BANCO BPM
GRUPPO

Disclosure to the Public by Entities
Pillar 3

Data as at 31 December 2023

This document is an accurate 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.

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Introduction

References to the regulatory requirements of the Market disclosure

The table below summarises the placement - as part of this annual disclosure to the market - of the regulatory requirements governed by the European legislation in force, in particular CRR2 Part Eight[1], as developed by the new implementing technical standards regarding disclosure and the guidelines issued from time to time by the EBA.

EBA/ GL/ITS/	Code	Name in the Disclosure	Section of the Document
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[1] This is Regulation (EU) no. 2019/876 (CRR2), which amends Regulation (EU) no. 575/2013 (CRR), known as CRR. In Article 434a, it instructs the EBA to develop the Implementing Technical Standards (ITS) that specify the standard disclosure formats required by Titles II and III, Part Eight of the CRR.

EBA/ GL/ITS/	Code	Name in the Disclosure	Section of the Document
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	CR7A	IRB approach - Disclosure of the extent of the use of CRM techniques	
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	CCR1	Analysis of CCR exposure by approach	Section 9 - Counterparty credit risk
	CCR2	Transactions subject to own funds requirements for CVA risk	
	CCR3	Standardised approach - CCR exposures by regulatory exposure class and risk weights	
	CCR4	IRB approach - CCR exposures by exposure class and PD range	
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	Template 6	Summary of key performance indicators (KPIs) on taxonomy-aligned exposures	Section 19 - ESG risks
	Template 7	Mitigation actions: assets for the GAR calculation	Section 19 - ESG risks
	Template 8	GAR (%)	Section 19 - ESG risks
	Template 10	Other climate change mitigating actions that are not covered in the EU Taxonomy	Section 19 - ESG risks

(*) Template currently not applicable to Banco BPM Group

Entities are no longer required to publish the information required by Article 8, paragraph 3, of EU Regulation 637/21, if the gross NPE ratio figure is lower than 5% in 3 consecutive quarters during the 4 quarters preceding the reference date of the disclosure. As from this disclosure, therefore, the following quantitative templates are no longer included: i) CQ2 - Quality of forbearance; ii) CQ6 - Collateral valuation - loans and advances; iii) CQ8 - Collateral obtained by taking possession and execution processes - breakdown by seniority; iv) CR2A - Changes in the stock of non-performing loans and advances and related net accumulated recoveries.

Periodic disclosure provided to the market regarding the Group's capital adequacy (Pillar III Disclosure)

Supervisory regulations require that banks fulfil specific obligations to publish information regarding their capital adequacy, exposure to risks and the general characteristics of the systems for identifying, measuring and managing these risks, and to supply information, on an annual basis, on remuneration practices and policies in order to strengthen the role of market discipline.

The prudential requirements for banks and investment firms contained in Regulation (EU) no. 575/2013 entered into force on 30 June 2021. These were updated by Regulation (EU) no. 876/2019 (CRR 2), later amended by Regulation (EU) no. 873/2020 and Directive 2013/36/EU as updated by Directive (EU) no. 878/2019 (CRD V), which transpose the standards defined by the Basel Committee on Banking Supervision (Basel 4 framework) to the European Union.

The regulatory framework is completed with the implementation measures, contained in the regulatory technical standards or implementing technical standards (RTS or ITS) adopted by the European Commission at the proposal of the European Supervisory Authorities.

In Italy, the common regulations are implemented by the Bank of Italy through Circular no. 285 of 17 December 2013 and subsequent updates "Supervisory Provisions for Banks".

Banco BPM Group publishes the information according to the frequency established by Article 433a CRR2 and this document, entitled "Disclosure to the Public by Entities", constitutes fulfilment of the aforementioned regulatory obligations and is drawn up on a consolidated basis.

The preparation of the Pillar III Disclosure is also regulated by the "Template for Disclosure to the Public", approved annually by the Board of Directors of Banco BPM, which - together with the internal reference regulations - define the formal and comprehensive policy on the Group's disclosure to the market, in order to pursue full compliance with the Pillar III Disclosure.

The Market Disclosure of Banco BPM Group is therefore structured in the light of indications and guidelines on disclosure issued over time by the EBA and summarised in Bank of Italy Circular 285/2013.

Specifically, they pertain to EBA/GL/2014/14, on the relevance, exclusivity, confidentiality and frequency of the disclosure, pursuant to Articles 432(1), 432(2) and 433 of Regulation (EU) no. 575/2013 ("CRR").

Note that on 24 January 2022, the EBA published its final draft of implementing technical standards (ITS) on disclosures that supervised intermediaries must provide to the market regarding environmental, social and governance (ESG) risks, developed in compliance with Article 449a CRR. These were transposed into Commission Implementing Regulation (EU) 2022/2453 on 20 November 2022. These arrangements, in force from 28 June 2022, require Entities to publish their first disclosure on the subject in their annual reports from 31 December 2022 and every six months thereafter, adopting a gradual approach of introducing these disclosure obligations (phase-in period from December 2022 to December 2024).

