,959	Prelios SGR	23 December 2019 20 December 2021	Untranched asset backed securities issued as part of securitisation transactions carried out pursuant to Law 130/99, whose underlying is represented by receivables mainly classifiable as "unlikely to pay" loans, not due from consumer debtors, as well as loans disbursed to those debtors as part of debt restructuring transactions, recovery and/or turnaround and/or similar operations or as part of repossessions and similar actions on collateral
iCCT Fund	23,865	Illimity SGR	3 October 2022	Unlikely to Pay loans disbursed to "Corporate Large & Medium Size" customers deriving from loans granted to companies in financial distress. The purpose of the transaction is to ensure a more proactive and effective management of secured loans, through i) the disbursement of new loans where deemed necessary to develop the business and/or rebalance the corporate debt, ii) the possibility of intervening directly in the equity of the target companies, changing their governance and guiding restructuring processes, and iii) a better and more effective restructuring of the company, exploiting the specific skills of the Group of the assignee SGR.
Efesto Fund	16,560	FinInt SGR	6 July 2022 16 November 2022	Unlikely to Pay and non-performing loans disbursed to "Corporate Large & Medium Size" customers deriving from loans granted to companies in financial distress. The purpose of the transaction is to ensure a more proactive and effective management of secured loans, through i) turn-around activities and extraordinary distressed M&A transactions, disbursement of new finance and private equity-style management, ii) settlement activities out-of-court and in the structuring of composition procedures.
UTP Italia Fund	33,691	Sagitta SGR	11 November 2022	Unlikely to Pay and, to a lesser extent, non-performing loans disbursed to "Small-Medium" customers deriving from loans granted to retail entities and SMEs in financial distress. The aim of the transaction is to ensure a more proactive and effective management of secured loans, through i) the disbursement of new loans where deemed necessary to develop the business and/or rebalance the counterparty's indebtedness, ii) a better and more effective restructuring of the borrower, taking advantage of the specific skills of the Group of the assignee SGR and iii) proactive management of the loan portfolio according to the principles of ethical management of exposures inspired by the ESG framework.
Lendlease Msg Heartbeat	63,000	Lendlease Italy Sgr	30 June 2023	Unlikely to Pay receivables due from the Risanamento group. The purpose of the transaction is to unblock the implementation of the real estate project in the Santa Giulia area owned by Risanamento. The MSG project promoted by Risanamento is one of the main urban redevelopment initiatives and involves the development of buildings for different uses, with the involvement of the Lendlease Group (LL).

(*) Assets included in the financial statement item "20 c. Financial assets at fair value through profit and loss - other financial assets mandatorily measured at fair value".

As at 30 June 2023, the value of mutual investment funds in the financial statements deriving from the transactions in question totalled 263.5 million (211.4 million as at 31 December 2022), fully referring to the Parent Company.
The change in the first half of 2023 is attributable to the positive net balance between new subscriptions and redemptions of 63.4 million, as well as valuation effects, which overall were a negative 11.3 million.

New transactions during the period

Lendlease Msg Heartbeat Fund (Project Starfighter - Risanamento S.p.A.)

The Project Starfighter is an operation aimed at the development of real estate in the Milan Santa Giulia area owned by Risanamento S.p.A. (hereinafter Risanamento), in view of the upcoming 2026 Winter Olympics, while also deconsolidating Risanamento's cash exposure to the banking sector.
This transaction is part of a recovery plan pursuant to art. 56 of Decree Law no. 14 of 12 January 2019 (Corporate Crisis Code).
In particular, through a complex corporate transaction, on 30 June 2023 the sale was finalised of the Milan Santa Giulia area to a closed-end real estate mutual investment fund in the establishment phase, "Lendlease Msg Heartbeat", managed by Lendlease Italy Sgr, for total consideration of 648 million, through the discharge by the fund of Risanamento payables to banks for 528 million (566 million including a shareholder loan of 38 million).
The transaction therefore called for the transfer by the banks of their receivables due from Risanamento to the above-mentioned fund, and the simultaneous subscription of the shares issued.

For Banco BPM, the transaction involved the transfer of receivables due from Risanamento, classified as "Unlikely to Pay", for a gross value of 112.8 million, receiving, as consideration, the B2 units issued by the "Lendlease MSG Heartbeat" Fund. These receivables were derecognised against the recognition of the fund units in the portfolio of "Other financial assets mandatorily measured at fair value" for a value of 63 million, corresponding to the estimated fair value at the date of initial recognition.
As part of the project in question, new loans for a total of 332 million will be disbursed (Banco BPM's share is 70 million), aimed at meeting financial requirements to carry out the reclamation and urbanisation works in the Milan Santa Giulia area.
There is also an additional commitment of 10 million (Banco BPM's share is 2.1 million) intended to cover any increases in the area's reclamation costs; this commitment will be met through the subscription of class B1 units of the "Lendlease MSG Heartbeat" fund.

Following the completion of the reclamation works, the fund will carry out vertical developments through dedicated funds, the proceeds of which will make it possible to repay the units subscribed by the banks.

Significant events during the period

Credit & Corporate Turnaround Fund (Illimity SGR)

On 24 March 2023, Banco BPM made a marginal contribution for an equivalent value of 0.9 million against a total gross value transferred of 1.9 million relating to a receivable classified as UTP. This contribution was part of a broader system transaction, which allowed the entire company to be restructured against the contribution to the Fund of the majority of the exposure.
The initial recognition value is 0.9 million against a value recorded in units of 1.1 million. As at 30 June 2023, the total fair value of the fund was 24 million.

IDeA Corporate Credit Recovery II

On 4 April 2023, Banco BPM transferred a pool loan, held by Banco BPM and Dea Capital, among others, in order to consolidate the exposure to and restructure the underlying debtor. The carrying amount of the units was 23.5 million, compared to a fair value initially recognised of 21.7 million.

Risks to insurance companies

During the first half of 2023, the Banco BPM Group moved forward with the process of integrating the insurance business started last year with the acquisition of control of the insurance companies Banco BPM Vita S.p.A. and Banco BPM Assicurazioni S.p.A. and with the finalisation of an agreement with Crédit Agricole Assurances ("CAA") for the launch of a commercial partnership in the Non-Life/Protection sector.
In a communication dated 7 March 2023, the European Central Bank recognised Banco BPM Group's status as Financial Conglomerate, pursuant to Directive 2002/87/EC. This recognition represents the condition for being able

to submit the request for the application of art. 49 of the European Regulation (EU) no. 575/2013 (CRR) in order to access the benefits of the prudential treatment of the equity investment ("Danish Compromise"), currently under evaluation by the competent Authorities.
In addition, on 29 May the Banco BPM Group exercised the option to purchase 65% of the share capital of Vera Vita S.p.A. and Vera Assicurazioni S.p.A., insurance companies operating in the life and non-life segments, respectively. The acquisition of control over the companies Vera Vita and Vera Assicurazioni, with the immediate resale of the latter to CAA, is expected to be finalised in the last quarter of 2023, subject to the issue of the required legal authorisations by the competent Authorities.

For additional details in this regard, please refer to the section "Significant events during the period" in the Interim Report on Operations.

Insurance risks

LIFE BUSINESS

The main risk factors of the life business insurance portfolio (Banco BPM Vita) are linked to underwriting risks, which can be classified into:

- biometric risks, i.e. risks linked to the uncertainty of the assumptions considered in the measurement of insurance liabilities, such as mortality and longevity rates;
- operational risks, i.e. risks deriving from the uncertainty of the amount of expenses and the exercise of contractual options by policyholders.

More specifically, life underwriting risks are divided into the following types of sub-risk:

- Mortality risk: risk of losses or of an unfavourable change in the value of insurance liabilities, deriving from an increase in mortality rates;
- Longevity risk: risk of losses or unfavourable changes in the value of insurance liabilities, deriving from a decrease in mortality rates;
- Lapse risk: risk of loss or unfavourable change in the value of insurance liabilities, due to a change in the exercise rates of lapse options (surrender, reduction, suspension of the policy) by policyholders;
- Expense risk: risk of loss or unfavourable change in the value of insurance liabilities, due to a change in the expenses incurred for the management of insurance contracts;
- Catastrophe risk: risk of loss or unfavourable change in the value of insurance liabilities, deriving from changes in claims due to extreme and exceptional events.

With regard to the calculation of the solvency capital requirement, the risks of the Company are quantified on the basis of the standard formula, according to the methodology defined by the reference regulations. More specifically, the capital requirement for life underwriting risk is calculated by aggregating, using the correlation coefficients, the Solvency Capital Requirements (SCR) determined for each risk sub-module described above (mortality, longevity, surrender, expense and catastrophe).
Life underwriting risks are monitored through the calculation and subsequent control of specific risk indicators defined in the Risk Appetite Framework (RAF). In particular, the exposure to life underwriting risks is mainly linked to the trend of surrender risk, which is also monitored through the quarterly calculation of a specific indicator, namely the surrender frequency.