The transitional rules introduced with Article 473a 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 from the beginning of the year, as did the option set forth in Article 468 of Regulation (EU) no. 575/2013 (CRR)[2] which permitted exclusion from the own funds calculation of a variable amount of unrealised accumulated gains and losses from 31 December 2019 on debt securities measured at fair value through other comprehensive income.[3] Consequently, the obligation to provide specific information on the impacts of the aforementioned transitional arrangements no longer exists.

From 1 January 2023, the reporting and public disclosure obligations on loans subject to support measures in response to the Covid-19 crisis (EBA/GL/2020/07), introduced from 30 June 2020 in the context of the pandemic, were also repealed. On 16 December 2022, the EBA announced the repeal of the aforementioned obligations, taking into account the general standardisation context, which saw a continuous decrease in the volume of loans subject to various forms of payment moratoria and public guarantees during 2022.

The qualitative and quantitative information as at 31 December 2023 based on the contents required by the regulations referenced above is presented below.

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In compliance with the aforementioned disclosure and frequency obligations, this document is published on the website www.gruppo.bancobpm.it in the *Investor Relations* section.

All amounts shown in the tables below are stated in thousands of euro, unless otherwise indicated.

Changes to certain figures as at 31 December 2022 shown for comparative purposes.

In December 2022, Banco BPM completed a significant and complex restructuring of non-performing loans attributable to a leading real estate group, aimed at pursuing an active management of the properties underlying the aforementioned exposures, with the support of a specialised partner and the inflow of new financing for development of the properties by third parties. The transaction, called "Project Wolf", is described in the Notes to the consolidated financial statements and, more specifically, on pages 203-204 of the 2022 Annual Financial Report published on the Group's website.

As a result of the transaction, as at 31 December 2022 the new restructured loans were classified in the accounting portfolio of "Financial assets mandatorily measured at fair value" and recognised in the financial statements for a total value of 219 million euro. The aforementioned loans were classified as "performing exposures" as it was deemed that, taking into account the extraordinary elements that characterised the transaction and

[2] Amended by Regulation (EU) no. 2020/873 of 24 June 2020 (CRR "Quick fix").

[3] In detail, these are exposures in debt instruments issued by central governments, regional governments or local authorities pursuant to Article 115(2) CRR and exposures to public sector entities pursuant to Article 116(4).

which substantially resulted in a change in the ownership and control structures of the initiative and a significant improvement in the overall position of the customer, the restructuring transaction did not represent an ordinary forbearance measure. On page 373 of the same Report, it was also stated that, at the date of its preparation, this interpretation was the subject of ongoing discussion with the Supervisory Authority. The ECB's examination referred exclusively to the classification of exposures for prudential purposes, without prejudice to their classification and measurement for accounting purposes in the financial statements as at 31 December 2022, as the different prudential classification has no impact on the determination of their fair value. Following the publication of the 2022 Annual Financial Report and the Pillar III Disclosure as at 31 December 2022, on completion of its analyses the ECB announced that, from a prudential point of view, the finalised restructuring transaction in any event represents a forbearance measure against which it is not possible to change the classification of the exposure, which remains a "non-performing exposure". In compliance with the aforementioned indications, from 31 March 2023 the bank restored the prudential classification of the loans in question as "non-performing exposures".

When preparing this disclosure, it also accordingly amended the figures as at 31 December 2022 shown in certain tables, compared to those stated in the Pillar III disclosure as at 31 December 2022 published on the Group's website. The amended figures are specifically highlighted in the following pages of this disclosure.

Recognition of financial conglomerate status

On 7 March 2023, Banco BPM Group obtained the status of financial conglomerate as defined by Article 3, Italian Legislative Decree no. 142 of 30 May 2005. The ECB's decision accepts the application 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., also involving alignment of the supervisory activity performed by the Supervisory Authority with the overall activity carried out by the Group as a financial conglomerate.

Lastly, note that on 3 November 2023 Banco BPM Group received authorisation from the European Central Bank pursuant to Article 49(1) of Regulation (EU) no. 575/2013 (CRR) not to deduct the book value of the equity investment in Banco BPM Vita S.p.A. from Common Equity Tier 1 Capital. As a result of the authorisation obtained, the equity investment not deducted from own funds is considered an exposure to credit risk to be weighted in compliance with the CRR.

Capital adequacy ratios as at 31 December 2023

Own funds and capital ratios as at 31 December 2023, illustrated below, were determined by applying the provisions of Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, as updated by the modification rules subsequently issued[4].

Based on the provisions of Article 26(2) of Regulation (EU) no. 575/2013 of 26 June 2013, the inclusion of interim profit in Common Equity Tier 1 Capital (CET1) is subject to the prior authorisation from the European Central Bank, which requires these profits to be verified by the independent auditors.

In this regard, please note that Banco BPM Group's consolidated balance sheet and income statement as at 31 December 2023 was not subject to auditing, designed to obtain the aforementioned authorisation. However, the capital ratios contained in this communication include the profit being accrued as at 31 December 2023, net of the portion that is expected to be distributed as a dividend on the basis of the proposed distribution resolved by the Board of Directors of Banco BPM of 8 February 2024, as it is lower than the computable portion of the profit being accrued as at September 2023, the inclusion of which was authorised by the European Central Bank.

As at 31 December 2023, own funds totalled 12,125 million euro against weighted assets of 63,823 million euro, mostly arising from credit and counterparty risks and, to a lesser extent, operational and market risks.

The Total Capital Ratio stood at 19.0%; the Group Tier 1 Ratio (Tier 1 Capital to total RWEAs) stood at 16.3%. The Common Equity Tier 1 Ratio (Common Equity Tier 1 to RWAs) was 14.2%.

[4] More specifically, the data were calculated in consideration of the current legislation as at 31 December 2023 and the interpretations issued prior to 8 February 2024, the date on which the Board of Directors approved the interim profit (loss) for the year as at 31 December 2023.

Template EU KM1: key metrics (1 of 2)

* for each quarter, the average figures for the previous 12 months are reported.

		a	b	c	d	e
		31/12/2023	30/09/2023	30/06/2023	31/03/2023	31/12/2022*
Available own funds (amounts)						
1	Common Equity Tier 1 (CET1) capital	9,035,519	8,380,949	8,386,026	8,076,086	8,604,413
2	Tier 1 Capital	10,425,189	9,770,743	9,775,819	9,465,880	9,994,207
3	Total capital	12,124,752	11,510,185	11,483,702	11,192,179	11,718,590
Risk-weighted exposure amounts						
4	Total risk-weighted exposure amount	63,823,093	58,490,569	58,859,295	59,513,827	60,063,122
Capital ratios (as a percentage of risk-weighted exposure amount)						
5	Common Equity Tier 1 ratio (%)	14.16%	14.33%	14.25%	13.57%	14.33%
6	Tier 1 ratio (%)	16.34%	16.71%	16.61%	15.91%	16.64%
7	Total capital ratio (%)	19.00%	19.68%	19.51%	18.81%	19.51%
Additional own fund requirements to address risks other than the risk of excessive leverage (as a % of risk-weighted exposure amount)						
EU 7a	Additional own fund requirements to address risks other than the risk of excessive leverage (%)	2.57%	2.57%	2.57%	2.57%	2.25%
EU 7b	Of which: to be made up of CET1 capital (percentage points)	1.45%	1.45%	1.45%	1.45%	1.27%
EU 7c	Of which: to be made up of Tier 1 capital (percentage points)	1.93%	1.93%	1.93%	1.93%	1.69%
EU 7d	Total SREP own funds requirements (%)	10.57%	10.57%	10.57%	10.57%	10.25%
Combined buffer and overall capital requirement (as a % of risk-weighted exposure amount)						
8	Capital conservation buffer (%)	2.50%	2.50%	2.50%	2.50%	2.50%
EU 8a	Conservation buffer due to macro-prudential risk or systemic risk identified at Member State level (%)	-	-	-	-	-
9	Institution-specific countercyclical capital buffer (%)	0.045%	0.040%	0.029%	0.016%	0.011%
EU 9a	Systemic risk capital buffer (%)	-	-	-	-	-
10	Global systemically important institution buffer (%)	-	-	-	-	-
EU 10a	Other systemically important institution buffer (%)	0.25%	0.25%	0.25%	0.25%	0.25%
11	Combined buffer requirement (%)	2.79%	2.79%	2.78%	2.77%	2.76%
EU 11a	Overall capital requirements (%)	13.36%	13.36%	13.35%	13.34%	13.01%
12	CET1 available after satisfying the total SREP own fund requirements (%)	8.21%	8.38%	8.30%	7.62%	8.56%

(*) Figures amended with respect to those contained in the published Pillar III disclosure as at 31 December 2022, for the reasons illustrated in the specific paragraph of this introduction.

Template EU KM1: key metrics (2 of 2)

		a	b	c	d	e
		31/12/2023	30/09/2023	30/06/2023	31/03/2023	31/12/2022*
Leverage ratio						
13	Total exposure measure	199,614,281	196,590,762	201,645,484	200,939,997	191,941,044
14	Leverage ratio (%)	5.22%	4.97%	4.85%	4.71%	5.21%
Additional own funds requirements to address the risk of excessive leverage (as a % of total exposure measure)						
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	-	-	-	-	-
EU 14b	of which: to be made up of CET1 capital (percentage points)	-	-	-	-	-
EU 14c	Total SREP leverage ratio requirements (%)	3.00%	3.00%	3.00%	3.00%	3.00%
Leverage ratio buffer and overall leverage ratio requirement (as a % of total exposure measure)						
EU 14d	Leverage ratio buffer requirement (%)	-	-	-	-	-
EU 14e	Overall leverage ratio requirement (%)	3.00%	3.00%	3.00%	3.00%	3.00%
Liquidity coverage ratio						
15	Total high-quality liquid assets (HQLA) (weighted value - average)	33,771,491	34,231,933	35,174,111	36,437,576	37,669,436
EU 16a	Cash outflows - Total weighted value	22,671,929	22,956,552	23,424,988	23,977,542	24,595,211
EU 16b	Cash inflows - Total weighted value	4,484,466	4,822,749	5,120,564	5,311,535	5,380,110
16	Total net cash outflows (adjusted value)	18,187,463	18,133,803	18,304,424	18,666,008	19,215,101
17	Liquidity Coverage Ratio (%)	185.69%	189.39%	192.81%	195.59%	196.16%
Net Stable Funding Ratio						
18	Total available stable funding	121,738,061	121,769,976	127,777,896	126,222,431	131,419,433
19	Total required stable funding	94,708,236	95,189,006	97,084,641	96,907,990	100,034,355
20	NSFR (%)	128.54%	127.92%	131.61%	130.25%	131.37%

(*) Figures amended with respect to those contained in the published Pillar III disclosure as at 31 December 2022, for the reasons illustrated in the specific paragraph of this introduction.