NON-LIFE BUSINESS

The main risk factors typical of the non-life business insurance portfolio (Banco BPM Assicurazioni) are underwriting risks, which may depend on an inadequate estimate of the frequency and/or severity of the claims considered in the tariff-setting and reserving phase, the risk of early surrender by policyholders and losses deriving from extreme or exceptional events.
More specifically, non-life underwriting risks are divided into the following types of sub-risk:

- Premium risk: risk of insufficiency of insurance premiums to cover the cost of claims and related contractual expenses, deriving from changes in the frequency and/or severity of claims;
- Reserve risk: risk of insufficiency of technical reserves with respect to a time horizon of one year, deriving from unfavourable fluctuations in the payment of claims;

- Surrender risk: risk of loss or unfavourable change in the value of insurance liabilities, due to a change in surrender rates by policyholders;
- Catastrophe risk: risk of loss or unfavourable change in the value of insurance liabilities, deriving from changes in claims due to extreme and exceptional events.

The main risk mitigation technique for the non-life portfolio is reinsurance, which aims to optimise the use of capital by selling part of the underwriting risk to selected counterparties.

Financial risks - insurance business

LIFE BUSINESS

When conducting its life business, the Company (Banco BPM Vita) is required to invest the premiums collected in a variety of financial assets, mostly long-term, with the main objective of guaranteeing the return expected by policyholders, honouring its future commitments. The main risks to which the Company is exposed therefore derive from market risks which may result in losses or unfavourable changes in the financial situation due to fluctuations in the market value of the assets in the financial statements.

More specifically, the market risks of the life business are divided into the following types of sub-risk:

- Interest rate risk: risk of loss or unfavourable changes in the market value of bonds, deriving from changes in the term structure of interest rates or in the level of volatility of the same;
- Equity risk: risk of loss or unfavourable changes in the market value of shares, due to changes in the level or volatility of share prices;
- Real estate risk: risk of loss or unfavourable changes in the market value of real estate, deriving from changes in the level or volatility of real estate market prices;
- Exchange rate risk: risk of loss or unfavourable changes in the market value of securities in foreign currency, deriving from changes in the level or volatility of exchange rates;
- Spread risk: risk of loss or unfavourable changes in the market value of assets, due to changes in credit spreads with respect to the term structure of the risk-free rate;
- Concentration risk: risk of losses due to an insufficient diversification of the counterparties to which the Company is exposed.

With regard to market risks, the Company does not use any specific mitigation techniques, but rather monitors these risk factors through the calculation and subsequent control of risk indicators defined in the Risk Appetite Framework (RAF). In particular, given the composition of the asset portfolio, the Company is particularly exposed to the concentration risk of government bonds. This risk is monitored by calculating a specific indicator.

NON-LIFE BUSINESS

When conducting its non-life business, the Company (Banco BPM Assicurazioni) makes investments in financial assets, generally short-term, in line with the maturities of the non-life portfolio and thus exposing itself to market risk.

However, unlike the investments made for the life portfolio, almost all of the non-life portfolio is invested in government bonds, so in terms of market risk, this portfolio is only exposed to interest rate risk.

Other risks - insurance business

Liquidity risk

Liquidity risk is the risk deriving from the inability to efficiently meet expected and unexpected cash commitments, or to be able to meet them only through access to the credit market at adverse conditions or by liquidating financial assets at a considerable discount.

The objective of Banco BPM Vita and Banco BPM Assicurazioni is to ensure an adequate and sufficient level of liquidity to guarantee all commitments they are responsible for, as well as their own capital strength. To achieve this, the exposure to liquidity risk is calculated using a specific indicator, called the Liquidity Ratio, which compares the available resources and the resources needed over a medium/short-term time horizon, monitoring their performance and compliance with specific thresholds defined as part of the Risk Appetite Framework (RAF).

Operational Risk

Operational risk is the risk of losses deriving from inefficiencies of people, processes and systems, including those used for online sales, or from external events, such as fraud or the activity of external suppliers. In general, operational risks may also have effects on reputational aspects, therefore the management of operational risks is also considered to potentially impact the mitigation of reputational risks.

Operational risk management by Banco BPM Vita and Assicurazioni is conducted through the identification and qualitative and, if possible, quantitative assessment, on an annual basis, of the various categories of operational risks (e.g. shortcomings linked to outsourcing of activities, violations of the security of IT systems by third parties, insufficiency of internal or external human resources, non-fulfilment of regulatory obligations, errors or omissions in accounting or financial transactions, violation of the obligation of data quality, theft, fraud and improper use of assets by third parties). Depending on the frequency and impact of the event, the various operational risk factors identified are quantified on the basis of a standardised scale of values, envisaging the implementation of appropriate risk mitigation activities where necessary.

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)

During the first half of the year, no business combinations occurred involving companies belonging to the Group.

Please note that on 1 January 2023 the partial demerger of Tecmarket Sevizi in favour of Banco BPM became effective, concerning the assignment of a business unit comprising all of Tecmarket's activities, with the exception of those related to the management of terminals and technical assistance to customers for POS and mobile POS services.
The partial demerger transaction was carried out with a simplified procedure pursuant to arts. 2505 and 2506-ter of the Italian Civil Code.

Business combinations after the reporting period

No business combination transactions were carried out outside the Group after the end of the half-year.

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.

However, it should be noted that, as described in the section dedicated to significant events after the end of the half-year, contained in Part A of the Explanatory Notes, on 14 July 2023 Banco BPM, BCC Iccrea Group and FSI signed a binding agreement for the establishment of a strategic partnership aimed at the development of a new Italian and independent company in the digital payments sector.
This agreement calls for the transfer to the joint venture BCC Pay S.p.A. of the e-money business of Banco BPM and the equity investment in Tecmarket, with the payment of mixed consideration in cash and in shares issued by the vehicle Pay Holding, which in turn controls the entire share capital of BCC Pay S.p.A. After the transaction, Pay Holding will be owned roughly 43% by FSI and around 28.6% each by Banco BPM and Iccrea Banca.
The finalisation of the transaction, subject to approval by the competent Authorities, is expected in the first quarter of 2024.

In order to prepare the balance sheet as at 30 June 2023, the transferred assets and liabilities were reclassified to the specific balance sheet items "Non-current assets and disposal groups held for sale" and "Liabilities associated with assets classified as held for sale", in keeping with the provisions of IFRS 5.

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 senior operational and executive managers of Banco BPM, identified by a dedicated board resolution, the Financial Reporting Manager, 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 2023 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	-	4,900	-	-	2	4,902	0.10%
Financial assets measured at fair value through other comprehensive income	-	8,529	-	-	-	8,529	0.06%
Loans to customers	-	2,957,729	-	9,955	81,232	3,048,916	2.86%
Other asset items	-	3,852	-	-	-	3,852	0.03%
Due to customers	-	197,938	-	11,288	31,217	240,443	0.23%
Financial liabilities held for trading	-	-	-	-	789	789	0.00%
Financial liabilities designated at fair value	-	-	-	474	1,613	2,087	0.04%
Other liability items	-	436	-	82	37	555	0.00%
Guarantees given and commitments	-	273,419	-	2,234	101,713	377,366	0.62%

(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	-	47,351	-	86	2,099	49,536	3.11%
Net fee and commission income	-	251,004	-	4	68	251,076	27.64%
Administrative expenses/recoveries of expenses	-	(588)	-	(6,737)	(87)	(7,412)	0.55%
Other costs/revenues	-	339	-	-	(132)	207	0.04%

(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)	154	64	-

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 2023, as well as those that are extraordinary and particularly significant.

Issue of certificates and/or bonds by Banco BPM: (i) placement through the Parent Company and Banca Aletti Network; (ii) structuring activities by Banca Akros

The Board of Directors, in the meeting of 20 December 2022, resolved (i) the increase in the ceiling relating to the fees and commissions paid by Banco BPM to Banca Akros for the structuring of certificates for the month of January 2023 for 3.9 million (for the year 2022, a maximum value of 31.5 million was established, which in December 2022 had been completely used); (ii) the extension to January 2023 of the framework resolution concerning the fees and commissions paid by Banco BPM to Banca Aletti for the placement of certificates issued by Banco BPM for a total of 450 thousand, representing the residual unused value estimated at the end of December 2022 out of the 2022 ceiling of 1.7 million.