Risk management objectives and policies

Introduction

Banco BPM Group and the companies that belong to the same seek to respect criteria of prudence and reduced exposure to risk in their business activities, as regards:

i. the need for stability in the exercise of banking activities;

ii. sustainable development in the areas it operates;

iii. their investors' profile.

The process to manage and control the risks assumed by the Group is coordinated by Banco BPM S.p.A. in its dual role as Parent Company and the company where all of the main functions of common interest to the entire Group or to some Subsidiaries are centralised, based on specific service agreements. This is to ensure harmonised and consistent management at the Group level, guaranteeing effective customer relations, service quality and sound risk management.

The fundamental role in controlling risks deriving from Group activities falls to the Parent Company's Board of Directors, which establishes strategic guidelines, approves risk management policies, assesses the degree of efficiency and adequacy of the internal control system and guarantees a suitable level of internal communication and discussion. Pursuant to the Articles of Association of Banco BPM S.p.A., the Board of Directors has established an Internal Control and Risk Committee, which provides support to the Board with regards to internal control risks and systems, with responsibility for overseeing the entire Group.

Specific Steering Committees have also been set up within the Parent Company which, in some cases, involve the presence of management from Subsidiaries as members of these Steering Committees. In particular, worthy of note in terms of risk management and monitoring are the Risk Committee, Finance Committee, New Products and Markets Committee, NPE (Non-Performing Exposures) Committee and established more recently, the ESG Committee.

Banco BPM Group's total risk appetite is determined using the Risk Appetite Framework, which is governed by the Risk Appetite Framework (RAF) Regulation.

The Group has adopted the "Integrated Internal Control System" Regulation in order to govern the principles, criteria, roles and responsibilities regarding internal controls. The regulation describes, in a cohesive manner, the duties of Corporate Bodies and control functions as well as the related coordination and collaboration procedures in accordance with the Supervisory Provisions.

In particular, each function performs controls and audits required for carrying out its role, defining their implementation procedures and accessing the business and external data necessary for adequately performing its duties. Any corrective actions to be taken to mitigate risks are identified and the timing and planning of the identified actions are established.

With a view to suitably pursuing its objectives - with the overall objective of sound and prudential management - in addition to specific organisational safeguards (regulations, systems, processes, resources etc.) and the availability of adequate capital, the risk governance process is also based on a system that encompasses company values, as well as on the effectiveness and the efficiency of the chosen organisational model, which help contain exposure to risk and/or to minimise the impact.

In particular, development and dissemination of an integrated risk culture at all levels is envisaged, in relation to the various types of risks and extended throughout the entire Group. In fact, training programs are developed and implemented to increase employee awareness in terms of responsibilities relative to risks, so as to not limit the risk management process to specialists or audit functions. This makes it possible to create an environment favourable to guaranteeing that significant risks and factors which could increase them are promptly identified and managed.

Organisation of Risk Governance

With the objective of developing an adequate system to control and manage business risks, the Board of Directors, the Internal Control and Risk Committee and the Board of Statutory Auditors, which oversee the functioning of the internal control system, have been assigned the following tasks, established in the current Articles of Association.

Pursuant to Article 24.2.2, letter d) of the Articles of Association, the Board of Directors is attributed the responsibility, which cannot be delegated, to define and approve: (i) the Risk Appetite Framework; (ii) the guidelines of the internal control system, so that the main risks relating to the Company and its subsidiaries and to transactions of greater significance are correctly identified, as well as adequately measured, managed and monitored, also establishing criteria relating to the compatibility of said risks with the sound and correct management of the Company. The Board of Directors is also responsible for approving (i) the establishment of internal control functions, assigning the relative tasks, responsibilities as well as the procedures for the coordination and collaboration of the same, the information flows between functions and between the latter and corporate bodies; (ii) the approval process for new products and services, the implementation of new activities, and the entry into new markets; (iii) company policies regarding the outsourcing of company functions; (iv) the adoption of internal risk measurement systems. The Board of Directors also carries out all other duties it has been assigned by the prudential supervisory provisions regarding the internal control system in effect.

When defining the budget planning and drawing up the strategic, business and financial plans, the Board of Directors establishes the nature and the level of risk that are compatible with the sound and correct management of the Company and the Group. The Group's risk appetite is defined on an annual basis as part of the Risk Appetite process.

In particular, in 2023, the Group's Risk Appetite Framework was further strengthened through: i) greater formalisation of strategic and risk appetite policies; ii) greater monitoring of the risks identified in the Risk Identification process, for example with the expansion of IT and Security risks, of the ESG area, as well as of the insurance companies; iii) expansion of the scope of indicators subject to cascading down; iv) updating of reporting with greater uniformity of representation.

With regard to ESG, the newly introduced indicators include an indicator relating to energy consumption (indirect impact on Banco BPM Scope 1 and 2 emissions) and an indicator with a focus on "gender equality".

For assessment and consulting activities relating to the internal control and monitoring of corporate risks, the Board of Directors has the support of the Internal Control and Risk Committee set up within the same. For further details on the activities performed by the Board of Directors, please refer to the "Report on corporate governance and ownership structures - 2023" published on the company website.

Optimal composition of the Board of Directors

The optimal qualitative-quantitative composition of the Board of Directors was initially established by the management bodies of Banco Popolare and of BPM on 24 May 2016, in a document entitled "Preliminary analysis of the qualitative-quantitative compositions of the Board of Directors and of the theoretical profile of candidates for the position of Board Member of the company resulting from the merger between Banco Popolare - Società Cooperativa and Banca Popolare di Milano S.c.a.r.l." ("Document of Analysis of the Composition of the BoD").

Subsequently, as part of the "Formation Process for the Board Candidate List (Article 20.4.2. of the Articles of Association)" that was approved at the Board meeting of 16 July 2019, the Board of Directors approved the new optimal qualitative-quantitative composition of the Board of Directors in its meeting of 26 November 2019, defined in the document entitled "Qualitative-Quantitative Composition of the Board of Directors", supplemented on 21 January 2020.

Lastly, as part of the "Formation Process for the Board Candidate List (Article 20.4.2. of the Articles of Association)" that was approved at the Board meeting of 27 September 2022, the Board of Directors approved the new optimal qualitative-quantitative composition of the Board of Directors at its meeting of 20 December 2022, defined in the document entitled "Qualitative-Quantitative Composition of the Board of Directors", made available on the company's website and containing, inter alia, the expected profiles of the particularly relevant roles (Chairperson, Deputy Chairperson and Chief Executive Officer).

In this respect, at the meeting of 8 May 2023, the Board of Directors of Banco BPM deemed the composition of the current Board of Directors to be in line with the body's optimum qualitative-quantitative composition outlined in the "Qualitative-quantitative Composition of the Board of Directors".

Quantitative composition of the Board of Directors

The composition of the Board of Directors is of central importance for the effective fulfilment of the crucial duties assigned to this body by law, Supervisory Provisions and the Articles of Association.

The number of members must be proportionate to the size and complexity of the bank's organisational structure, in order to effectively exercise management and control over all company operations.

With reference to its numerical composition, the Banco BPM's Articles of Association establish that the Board of Directors be comprised by 15 (fifteen) members.

Qualitative composition of the Board of Directors

From a qualitative perspective, the members of the Board of Directors must be suitable for holding the office and, in particular, must possess the requirements of professionalism, integrity and independence, and meet the criteria of competence, fairness and time commitment and specific limits on the number of offices held as provided under prevailing laws.

Professionalism requirements

All the members of the Board of Directors must meet the professionalism requirements provided for under prevailing laws (especially, Article 26 of the Consolidated Banking Law and Article 7 of Italian Decree of the Ministry of Economy and Finance no. 169 of 23 November 2020, which entered into force on 30 December 2020, and which applies to appointments and renewals after said date, hereinafter "Ministerial Decree 169/2020") and the Articles of Association in force (Article 20.1).

Competence criteria

In addition to the professionalism requirements, the Directors have to meet the expertise criteria requirements set out in Article 10 of Italian Ministerial Decree 169/2020, also in the meaning of knowledge and experience, as provided under prevailing regulations and soft law (including the Joint ESMA-EBA Guidelines on the assessment of the suitability of members of the management body and key function holders – July 2021 and subsequent amendments and supplements - hereinafter the "EBA-ESMA Guidelines") and ECB (Guide to fit and proper assessments of 15 May 2017 and updated most recently in December 2021, hereinafter the "ECB Guidelines") in accordance with the nature of the position/job covered and the size and operational characteristics of Banco BPM. To this end, theoretical knowledge – acquired through studies and training – and practical experience, gained in carrying out previous or ongoing work activities will be of relevance.

The Board of Directors has defined the optimal composition in order to ensure both complementarity in terms of experience and expertise accumulated and the development of the personal and behavioural characteristics of its members, as well as to represent the applicable aspects of diversity.

In this scope, the importance of identifying profiles with adequate availability of time and resources was also considered so that the candidates could fulfil their roles on the Board and on the internal Board Committees as best and efficiently as possible.

With reference to prevailing laws, significant attention was paid to CRD IV and the Supervisory Provisions in relation to the internal control system, and developments in the laws governing listed Companies (including, by way of example, the Corporate

Governance Code approved by the Italian Corporate Governance Committee); special attention was also focused on the instructions contained in soft law, i.e. the ECB Guidelines and the EBA-ESMA Guidelines governing the suitability of banking representatives.