Subsequently, at its meeting on 17 January 2023 the Board of Directors approved the renewal of the framework resolution in question for the 1 February 2023 - 31 January 2024 period, approving the recognition: (i) to Banca Aletti, for the placement of certificates and/or bonds, of a flow of commissions for a total of up to 1.7 million, parameterized to an indicative commission of 1.75%; (ii) to Banca Akros, for the structuring of certificates and/or bonds and for the management of the relative financial risk hedging, of a flow of commissions of up to 32.2 million (of which 30.4 million for certificates and/or bonds issued by Banco BPM and placed by the Banco BPM Network and 1.8 million for certificates and/or bonds issued by Banco BPM and placed by the Banca Aletti Network), parameterized to an average commission of 1.84%.
Subsequently, at its meeting on 20 June 2023, the Board of Directors approved the increase of 1.2 million in the ceiling relating to the flow of commissions recognised by Banco BPM to Banca Aletti until 31 January 2024 for the placement of certificates and/or bond issues through the Banca Aletti Network up to a maximum total of 3 million (compared to 1.7 million previously authorised), which can be used for the issue of certificates and/or bonds and parameterized to an indicative commission of 3%, up compared to the previous percentage of 1.75%, in relation to the changed market context and the increase in interest rates.
It should be noted that for the February - June 2023 period, the ceiling relating to the flow of commissions to be paid to Banca Aletti for the placement of certificates and/or bonds issued by Banco BPM was used for approximately 19.4 million, while the ceiling relating to the flow of commissions to be paid to Banca Akros for the structuring of certificates and/or bonds and for the management of the relative financial risk hedging was used for approximately 1.6 million.

Framework resolution for the fee and commission flows relating to the placement and management of Banca Aletti's asset portfolios by Banco BPM

At its meeting on 20 December 2022, the Board of Directors approved the extension until 31 January 2023 of the framework resolution concerning flows of commissions for the year 2022 relating to the placement and management of Banca Aletti's asset portfolios by Banco BPM for a maximum fee and commission amount of 78 thousand, representing the residual unused value estimated at the end of December 2022 out of the 2022 ceiling of 450 thousand.
Subsequently, at its meeting on 17 January 2023 the Board of Directors approved the renewal of the framework resolution in question for the 1 February 2023 - 31 January 2024 period, approving the recognition to Banco BPM for the placement and management of Banca Aletti's asset portfolios of a flow of commissions for a total of up to 780 thousand.
It should be noted that for the 1 February 2023 - 30 June 2023 period, the ceiling was used for approximately 188 thousand.

Framework resolution for 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 20 December 2022, the Board of Directors approved: (i) an amendment of the 2019 framework agreement (hereinafter "2019 Framework Agreement Amended"), with which Banco BPM gave Banca Akros 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, this amendment entailed the exclusion from its subject of transactions in financial derivatives traded in regulated markets in order to govern those transactions with a separate agreement; (ii) the stipulation of a new agreement between Banco BPM and Banca Akros (hereinafter "Derivatives Framework Agreement") to regulate activities relating to order execution and netting services on behalf of customers and order receipt and transmission services on financial derivatives traded in regulated markets; (iii) the renewal of the framework resolution relating to the performance of trading activities by Banca Akros, applicable at the same time and jointly both to the 2019 Framework Agreement Amended and to the Derivatives Framework Agreement, for which Banco BPM estimated paying the subsidiary for 2023, and specifically from 1 January to 31 December 2023, a maximum fee and commission flow of 14 million; (iv) the renewal of the framework resolution regarding the performance of trading activities by Banca Akros, for which Banca Aletti, on the basis of the Framework Agreement Banca Aletti - Banca Akros, estimated paying for 2023, and specifically from January to December 2023, a maximum fee and commission flow of 3.3 million.

It should be noted that for the 1 January 2023 - 30 June 2023 period the ceilings were used, as regards point (iii), for approximately 5.8 million and, with respect to point (iv), for approximately 1.3 million.

Issue of Investment certificates by Banca Akros to be placed on third-party networks and 2023 ceiling for the relative bond issues of Banco BPM, subscribed by Banca Akros and intended for the use of the ensuing liquidity

At its meeting held on 17 January 2023, the Board of Directors approved a ceiling for the issue by Banco BPM, during 2023, of bonds for a maximum of 250 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.
Subsequently, on 20 June 2023, the Board of Directors resolved to increase the ceiling relating to the issue of bonds by Banco BPM, which will be offered for subscription entirely to the subsidiary Banca Akros in 2023, from the current 250 million up to a maximum amount of 300 million.
Please note that for the January - June 2023 period, bonds totalling around 216 million were issued, offered for subscription entirely to Banca Akros.

Initiatives as part of the Group's Covered Bank Bond ("CBB") issue programmes: determination of annual ceiling with maturity on 31 December 2023 for the periodic repurchase of assets sold

At its meeting held on 29 November 2022, the Board of Directors approved the renewal, for the January - December 2023 period, of the annual ceilings for the periodic repurchase, for up to a maximum of 100 million for each of the outstanding Covered Bonds programmes and on the basis of the criteria established therein, of assets sold to the SPEs BP Covered Bond S.r.l., BPM Covered Bond S.r.l. and BPM Covered Bond 2 S.r.l. as well as the signature of the Repurchase Documents relating to each programme.

In May 2023, with the signing of the relative contracts, as part of all three Covered Bond Issue Programs, Banco BPM, inter alia, repurchased "en bloc" (i) the positions that as at 30 April 2023 were classified as bad loans and (i) some positions classified as unlikely to pay as at 5 April 2023. For the January - June 2023 period, the annual ceilings for periodic repurchases of assets sold were therefore used respectively for (i) 8.5 million with reference to BP Covered Bond S.r.l. (ii) 8 million with reference to BPM Covered Bond S.r.l. and (iii) 2.1 million with reference to BPM Covered Bond 2 S.r.l.

Covered Bonds (CB): (i) amendments to the Supervisory Provisions regarding CBs: adoption of internal operating limits and sending of the Communication to the Bank of Italy; (ii) sale to BPM Covered Bond S.r.l. of residential and commercial mortgages of the BPM CB1 programme and repurchase of unsuitable assets from the special purpose vehicles as part of the Group's issue programs

At the meeting on 8 May 2023, the Board of Directors approved:

- the adoption, following the amendments made to the Supervisory Provisions on covered bonds (Bank of Italy Circular no. 285/2013), of internal operating limits on the amount of eligible assets to be used for covered bond programmes, in line with the risk objectives and tolerance thresholds defined in the Risk Appetite Framework, particularly with reference to those relating to liquidity risk (LCR, NSFR), the overall level of encumbered assets and the NPE ratio;
- with reference to sales and repurchases, as part of the Group's Covered Bond issue programmes, also in the exercise of management and coordination activities that are the responsibility of the Parent Company pursuant to arts. 2497 et seq. of the Italian Civil Code: (i) the sale, by Banco BPM to the vehicle BPM Covered Bond S.r.l., of the New BPM CB1 Portfolio of eligible assets consisting of residential mortgages, including disbursements to Group employees, and commercial mortgages, in the amount of approximately 1.7 billion within the terms described, as well as the signing of the BPM CB1 Sale Documents; (ii) the repurchase from the respective SPEs of not eligible mortgages, for a maximum total specified in the narrative, and the signing of Repurchase Documents, and more specifically:
  - the return to Banco BPM of the mortgages not eligible under the BPM CB1 Programme for a maximum of 4 million, excluding the UTP and Bad Loan positions already considered in the annual ceiling, with the payment of the relative sale price to the SPE;
  - the return to Banco BPM of the mortgages not eligible under the BPM CB2 Programme for a maximum of 1 million, excluding the UTP and Bad Loan positions already considered in the annual ceiling, with the payment of the relative sale price to the SPE;

- the return to Banco BPM of the mortgages not eligible under the BP CB Programme for a maximum of 4.5 million, excluding the UTP and Bad Loan positions already considered in the annual ceiling, with the payment of the relative sale price to the SPE.

In May 2023, in execution of these resolutions, Banco BPM, with the signing of the relative contracts, (i) as part of the BPM CB1 Programme, sold to the SPE BPM Covered Bond S.r.l. a new portfolio of eligible assets for a total residual debt of 1.6 billion ("Banco BPM Fifth Portfolio") and (ii) as part of all three Covered Bond Issue Programmes, inter alia, repurchased "en bloc" a portion of mortgages previously sold to the vehicle companies and no longer classifiable as "eligible", including all the mortgages that as at 7 May 2023 had expired mortgage collateral for consideration of 3 million for the BPM CB1 Programme, 786 thousand for the BPM CB2 Programme and 3.2 million for the BP CB Programme.

It should be noted that, for the purposes of the sale in May 2023 of the new portfolio to the SPE BPM Covered Bond S.r.l., the new Supervisory Provisions, in force since 31 March 2023, were applied internally: in line with the new regulatory framework, the new internal limits on the sale of eligible assets adopted by Banco BPM were respected in order to proceed with sale in the BPM CB1 programme.

Approval of the project for the partial demerger of Banca Akros S.p.A. in favour of Banco BPM S.p.A.

At the meeting on 29 May 2023, the Board of Directors approved, pursuant to arts. 2506 - bis and 2501- ter of the Italian Civil Code, the project for the partial demerger by Banca Akros in favour of Banco BPM with the simplified procedure pursuant to articles 2505 and 2506 - ter of the Italian Civil Code of the business unit relating to "Proprietary finance" activities, which will allow for the specialisation of (i) the Parent Company in the management of owned portfolios and in the issue of financial instruments (ii) of Banca Akros in Investment Banking, Brokerage and Sales.
The demerger plan will be implemented on the basis of the financial position of the Akros business unit with reference to 31 December 2022.
As a result of the demerger, the "Proprietary Finance" business unit will be assigned, which corresponds to an equity value of 489.7 million.
The completion of the partial demerger will take place in the first quarter of 2024, subject to the issue of the required legal authorisations by the European Central Bank.

Alba Leasing risk group - increase in the lending ceiling for direct risks, growth in total credit lines and new review date

At its meeting on 20 June 2023, the Board of Directors approved in favour of Alba Leasing S.p.A.: (i) the increase in the lending ceiling for direct risks from 1,000 million to 1,200 million, of which 200 million with maturity at 31 July 2023; (ii) the increase in the amount of credit lines from 971.2 million to 1,163.2 million, of which 200 million relating to the granting of a new short-term cash line maturing on 31 July 2023 and 897 million relating to the extension of the line for short-term cash, current account and hot money subsidy maturing on 30 June 2024, in addition to indirect risks for 0.01 million and evidence risks of 15 million; (iii) the new review deadline of 30 June 2024.

Evolution of bancassurance at Banco BPM

At the meeting of the Board of Directors on 20 June 2023, as part of the process of integrating the insurance business and following the exercise on 29 May 2023 of the purchase option on 65% of the share capital of Vera Vita S.p.A. and Vera Assicurazioni S.p.A. established by the Shareholders' Agreement in place between Banco BPM and Società Cattolica di Assicurazione S.p.A. (which was replaced by Generali Italia S.p.A.[1]), Banco BPM identified the consolidation of the insurance segment with Banco BPM Vita S.p.A. as the Parent Company (for both the Life business segment and the Non-Life/Protection business segment) as the optimal solution.
This corporate structure would be achieved through the sale by Banco BPM S.p.A. to Banco BPM Vita S.p.A. of the interests in associates and joint ventures equal to 35% in the share capital of Vera Vita S.p.A. and Vera

[1] On 1 July 2023, the partial proportional demerger of Cattolica in favour of Generali Italia became effective: the interests in associates and joint ventures held by Cattolica in Vera Vita and Vera Assicurazioni, equal to 65% of their share capital, were transferred to the beneficiary Generali Italia, as they were included in the demerger scope. Pursuant to art. 5.2 (a)(i) of the New Shareholders' Agreement, Generali Italia, as of the effective demerger date, signed it, committing to meeting all obligations set forth therein for Cattolica.

Assicurazioni S.p.A. (the "Intra-group Transfers"), in addition to the transfer from Generali Italia S.p.A. to Banco BPM Vita S.p.A. of an additional 65% of the share capital of Vera Vita.

The Intra-group Transfers will be carried out at a value corresponding to the relative fair values of the companies, represented by the respective values at which the third-party purchase and sale transactions for 65% of them will have been completed and, more specifically: for Vera Vita S.p.A., the price paid to Generali Italia S.p.A. by Banco BPM Vita S.p.A. and for Vera Assicurazioni S.p.A., the price paid to Banco BPM S.p.A. by Crédit Agricole Assurances SA.

The transaction is expected to be finalised in the last quarter of 2023, subject to the issue of the required legal authorisations by the competent Authorities.

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 2023 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 2023 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 2023 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 2023, 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, subject to the successful 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].
50% of the up-front portion of the incentive is awarded in Banco BPM ordinary shares.

[1] Parties whose professional activity has or may have a significant impact on the risk profile of the Group or the individual Legal Entity.
[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".

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, 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, Long-Term Incentive (LTI) plans are applied relating to performance to be achieved in the 2021-2023 and 2022-2024 periods.
The scope of the beneficiaries of the LTI plans 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.

With reference to 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.

In addition to the compensation plan based on Banco BPM S.p.A. shares relating to the 2023 Short Term Incentive Plan, the Ordinary Shareholders' Meeting of Banco BPM held on 20 April 2023 approved:

- the 2023 remuneration policy - Section I of the Policy-on-remuneration report and payouts awarded of Banco BPM Banking Group's staff – 2023;
- the report on payouts awarded - Section II of the Policy-on-remuneration report and payouts awarded of Banco BPM Banking Group's staff – 2023 (advisory vote);
- the criteria for calculating any amounts to be granted in the event of early termination of employment or early departure from office of all personnel, including therein the limits set on said amounts;
- the request for authorisation to purchase and dispose of own shares in service of the Banco BPM S.p.A. share-based payment plan.

For further information refer to the content of the documents: 2023 Policy-on-remuneration report and payouts awarded (Section I and Section II) and the Information Document on the Banco BPM Share-based compensation plan - 2023 Short 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 6-7 February 2023, the Banco BPM Board of Directors acknowledged the vesting in the year 2023 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.

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 (Corporate Governance — Remuneration Policies 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 2.9 million (employee gross amount).

The recognition of the amounts for early termination of the employment relationship is subject 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. The Board of Directors of the Parent Company and/or the subsidiaries and/or the Chief Executive Officer of the Parent Company (or his appointee) ascertains whether significant misconduct is present, each insofar as they are responsible. If misconduct is determined, the portions that have not yet been paid are cancelled (malus) and any previously paid ones must be returned (clawback). The assessment takes into account a five-year period starting from the time of their vesting.

The remuneration components for the identified staff described above, which establish the payment based on shares of Banco BPM, are "equity-settled" plans in accordance with the provisions in IFRS 2. These share-based payments are recorded in the income statement under the item "Personnel expenses" as a balancing entry to an increase in the "Reserves" of consolidated shareholders' equity and the Parent Company's shareholders' equity.
Subsidiaries, on the other hand, in their separate financial statements, record the cost for the period in the income statement item "Personnel expenses" as a balancing entry of an increase in the balance sheet liability item "Provisions for risks and charges", in that the incentive plans for identified staff establish payment based on the shares of the Parent Company, which will be settled by the individual subsidiaries and, therefore, are considered cash-settled transactions.

B. QUANTITATIVE INFORMATION

1. Annual changes

The balance of the "stock of shares" at 1 January 2023, entirely held by the Parent Company Banco BPM, consisted of 6,159,480 ordinary shares of Banco BPM.
During the first half of 2023 - in implementation of the remuneration policy - a total of 1,598,917 ordinary shares of Banco BPM S.p.A. were delivered to 95 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 7 April 2022 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 6 March 2023, as part of the above share purchase programme, Banco BPM purchased a total of 2,418,855 own shares (equal to 0.16% of the ordinary shares outstanding) on the Euronext Milan Market during the period from 28 February to 6 March 2023, inclusive, at an average unit price of 4.134186 euro, for a total value of 10 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 2023 which took place as part of the implementation of the remuneration policies, as at 30 June 2023 Banco BPM directly owns 6,979,418 own shares.

2. Other information

With reference to the resolution passed by the Banco BPM Board of Directors on 6-7 February 2023 with regard to the share-based compensation plan approved by the Ordinary Shareholders' Meeting in 2022, a total of 1,011,327 shares were granted to 52 beneficiaries, of which (i) 546,985 relating to the vested up-front portion and (ii) 464,342 relating to the deferred portions, as appropriate, in the four or five years after 2023, the vesting of which remains subject to positive verification of future consolidated conditions as well as the absence of misconduct; as regards this plan, note that the Parent Company granted 864,573 shares to its beneficiaries, of which 460,490 shares relating to the vested up-front portion and 404,083 shares related to the differed portions as specified above.

The same resolution also determined the vesting of deferred portions relating to previous years (2017, 2018, 2019, 2020, 2021 and 2017-2019 LTI) for a total of 869,932 Banco BPM shares to 86 beneficiaries, of which 761,667 shares vested in favour of Banco BPM beneficiaries.

2.1 Economic impact in 2023

With regard to Share-based Incentive Systems for identified staff, in the first half of 2023 the Group allocated 1.2 million; this amount is net of amounts set aside in previous years. It should be noted that the amount attributable to the Parent Company, for these Incentive Systems, is 1.0 million.

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.

It should be noted that the contribution of Group Finance, which as at 31 December last year was brought back within the Corporate Centre, as of 30 June 2023 is shown in a dedicated segment in order to provide a better representation of the results of that business.