Within this scope, with reference to the professional experience requirements – subject to compliance with the provisions of prevailing law and the articles of association in effect – candidates for the role of Director possess one or more of the following types of the professional expertise/experience, to further qualify them, gained over a three-year period in the last twenty years:

- financial and/or banking markets: to this end, non-executive or executive (Head of a business or first-line manager) positions in Italy and/or abroad are deemed relevant. Depending on the role to be held, experience accumulated in relation to the above-mentioned business in the professional, academic or public sectors will also be of relevance;
- banking and financial activities and products (i.e. Retail, Credit, Private Banking, Asset Management, Bancassurance, etc.);
- global dynamics of the domestic and international economic and financial system and of the trends and prospects in the reference sector (banking, financial and insurance businesses);
- internal control systems and other operational mechanisms;
- risk management (identification, assessment, monitoring, control and mitigation methods of the main types of risk of a bank or of an insurance or reinsurance company, with a focus on: i) Risk Management and climate and environmental risks; ii) the risk of money laundering and terrorist financing);
- accounting and financial reporting (i.e. financial statements, accounting policies and tax matters, gained in the financial sector or in auditing firms);
- guidance and strategic planning (awareness of corporate strategic policies or the business plan) gained in credit institutions, insurance or reinsurance firms, listed companies or multinationals or leading international strategic consulting firms, preferably in financial services;
- information technology in information systems and new technologies applied to the banking and financial sector – with specific reference to Digital Transformation, Fintech, Cryptocurrency, Artificial Intelligence and Cybersecurity – gained in leading international strategic consulting firms or in firms, preferably listed, with Executive or Non-Executive positions;
- regulation in the banking, financial and insurance sector, gained in leading law firms or in companies or groups of significant size;
- organisational and corporate governance structures, gained in credit institutions, insurance or reinsurance firms, listed or multi-national companies with Executive or Non-Executive positions, or with leading international consulting firms;

- human resources and remuneration systems and policies, gained in credit institutions, insurance or reinsurance firms, listed or multi-national companies with Executive or Non-Executive roles, or with leading international consulting firms;
- ESG/social and environmental sustainability.

Specific skills are also required, for their respective areas of interest, from the members of the Internal Board Committees, with particular reference to the skills and experience referred to in paragraph 5 above (risk management) of the members of the Internal Control and Risk Committee. Special attention is paid to members who cover the role of Chairperson in the above-mentioned internal board committees, since they will have to have built up specific experience and specific awareness and expertise in the matters that the committees will have to deal with.

The Corporate Governance Code also requires that at least one member of the:

i. control and risk committee has adequate experience in accounting and financial matters or risk management, without prejudice to the fact that – as also stipulated in the Supervisory Provisions – this committee must have adequate expertise in the business segment in which the company operates, necessary for assessing the related risks;
ii. remuneration committee must have adequate knowledge and experience in "*financial matters or remuneration policies*",

to be assessed by the Board of Directors upon appointment to the Committees.

Required profiles of the particularly significant roles on the Board

The parties covering the positions of Chairperson of the Board of Directors, Deputy Chairperson and Chief Executive Officer, will ideally reflect the following suitable profiles, within the scope of full compliance with prevailing laws and the Articles of Association:

Chairperson of the Board of Directors

The Chairperson of the Board of Directors will ideally possess the following characteristics and personal skills which will make them more fully qualified for the role:

- Ten years of recently accumulated professional experience. This experience must include a significant portion of high-level managerial positions and significant technical know-how in a banking or equivalent area;
- A high level of intellectual independence and integrity to ensure the sound and prudent management of the Bank;
- A consolidated reputation on the Italian and international markets, in full compliance with the distinctive image of the Group;
- Ability to represent the Bank before local and international regulatory bodies, and significant institutions, being a convincing ambassador of the basic values of the Group;
- Leadership skills in managing people, along with strong emotional intelligence, the ability to listen and independence of thought to be employed in the Board in their role as "super partes";

- Experience in governance matters in comparable contexts in terms of size and complexity;
- Expertise in the quantitative, regulatory and financial reporting areas in order to face challenges with respect to the CEO and top management;
- Continuous willingness to examine the details of constantly evolving regulations, developments in the industry as a whole and peer relations, including at European level.

Deputy Chairperson of the Board of Directors

The Deputy Chairperson of the Board of Directors will ideally possess the following characteristics and personal skills which will make them more fully qualified for the role:

- Leadership skills in managing people, along with strong emotional intelligence, the ability to listen and independence of thought;
- Ability to facilitate dialogue within the Board of Directors;
- The capacity to represent the Bank in place of the Chairperson in the event of their absence or impediment;
- Adequate availability of time to stand in for the Chairperson in the event of their absence or impediment.