For 2023, the operating segments taken as a reference to provide the disclosure in question are as follows:

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

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

- the "Retail" segment includes the management and marketing of banking and financial products/services and loan brokering, which are mainly aimed at private customers and small businesses. These activities are for the most part carried out by the Parent Company's Commercial Network;
- the "Corporate" segment includes the management and marketing of banking and financial products/services and loan brokering, which are mainly aimed at medium and large-sized companies. These activities are for the most part carried out by the Parent Company's Commercial Network;
- the "Institutional" segment includes the management and marketing of banking and financial products/services and loan brokering, which are mainly aimed at bodies and institutions (UCITs, SICAVs, insurance companies, pension funds and banking foundations). Those activities are conducted in an equal amount by the Commercial Network of the Parent Company, for "local institutional" counterparties, and by specialised branches, for "systemically-important institutional" counterparties;
- the "Private" segment includes the management and marketing of banking and financial products/services and loan brokering, which are mainly aimed at private customers with assets that, individually and/or within their business, amount to at least 1 million euro. These activities are carried out by the subsidiary Banca Aletti;
- the "Investment Banking" segment includes the structuring of financial products, access to regulated markets, support and development of specialised financial services. These activities are carried out by Banca Akros and by Oaklins Italy;
- the "Insurance" segment includes the contribution of the interests held in Vera Vita, Vera Assicurazioni, Banco BPM Vita and Banco BPM Assicurazioni;
- the "Strategic Partnerships" segment includes the contribution of the interests held in Agos Ducato, Alba Leasing, SelmaBipiemme Leasing, Gardant Liberty Servicing and Anima Holding;
- the "Finance" segment includes activities relating to the portfolio of owned securities, treasury, the Group's Asset and Liability Management and the stock of bond issues placed on institutional markets;
- in addition to governance and support functions, the "Corporate Centre" segment also includes activities relating to the Group's leasing business, equity interests not allocated to "Strategic Partnerships" and

companies operating in the real estate sector. Lastly, all the consolidation entries are included in this residual segment.

The following tables provide detailed income statement and balance sheet figures by segment as at 30 June 2023 compared with the first half of 2022 and 31 December 2022 respectively.
It should be noted that the comparative data have been restated to incorporate the impacts deriving from the retrospective application of IFRS 17 and IFRS 9 for associated insurance companies.

In addition, as set forth in paragraph 29 of IFRS 8, the figures referring to the first half of 2022 and 31 December 2022 have been restated with respect to those published in the Consolidated Interim Financial Report as at 30 June 2022 and the Annual Financial Report as at 31 December 2022, to reflect the change introduced in the composition of the operating segments indicated above, so as to allow for a like-for-like comparison.

More specifically, compared to the situation as at 30 June 2022:
- the contribution referring to the companies Banco BPM Vita, Banco BPM Assicurazioni, Vera Vita and Vera Assicurazioni, as at 30 June 2022 measured with the equity method, was separated from the "Strategic Partnerships" segment and shown in the new "Insurance" segment;
- the contribution referring to Group Finance activities was separated from the "Corporate Centre" sector and shown in the new "Finance" sector;
- the contribution referring to the Leasing business of the Group was attributed to the "Corporate Centre" segment.

Compared to the situation as at 31 December 2022, the only change refers to the spin-off of the contribution relating to Finance from the Corporate Centre sector to the new "Finance" sector.

Segment results - income statement figures

I half 2023	Total	Retail	Corporate	Institutional	Private	Investment Banking	Insurance	Strategic Partnerships	Finance	Corporate Centre
Net interest income	1,552,900	976,355	279,046	75,295	17,404	26,359	(91)	(1,082)	144,078	35,536
Gains (losses) on interests in associates and joint ventures carried at equity	60,607	-	-	-	-	-	3,022	56,428	-	1,157
Financial margin	**1,613,507**	**976,355**	**279,046**	**75,295**	**17,404**	**26,359**	**2,931**	**55,346**	**144,078**	**36,693**
Net fee and commission income	948,203	732,835	154,993	21,103	48,781	29,742	-	-	(2,262)	(36,989)
Other net operating income	33,417	12,280	323	352	2	394	3,273	-	-	16,793
Net financial result	(42,492)	(8,074)	18,433	(33)	(601)	21,371	-	-	(63,775)	(9,813)
Profit (loss) on insurance business	24,580	-	-	-	-	-	24,580	-	-	-
Other operating income	**963,708**	**737,041**	**173,749**	**21,422**	**48,182**	**51,507**	**27,853**	**-**	**(66,037)**	**(30,009)**
Operating income	**2,577,215**	**1,713,396**	**452,795**	**96,717**	**65,586**	**77,866**	**30,784**	**55,346**	**78,041**	**6,684**
Personnel expenses	(808,254)	(515,753)	(38,467)	(6,855)	(28,526)	(14,354)	(1,466)	(798)	(4,722)	(197,313)
Other administrative expenses	(336,824)	(341,411)	(65,706)	(16,000)	(8,824)	(34,739)	(7,148)	(360)	(26,843)	164,207
Net value adjustments to property, plant and equipment and intangible assets	(129,651)	(44,652)	(2,092)	(360)	(2,243)	(325)	(484)	(22)	(112)	(79,361)
Operating expenses	**(1,274,729)**	**(901,816)**	**(106,265)**	**(23,215)**	**(39,593)**	**(49,418)**	**(9,098)**	**(1,180)**	**(31,677)**	**(112,467)**
Profit (loss) from operations	**1,302,486**	**811,580**	**346,530**	**73,502**	**25,993**	**28,448**	**21,686**	**54,166**	**46,364**	**(105,783)**
Net adjustments to loans to customers	(258,719)	(181,016)	(78,044)	(1,701)	(408)	(16)	-	-	-	2,466
Fair value gains (losses) on property, plant and equipment	(32,375)	-	-	-	-	-	-	-	-	(32,375)
Net adjustments to securities and other financial assets	1,169	-	-	-	-	28	-	-	1,285	(144)
Net provisions for risks and charges	3,318	(3,837)	10,501	365	(2,810)	(765)	(11)	-	-	(125)
Gains (losses) on interests in associates and joint ventures and other investments	(234)	-	-	-	-	-	-	-	-	(234)
Profit (loss) before tax from continuing operations	**1,015,645**	**626,727**	**278,987**	**72,166**	**22,775**	**27,695**	**21,675**	**54,166**	**47,649**	**(136,195)**
Taxation charge related to profit or loss from continuing operations	(317,119)	(209,381)	(92,024)	(23,927)	(7,747)	(8,055)	(5,443)	741	(15,831)	44,548
Profit (loss) after tax from continuing operations	**698,526**	**417,346**	**186,963**	**48,239**	**15,028**	**19,640**	**16,232**	**54,907**	**31,818**	**(91,647)**
Charges related to the banking system, net of taxes	(57,629)	(39,815)	(4,931)	(4,586)	(195)	(2,160)	-	-	(5,941)	(1)
Change in own credit risk on Certificates issued by the Group, net of taxes	(2,568)	-	-	-	-	-	-	-	-	(2,568)
Purchase Price Allocation net of taxes	(14,233)	(10,795)	46	(10)	(1,148)	-	-	-	-	(2,326)
Profit (loss) for the period attributable to non-controlling interests	337	-	-	-	-	-	-	-	-	337
Parent Company's profit (loss) for the period	**624,433**	**366,736**	**182,078**	**43,643**	**13,685**	**17,480**	**16,232**	**54,907**	**25,877**	**(96,205)**