Chief Executive Officer (CEO)

The Chief Executive Officer will ideally possess the following characteristics and personal skills which will make them more fully qualified for the role:

- ten years of recent professional experience accumulated in sectors related to banking or financial services. This experience – preferably as a CEO of banks of a similar complexity to Banco BPM – must include holding high-level managerial positions for a significant portion of the above-mentioned period;
- a high level of intellectual independence, integrity and reputation with respect to regulators and investors, in full compliance with the distinctive image of the Group;
- a high level of sensitivity and exposure to the European and Italian markets;
- leadership skills in managing people, along with the ability to establish and lead high-level and senior teams in a complex organisation;
- consolidated experience in leading listed companies, of a similar complexity to Banco BPM;
- deep understanding of regulatory matters, risk and all aspects of capital management, experience in financial reporting, accounting policies and tax, accumulated in highly regulated contexts;
- solid capacity to lead and develop commercial aspects in the banking sector, especially in the Retail division, but also in Private Banking, Asset Management, Investment Banking, Bancassurance, etc.;
- good understanding and fit with the culture and business model of Banco BPM;

- proven strategic capacity, short/medium/long term planning vision;
- proven capacity to be resilient in highly stressful situations.

Chairpersons of the Internal Board Committees

The Committee Chairpersons should ideally possess the following characteristics and personal skills making them more fully qualified for the role:

- leadership in managing people, along with strong emotional intelligence, the ability to listen and independence of thought;
- knowledge and experience in the areas of competence of the specific Committee.

Aptitude requirements

In addition to the professional competence requirements referred to above, the characteristics and personal skills of the candidate (known as soft skills) are also duly considered in the selection of the candidates as indicated by the EBA/ESMA Guidelines which should be referred to for further details.

When identifying candidate profiles for the position of Chairperson of the Board of Directors, the Board leadership and coaching/development skills of the Directors are taken into due consideration.

Integrity requirements

All the candidates for appointment as members of the Board of Directors must comply with the integrity requirements in accordance with prevailing laws. In particular, members of the Board of Directors must meet the integrity requirements pursuant to Article 3 of Italian Ministerial Decree 169/2020, and Italian Ministerial Decree 162/2000, and must not find themselves in situations which may cause their suspension from office pursuant to Italian Ministerial Decree 169/2020.

The failure to comply with the integrity requirements will make it impossible to take on the office or will lead to loss of the office.

Correctness criteria

In addition to the integrity requirements, Directors must fulfil the criteria of fairness in previous personal and professional conduct pursuant to Article 4 of Italian Ministerial Decree 169/2020, understood as good reputation, honesty, integrity and financial soundness, established by prevailing regulations and "soft laws" (including the EBA-ESMA Guidelines and the ECB Guide). More specifically, it is important that the members of the Board of Directors:

- have not behaved in a way that is not in line with their position as member of the Board of Directors of the Bank even though not necessarily a criminal offence, or that could result in consequences that are seriously prejudicial to the Bank’s reputation;
- do not - and did not in the past - find themselves in situations that, with regard to the economic activities and financial conditions of the candidates (or the companies controlled by them or with significant stakes or direct interest) are - or were - including on a potential basis, capable of affecting their reputations.

A Director will be considered to fulfil the integrity requirements if there were no elements that would suggest the contrary or if there are no grounded doubts on their integrity.

Availability of time and commitment required of the Directors.

The availability of time and resources to dedicate to the performance of the position of Director, due to its nature and quality, is a basic requirement that candidates must guarantee, also in relation to the activities resulting from the participation in the work of the internal board committees of which they are members.

In addition to the above, there will have to be a commitment to take part in the Induction meetings and ongoing training, in addition to any off-site training and anything resulting from the participation of the Directors as invitees in the Committees to which they do not belong. In addition to the time dedicated to meetings, each Director shall also set aside time for travel and preparation, taking into account the multiplicity of topics to be examined and the volume of supporting documentation.

In view of the above, candidates should accept the position if they believe they can dedicate the time and energy necessary, taking account of the amount of time needed for other working or professional activities, in addition to the performance of duties for positions held in other companies.

In this regard, and paying special attention to the proper functioning of the Board of Directors and the contribution of each member to the internal dialogue of the body, an estimate was prepared, in conjunction with the drafting of the "Qualitative-quantitative composition of the Board of Directors", to be taken as a reference to evaluate the minimum time considered necessary for the effective participation in meetings, summarised in the table below, noting that the estimation of the time commitment for participation in the Committees must be understood to include the time commitment involved in being a mere Director:

Position	**Estimated commitment (days/year)**
Chairperson	*200 days*
Chief Executive Officer	*Full time*
Deputy Chairperson	*100 days*
Non-Executive Director	*40 days*
Commitment for Committees	
Position	**Estimated commitment** **<u>(BoD+ Committee)</u>** **(days/year)**
Chairperson of the Internal Control and Risk Committee	*75 days*

Member of the Internal Control and Risk Committee	*57 days*
Chairperson of the Appointments Committee	*52 days*
Member of the Appointments Committee	*46 days*
Chairperson of the Remuneration Committee	*52 days*
Member of the Remuneration Committee	*46 days*

Limit to the accumulation of external positions

Board Directors shall comply with prevailing laws (Articles 17-19 of Italian Ministerial Decree 169/2020, Article 91 CRD IV, Article 36 Italian Law Decree no. 201/2011, converted into Italian law no. 214/2011; Article 2390 Italian Civil Code) and the articles of association (Articles 20.1.3., 20.3.2. and 20.3.3.) regarding the taking up of positions in other companies other than the Bank.