I half 2022 (*)	Total	Retail	Corporate	Institutional	Private	Investment Banking	Insurance	Strategic Partnerships	Finance	Corporate Centre
Net interest income	1,039,133	521,478	239,734	25,584	(2,140)	21,240	(359)	(1,130)	270,359	(35,633)
Gains (losses) on interests in associates and joint ventures carried at equity	58,168	-	-	-	-	-	(24,206)	81,339	-	1,035
Financial margin	**1,097,301**	**521,478**	**239,734**	**25,584**	**(2,140)**	**21,240**	**(24,565)**	**80,209**	**270,359**	**(34,598)**
Net fee and commission income	966,863	749,823	136,798	21,451	50,239	25,769	-	-	472	(17,689)
Other net operating income	31,693	2,959	27	3,441	2	388	-	-	-	24,876
Net financial result	176,796	(3,594)	(14,108)	(448)	(167)	3,786	-	-	250,551	(59,224)
Other operating income	**1,175,352**	**749,188**	**122,717**	**24,444**	**50,074**	**29,943**	**-**	**-**	**251,023**	**(52,037)**
Operating income	**2,272,653**	**1,270,666**	**362,451**	**50,028**	**47,934**	**51,183**	**(24,565)**	**80,209**	**521,382**	**(86,635)**
Personnel expenses	(813,204)	(524,745)	(38,748)	(6,944)	(27,998)	(15,039)	(98)	(882)	(5,152)	(193,598)
Other administrative expenses	(318,203)	(350,113)	(61,827)	(14,370)	(8,425)	(28,302)	(34)	(306)	(24,062)	169,236
Net value adjustments to property, plant and equipment and intangible assets	(125,297)	(45,634)	(2,078)	(370)	(1,768)	(186)	(2)	(16)	(191)	(75,052)
Operating expenses	**(1,256,704)**	**(920,492)**	**(102,653)**	**(21,684)**	**(38,191)**	**(43,527)**	**(134)**	**(1,204)**	**(29,405)**	**(99,414)**
Profit (loss) from operations	**1,015,949**	**350,174**	**259,798**	**28,344**	**9,743**	**7,656**	**(24,699)**	**79,005**	**491,977**	**(186,049)**
Net adjustments to loans to customers	(303,681)	(218,739)	(50,659)	(3,641)	452	107	-	-	-	(31,201)
Fair value gains (losses) on property, plant and equipment	(40,845)	-	-	-	-	-	-	-	-	(40,845)
Net adjustments to securities and other financial assets	(5,540)	-	-	-	-	(70)	-	-	(2,370)	(3,100)
Net provisions for risks and charges	(12,734)	(11,362)	(1,357)	(18)	107	(26)	-	-	-	(78)
Gains (losses) on disposal of interests in associates and joint ventures and other investments	1,466	-	-	-	-	-	-	-	-	1,466
Profit (loss) before tax from continuing operations	**654,615**	**120,073**	**207,782**	**24,685**	**10,302**	**7,667**	**(24,699)**	**79,005**	**489,607**	**(259,807)**
Taxation charge related to profit or loss from continuing operations	(231,019)	(42,364)	(69,122)	(8,053)	(3,457)	(2,458)	163	764	(162,131)	55,639
Profit (loss) after tax from continuing operations	**423,596**	**77,709**	**138,660**	**16,632**	**6,845**	**5,209**	**(24,536)**	**79,769**	**327,476**	**(204,168)**
Charges related to the banking system, net of taxes	(74,567)	(49,492)	(6,432)	(6,276)	(203)	(2,530)	-	-	(9,555)	(79)
Impact of the realignment of tax values to book values	(8,132)	-	-	-	-	-	-	-	-	(8,132)
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)	-	-	-	-	(2,294)
Profit (loss) for the period attributable to non-controlling interests	109	-	-	-	-	-	-	-	-	109
Parent Company's profit (loss) for the period	**350,997**	**16,036**	**132,289**	**10,342**	**5,407**	**2,679**	**(24,536)**	**79,769**	**317,921**	**(188,910)**

(*) The figures relating to the previous period have been restated following the retrospective application of IFRS 17 and IFRS 9 for associated insurance companies; they were also recalculated to reflect the changes introduced in the composition of the operating segments as at 30 June 2023.

The following tables provide details of the fee and commission income for the first half of 2023 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 2023 Service type/Amounts	**Group**	**Retail**	**Corporate**	**Institutional**	**Private**	**Investment Banking**	**Insurance**	**Strategic Partnerships**	**Finance**	**Corporate Centre**
Savings products	**342,064**	**297,454**	**726**	**2,952**	**48,850**	**-**	**-**	**-**	**613**	**(8,531)**
of which:										
Indirect upfront - Network	106,400	102,231	25	569	3,575	-	-	-	-	-
Administered	24,896	23,185	13	94	1,604	-	-	-	-	-
Portfolio management and funds	60,192	58,141	12	401	1,638	-	-	-	-	-
Life	21,312	20,905	-	74	333	-	-	-	-	-
Indirect running - Network	243,582	195,223	701	2,383	45,275	-	-	-	-	-
Administered	42,301	34,900	300	977	6,124	-	-	-	-	-
Portfolio management and funds	181,084	143,274	382	1,325	36,103	-	-	-	-	-
Life	20,197	17,049	19	81	3,048	-	-	-	-	-
Indirect non-Commercial Network	(7,918)	-	-	-	-	-	-	-	613	(8,531)
Investment Banking	**38,436**	-	-	-	-	38,436	-	-	-	-
Insurance protection	**31,253**	31,089	9	27	29	-	-	-	-	99
Other fees and commissions	**623,355**	**449,800**	**161,588**	**19,473**	**1,252**	**-**	**-**	**-**	**-**	**(8,758)**
Fee and commission income	**1,035,108**	**778,343**	**162,323**	**22,452**	**50,131**	**38,436**	**-**	**-**	**613**	**(17,190)**
Fee and commission expense	**(86,905)**	**(45,508)**	**(7,330)**	**(1,349)**	**(1,350)**	**(8,694)**	**-**	**-**	**(2,875)**	**(19,799)**
Net fee and commission income	**948,203**	**732,835**	**154,993**	**21,103**	**48,781**	**29,742**	**-**	**-**	**(2,262)**	**(36,989)**

I half 2022 (*) Service type/Amounts	Total	Retail	Corporate	Institutional	Private	Investment Banking	Insurance	Strategic Partnerships	Finance	Corporate Centre
Savings products	**374,867**	**322,556**	**629**	**2,873**	**51,426**	**-**	**-**	**-**	**3,864**	**(6,481)**
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	247,699	197,364	551	2,160	47,624	-	-	-	-	-
Administered	33,233	28,265	129	730	4,109	-	-	-	-	-
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	(2,617)	-	-	-	-	-	-	-	3,864	(6,481)
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**	**-**	**-**	**3,864**	**(18,040)**
Fee and commission expense	**(74,465)**	**(44,447)**	**(7,317)**	**(1,225)**	**(2,045)**	**(16,390)**	**-**	**-**	**(3,392)**	**351**
Net fee and commission income	**966,863**	**749,823**	**136,798**	**21,451**	**50,239**	**25,769**	**-**	**-**	**472**	**(17,689)**

(*) The figures for the previous period have been restated to reflect the changes introduced in the composition of the operating segments as at 30 June 2023.

The following tables provide the details of the item "Other fees and commissions" for the first half of 2023 and for the same period of the previous year, broken down by the type of service provided:

Other fees and commissions I half 2023	Group	Retail	Corporate	Institutional	Private	Investment Banking	Insurance	Strategic Partnerships	Finance	Corporate Centre
Keeping and management of current accounts, Credit Availability Fee (CDC)	**249,016**	**214,781**	**27,122**	**6,468**	**620**	**-**	**-**	**-**	**-**	**25**
of which:										
Credit Availability Fee (CDC)	119,712	97,001	20,557	1,955	199	-	-	-	-	-
Keeping and management of current accounts	129,304	117,780	6,565	4,513	421	-	-	-	-	25
Commission on loans (including consumer credit) and unsecured loans Italy	**129,269**	**42,839**	**82,267**	**3,489**	**43**	**-**	**-**	**-**	**-**	**631**
of which:										
Commission on loans	77,151	8,370	65,944	2,659	7	-	-	-	-	171
Commission on unsecured loans	25,536	9,465	16,323	830	24	-	-	-	-	(1,106)
Consumer credit	26,582	25,004	-	-	12	-	-	-	-	1,566
Abroad (including unsecured loans)	**60,923**	**22,129**	**39,832**	**287**	**69**	**-**	**-**	**-**	**-**	**(1,394)**
Collection and payment services, e-money	**183,972**	**170,843**	**12,434**	**9,296**	**757**	**-**	**-**	**-**	**-**	**(9,358)**
of which:										
Collection and payment services	97,716	78,179	9,694	6,342	387	-	-	-	-	3,114
E-money	86,256	92,664	2,740	2,954	370	-	-	-	-	(12,472)
Other services	**175**	**(792)**	**(67)**	**(67)**	**(237)**	**-**	**-**	**-**	**-**	**1,338**
of which:										
Commercial refunds	(1,996)	(1,199)	(206)	(74)	(237)	-	-	-	-	(280)
Other	2,171	407	139	7	-	-	-	-	-	1,618
Total other fees and commissions	**623,355**	**449,800**	**161,588**	**19,473**	**1,252**	**-**	**-**	**-**	**-**	**(8,758)**

Other fees and commissions I half 2022 (*)	Group	Retail	Corporate	Institutional	Private	Investment Banking	Insurance	Strategic Partnerships	Finance	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)**

(*) The figures for the previous period have been restated to reflect the changes introduced in the composition of the operating segments as at 30 June 2023.

Segment results - balance sheet figures

30/06/2023	Total	Retail	Corporate	Institutional	Private	Investment Banking	Insurance	Strategic Partnerships	Finance	Corporate Centre
Loans to customers:	**132,405,982**	**62,076,872**	**30,802,982**	**6,707,408**	**525,748**	**378,849**	**562**	**-**	**28,627,461**	**3,286,100**
• loans to customers	106,554,442	62,076,872	30,613,037	6,569,729	525,748	378,849	562	-	3,103,545	3,286,100
• debt securities	25,851,540	-	189,945	137,679		-	-	-	25,523,916	-

31/12/2022 (*)	Total	Retail	Corporate	Institutional	Private	Investment Banking	Insurance	Strategic Partnerships	Finance	Corporate Centre
Loans to customers:	**133,647,528**	**63,164,637**	**31,307,219**	**6,829,089**	**542,448**	**1,773,022**	**765**	**-**	**26,256,766**	**3,773,582**
• loans to customers	107,521,998	63,164,637	31,092,530	6,704,832	542,448	1,773,022	765	-	470,182	3,773,582
• debt securities	26,125,530		214,689	124,257	-	-	-	-	25,786,584	-

(*) The figures for the previous year have been restated to reflect the changes introduced in the composition of the operating segments as at 30 June 2023.

30/06/2023	Total	Retail	Corporate	Institutional	Private	Investment Banking	Insurance	Strategic Partnerships	Finance	Corporate Centre
Direct funding	121,154,804	79,069,518	7,810,591	12,577,466	2,090,609	1,487,098	-	-	17,435,443	684,079

31/12/2022 (*)	Total	Retail	Corporate	Institutional	Private	Investment Banking	Insurance	Strategic Partnerships	Finance	Corporate Centre
Direct funding	120,639,083	82,910,556	7,506,563	11,032,058	2,674,626	1,838,956	-	-	14,307,895	368,428

(*) The figures for the previous year have been restated to reflect the changes introduced in the composition of the operating segments as at 30 June 2023.

30/06/2023	Total	Retail	Corporate	Institutional	Private	Investment Banking	Insurance	Strategic Partnerships	Finance	Corporate Centre
Interests in associates and joint ventures	**1,628,356**	**-**	**-**	**-**	**-**	**-**	**352,185**	**1,256,713**	**-**	**19,458**

31/12/2022 (*)	Total	Retail	Corporate	Institutional	Private	Investment Banking	Insurance	Strategic Partnerships	Finance	Corporate Centre
Interests in associates and joint ventures	1,652,549					-	353,352	1,279,312		19,885

(*) The figures relating to the previous year have been restated following the retrospective application of IFRS 17 and IFRS 9 for associated insurance companies; they were also recalculated to reflect the changes introduced in the composition of the operating segments as at 30 June 2023.

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 its subsequent amendments and supplements

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 2023.

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 2023 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 2023:
   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, 2 August 2023

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 2023, 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 2023 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 2023

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 balance sheet and the reclassified consolidated balance sheet as at 30 June 2023

Asset items ***(thousands of euro)***		**30/06/2023**
10.	Cash and cash equivalents	21,844,831
	Cash and cash equivalents	**21,844,831**
40. a)	Financial assets at amortised cost: loans to banks	5,502,237
	minus: debt securities due to banks at amortised cost	(1,646,283)
	minus: financial assets at AC pertaining to insurance companies - loans to banks	(12)
	Loans at AC: loans to banks	**3,855,942**
40. b)	Financial assets at amortised cost: loans to customers	132,405,982
	plus: senior securities from sales of non-performing loans	1,603,940
	minus: debt securities due to customers at amortised cost	(25,851,540)
	minus: financial assets at AC pertaining to insurance companies - loans to customers	(562)
	Loans at AC: loans to customers	**108,157,820**
20.	Financial assets at fair value through profit and loss	9,235,000
50.	Hedging derivatives	1,302,992
	minus: financial assets at fair value through profit and loss pertaining to insurance companies	(2,454,451)
	Financial assets and hedging derivatives at FV through Profit and Loss	**8,083,541**
30.	Financial assets measured at fair value through other comprehensive income	13,681,711
	minus: financial assets measured at fair value through other comprehensive income pertaining to insurance companies	(3,546,730)
	Financial assets at FV through OCI	**10,134,981**
	plus: debt securities due to banks and customers at amortised cost	27,497,823
	minus: senior securities from sales of non-performing loans	(1,603,940)
	Financial assets at AC	**25,893,883**
	plus: financial assets at AC pertaining to insurance companies - loans to banks	12
	plus: financial assets at AC pertaining to insurance companies - loans to customers	562
	plus: financial assets at fair value through profit and loss pertaining to insurance companies	2,454,451
	plus: financial assets measured at fair value through other comprehensive income pertaining to insurance companies	3,546,730
	Financial assets pertaining to insurance companies	6,001,755
70.	Interests in associates and joint ventures	1,628,356
	Interests in associates and joint ventures	**1,628,356**
90.	Property, plant and equipment	2,825,314
	Property, plant and equipment	**2,825,314**
100.	Intangible assets	1,241,819
	Intangible assets	**1,241,819**
110.	Tax assets	4,324,187
	Tax assets	**4,324,187**
120.	Non-current assets and disposal groups held for sale	485,968
	Non-current assets and disposal groups held for sale	**485,968**
60.	Fair value change of financial assets in macro fair value hedge portfolios (+/-)	(430,133)
80.	Insurance assets	8,345
130.	Other assets	4,433,463
	Other asset items	**4,011,675**
	Total assets	**198,490,072**

Liability items *(thousands of euro)*		30/06/2023
10. b)	Financial liabilities at amortised cost: due to customers	105,298,308
	minus: lease payables due to customers	(496,321)
	minus: due to customers pertaining to insurance companies	(565)
	Due to customers	**104,801,422**
10. c)	Financial liabilities at amortised cost: debt securities in issue	16,333,454
30.	Financial liabilities designated at fair value	4,767,756
	minus: protected capital certificates	(3,271,760)
	minus: financial liabilities at fair value pertaining to insurance companies	(1,476,068)
	Securities and financial liabilities designated at fair value	**16,353,382**
	Direct bank funding	**121,154,804**
	plus: financial liabilities at fair value pertaining to insurance companies	1,476,068
110.	Insurance liabilities	4,342,759
	Direct funding from insurance business and insurance liabilities	**5,818,827**
10. a)	Financial liabilities at amortised cost: due to banks	22,872,408
	minus: lease payables due to banks	(826)
	minus: due to banks pertaining to insurance companies	(1,480)
	Due to banks	**22,870,102**
	plus: lease payables due to banks	826
	plus: lease payables due to customers	496,321
	Lease payables	**497,147**
20.	Financial liabilities held for trading	22,589,328
	plus: protected capital certificates	3,271,760
40.	Hedging derivatives	933,591
	Other financial liabilities designated at fair value	**26,794,679**
	plus: due to customers pertaining to insurance companies	565
	plus: due to banks pertaining to insurance companies	1,480
	Other financial liabilities pertaining to insurance companies	2,045
90.	Provisions for employee severance pay	245,721
100.	Provisions for risks and charges	620,262
	Liability provisions	**865,983**
60.	Tax liabilities	319,166
	Tax liabilities	**319,166**
70.	Liabilities associated with assets classified as held for sale	245,492
	Liabilities associated with assets classified as held for sale	**245,492**
50.	Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	(1,125,165)
80.	Other liabilities	7,659,025
	Other liability items	**6,533,860**
	Total liabilities	**185,102,105**
190.	Non-controlling interests (+/-)	383
	Non-controlling interests	**383**
120.	Valuation reserves	(261,371)
140.	Equity instruments	1,389,794
150.	Reserves	4,557,732
170.	Share capital	7,100,000
180.	Own shares (-)	(23,004)
200.	Profit (loss) for the period (+/-)	624,433
	Group shareholders' equity	**13,387,584**
	Total liabilities and shareholders' equity	**198,490,072**

Reconciliation between the items in the consolidated income statement and the reclassified consolidated income statement schedule for the first half of 2023

I half 2023	Income statement	Reclassifications		Reclassified income statement
Net interest income				**1,552,900**
10. Interest and similar income	2,950,776	4,820	(a)	
		(42,913)	(i)	
20. Interest and similar expense	(1,359,801)	18	(i)	
Gains (losses) on interests in associates and joint ventures carried at equity				**60,607**
250. Gains (losses) of associates and joint ventures		60,607	(b)	
Financial margin				**1,613,507**
Net fee and commission income				**948,203**
40. Fee and commission income	1,001,147	24,901	(c)	
		9,060	(i)	
50. Fee and commission expense	(92,869)	3,722	(d)	
		2,242	(i)	
Other net operating income				**33,417**
230. Other operating expenses/income	167,830	(134,687)	(e)	
		(175)	(f)	
		449	(i)	
Net financial result				**(42,492)**
70. Dividends and similar income	46,555			
80. Net trading income	(38,724)	(24,901)	(c)	
		(3,722)	(d)	
		3,837	(g)	
90. Fair value gains/losses on hedging derivatives	(5,092)			
100. Gains (Losses) on disposal or repurchase	4,304	3,420	(h)	
110. Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss	1,110	(29,279)	(i)	
Profit (loss) on insurance business				**24,580**
160. Profit (loss) on insurance services	20,857			
170. Balance of other income/expenses from insurance activities	(66,842)			
		70,565	(i)	
Other operating income				**963,708**
Operating income				**2,577,215**
Personnel expenses				**(808,254)**
190 a) Personnel expenses	(799,014)	(2,036)	(l)	
		(7,379)	(i)	
		175	(f)	
Other administrative expenses				**(336,824)**
190 b) Other administrative expenses	(556,871)	2,036	(l)	
		134,687	(e)	
		85,382	(m)	
		(2,058)	(i)	
Net value adjustments to property, plant and equipment and intangible assets				**(129,651)**
210. Depreciation and impairment losses on property, plant and equipment	(79,910)	(1,216)	(i)	
220. Amortisation and impairment losses on intangible assets	(64,900)	16,375	(a)	
Operating expenses				**(1,274,729)**
Profit (loss) from operations				**1,302,486**
Net adjustments to loans to customers				**(258,719)**
130 a) Net credit impairment losses/recoveries relating to financial assets at amortised cost	(249,030)	(571)	(n)	

I half 2023	Income statement	Reclassifications		Reclassified income statement
		255	(o)	
		(436)	(p)	
		(3,420)	(h)	
140. Gains (losses) from contractual modification without derecognition	(5,517)			
Fair value gains (losses) on property, plant and equipment				**(32,375)**
260. Fair value gains (losses) on property, plant and equipment and intangible assets	(32,375)			
Net adjustments to securities and other financial assets				**1,169**
130 b) Net credit impairment losses/recoveries relating to financial assets measured at fair value through other comprehensive income	(94)	571	(n)	
		(255)	(o)	
		436	(p)	
		511	(i)	
Net provisions for risks and charges				**3,318**
200. Net provisions for risks and charges	3,318			
Gains (losses) on interests in associates and joint ventures and other investments				**(234)**
250. Gains (losses) of associates and joint ventures	60,607	(60,607)	(b)	
280. Gains (losses) on disposal of investments	(234)			
Profit (loss) before tax from continuing operations				**1,015,645**
Taxation charge related to profit or loss from continuing operations				**(317,119)**
300. Taxation charge related to profit or loss from continuing operations	(281,135)	(27,753)	(m)	
		(6,962)	(a)	
		(1,269)	(g)	
Profit (loss) after tax from continuing operations				**698,526**
Charges related to the banking system, net of taxes		(57,629)	(m)	**(57,629)**
Change in own credit risk on Certificates issued by the Group, net of taxes		(2,568)	(g)	**(2,568)**
Purchase Price Allocation net of taxes		(14,233)	(a)	**(14,233)**
Profit (loss) for the period attributable to non-controlling interests				**337**
340. Profit (loss) for the period attributable to non-controlling interests	337			
Parent Company's profit (loss) for the period	**624,433**	**-**		**624,433**

The letters shown in the column "Reclassifications" are provided for easier understanding of the reclassifications made.

With regard to the above statement of reconciliation, the main classifications are illustrated below:

- "**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 4.8 million (a), classified within the new reclassified income statement item "Purchase Price Allocation net of taxes", and of interest income (42.9 million) and expense (0.02 million) pertaining to insurance companies, shown in item "Profit (loss) on insurance business" (i);
- "**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 60.6 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 (24.9 million (c)) and through third-party networks (3.7 million (d)) from item 80 of the official schedule "Net trading income". The item in question is shown net of fee and commission income (9.1 million) and expense (2.2 million) pertaining to insurance companies, shown in "Profit (loss) on insurance business" (i);

- "**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 134.7 million (e), 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 (f) reclassified net of "Personnel expenses", and the share of net expenses (0.4 million) pertaining to insurance companies, shown in the item "Profit (loss) on insurance business" (i);
- 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 amounts of fees on the placement of Certificates for a total of 24.9 million (c) and 3.7 million (d), re-attributed to net fee and commission income, and the impact deriving from the change in own credit risk on issues of Certificates for 3.8 million (g), re-attributed to the customised item of the reclassified income statement called "Change in own credit risk on Certificates issued by the Group, net of taxes". The aggregate in question also includes "Fair value gains/losses on hedging derivatives" (item 90), "Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss" (item 110) and "gains/losses on disposal or repurchase" (item 100) net of gains on disposal of loans not represented by debt securities, equal to 3.4 million (h), re-attributed to the managed aggregate "Net adjustments to loans to customers". The items of net financial result pertaining to insurance companies are also excluded, corresponding to 29.3 million (i), shown under "Profit (loss) on insurance business";
- "**Profit (loss) on insurance business**" corresponds to financial statement items "160 Profit (loss) on insurance services" and "170 Balance of other income/expenses from insurance activities", plus the share relating to interest income and expense, to fee and commission income and expense, to other income and expense and to the net financial result pertaining to insurance companies, for a total of 81.3 million, as illustrated above (i). The aggregate also includes the share of personnel expenses, other administrative expenses, net value adjustments to property, plant and equipment and intangible assets and other income and expense attributable to the insurance business, included in the Contractual Service Margin pursuant to IFRS 17, presented as a separate item in the reclassified income statement for a total of -10.7 million (i);
- "**Personnel expenses**" is represented by the financial statement item "190 a) Personnel expenses" and by several charges functionally related to personnel, amounting to 2.0 million (l), recognised in the financial statements under item 190 b) "Other administrative expenses" and by the recovery of training costs of 0.2 million (f), recorded under item "230 Other operating expenses/income", as described above. The aggregate in question also includes the share of personnel expenses attributable to the insurance business relating to the Contractual Service Margin (7.4 million) set forth in IFRS 17 and shown under the item "Profit (loss) on insurance business" (i);
- "**Other administrative expenses**" is represented by the financial statement item 190 b), net of recoveries on indirect taxes, legal fees and other expenses, totalling 134.7 million (e), included in the item "230 Other operating expenses/income", as described above, and of several charges connected to personnel, recognised in the reclassified item "Personnel expenses" for 2.0 million (l). "Banking industry" charges totalling 85.4 million (m) represented by contributions to the Resolution Funds are also excluded and are shown, net of the related tax effect, in the separate item "Charges related to the banking system, net of taxes". The aggregate in question also includes the share of other administrative expenses attributable to the insurance business relating to the Contractual Service Margin (2.1 million) set forth in IFRS 17 and shown under the item "Profit (loss) on insurance business" (i);
- "**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 and value of business acquired), allocated to the reclassified income statement item "Purchase Price Allocation net of taxes", amounting to 16.4 million (a). The aggregate in question also includes the share of value adjustments attributable to the insurance business relating to the Contractual Service Margin (1.2 million) set forth in IFRS 17 and shown under the item "Profit (loss) on insurance business" (i);
- 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 249.0 million), the negative result of disposals of loans, amounting to 3.4 million (h) (included in item 100), as well as gains (losses) from contractual modification without derecognition (item 140 of the income statement). Instead, this excludes net impairment losses on exposures classified in the portfolio of financial assets at amortised

cost represented by debt securities, totalling 0.4 million (p), as well as net impairment losses on exposures classified in the portfolio of financial assets at amortised cost – loans to banks – loans and securities (n) and (o) totalling 0.3 million, all fully presented in the item of the reclassified income statement "Net adjustments to securities and other financial assets";

- "**Fair value gains (losses) on property, plant and equipment**" correspond to item 260 of the official income statement;
- the aggregate of "**Net adjustments to securities and other financial assets**" includes net impairment losses on exposures classified in the portfolio of financial assets at amortised cost – loans to banks - loans and securities (n) and (o) totalling 0.3 million, as well as net impairment losses on exposures classified in the portfolio of financial assets at amortised cost consisting of debt securities (included in item 130) issued by customers (p) totalling 0.4 million. Lastly, the item in question includes net adjustments on securities and other financial assets pertaining to insurance companies shown in the reclassified income statement item "Net adjustments to securities and other financial assets" for 0.5 million (i);
- "**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 60.6 million (b) included in the reclassified aggregate "Gains (losses) on interests in associates and joint ventures carried at equity";
- the item "**Taxation charge related to profit or loss from continuing operations**" corresponds to item 300 of the official income statement, separating out the negative tax effects relating to "banking industry charges" for 27.8 million (m), the PPA for 7.0 million (a) and the impact of the change in credit risk on Certificates issued for 1.3 million (g);
- the item "**Charges related to the banking system, net of taxes**" includes charges for a total of 85.4 million (m) recognised in the accounts in item 190 b) of the official income statement, net of the related tax effect, amounting to 27.8 million (m);
- 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 3.8 million (g), net of the related tax effect, amounting to -1.3 million (g);
- lastly, the item "**Purchase Price Allocation net of taxes**" includes the effects of the PPA relating to loans, amounting to -4 million (a) and the client relationship and VoBA, amounting to -16.4 million (a), net of the relative tax effects, amounting to 7.0 million (a).

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