On the basis of Article 17 of Italian Ministerial Decree 169/2020, Article 91 of CRD IV and Article 3.1 of the "Limits on the accumulation of positions" Regulation of the Bank, referred to in article 20.3.3. of the Articles of Association, members of the Board of Directors of the Bank cannot hold an overall number of positions in banks or other commercial companies that exceeds one of the following alternative combinations:

a) 1 executive position with 2 non-executive positions;

or

b) 4 non-executive positions.

The above was set out under Article 3.1 of the above-mentioned Regulation on the basis of which the following limits to taking on positions are provided for the Boards of Directors of the Group Banks:

a) those who carry out roles with executive functions in Group Banks cannot take on executive positions in companies that do not belong to the Group while they can take on 2 non-executive positions in companies that do not belong to the Group;

b) those who hold positions with non-executive functions in Group Banks may hold the following combinations of offices:

   - 1 executive position in companies not belonging to the Group and 1 non-executive position in companies not belonging to the Group;

alternatively,

   - 3 non-executive positions in companies that do not belong to the Group.

If the limits of the accumulation of positions are exceeded, upon appointment, or during the term of office, the Director involved must promptly inform the body it belongs to, who will set a time limit by which the person involved will have to make the consequent decisions to fall back within said limits.

Additionally, subject to any other incompatibility provided by prevailing laws (including the prohibition on interlocking directorships in accordance with Italian Law no. 214 of 22 December 2011), the position of Director is not compatible with offices of a political nature, meaning national parliamentary duties or as a member of the government. It is also recommended that the position of Director is not carried out by persons who hold European parliamentary office, or are members of regional, provincial or municipal councils (limited to the municipal capitals of Provinces).

The Board of Directors will conduct an annual check to ensure that the limits provided by said Regulation are being complied with by the representatives. The Board of Directors may, having assessed the situation in the interests of the Group, allow the limits to be exceeded by the representative subject to the opinion of the Appointments Committee, and, in any case, subject to the mandatory limits provided by the laws and/or the regulations of the European Union, Italy, or set out under the Articles of Association.

For further details and specifications regarding the position accumulation limits, please refer to the "Limits on the accumulation of positions" Regulation available on the Bank's website (www.gruppo.bancobpm.it – Corporate Governance section).

Independence pursuant to the Articles of Association and Independence of judgement

In accordance with the Articles of Association, at least 8 (eight) Directors must satisfy the independence requirements established by Article 20.1.6. of the Articles of Association in effect.

All directors must act with full independence of judgement and awareness of their duties and rights in relation to their position, in the interests of the sound and prudent management of the Bank and in compliance with the law and all applicable regulations.

When selecting the candidates, attention is paid to identify the parties that are able to make decisions with maximum independence of judgement and who do not have any conflicts of interest that could pose a potential risk for the Bank, including to its reputation.

For full details on independence requirements, please see the "Report on corporate governance and ownership structures - 2023" published on the Banco BPM's website.

Guidelines regarding diversity

In accordance with the provisions of prevailing laws and regulations, and best practices, it is considered necessary to ensure adequate diversification of the members of the Board of Directors with regard to both gender and expertise, and also to adopt an age policy.

More specifically, subject to the provisions of the regulations in force at any given time, in order to ensure adequate discussion within the governing body, it is important for the composition of the body to reflect an adequate degree of diversification in terms of gender.

In compliance with the legal (Article 147-ter of the "TUF" – Consolidated Law on Finance) and regulatory provisions which govern equal access to the administrative bodies of companies listed on regulated markets, at least two fifths of the elected directors must be reserved for the gender less represented for six consecutive mandates.

In light of the current regulatory environment, at least 6 (six) members of the Board of Directors of Banco BPM must comprise the less represented gender.

Additionally, subject to the provisions of prevailing laws, to ensure that the governing body, as a collective body, can pursue suitable strategies and ensure the effective governance of risk in all areas of operations, it is important that the composition of the governing body provides for the balanced and diversified presence of directors who, individually, have accrued the expertise and experience in the banking and financial sectors and in financial services as indicated in paragraph 3.2.2 of the "Qualitative-quantitative composition of the Board of Directors".

In light of the above, the Board of Directors approved a specific fit & proper policy for company representatives in order to regulate, in an organic document, the suitability requirements that the members of the Board of Directors, the Board of Statutory Auditors, the General Management and the Top Management must meet, as well as the necessary guidelines on diversity (i.e., gender, skills, age of the Directors).

Overall suitability of the Board of Directors

The collective composition of the Board of Directors must be adequately diversified – in terms of skills and experience, age, gender and length of office of Directors – so as to:

(i) foster discussion and internal dialogue within the bodies;

(ii) favour the emergence of a plurality of approaches and perspectives in the analysis of issues and in the making of decisions;

(iii) effectively support the corporate processes of developing strategies, managing activities and risks, controlling the activities of the top management;

(iv) take account of the multiple interests that contribute to the sound and prudent management of the bank.

In order to ensure the collective suitability of the Body, the candidates for the Bank's Board of Directors reflect a balanced composition of experience and technical knowledge (in the areas indicated below), of managerial and/or entrepreneurial experience, identified based on an approach that gives preference to concrete, substantial and positive aspects, compared to abstract, theoretical and merely negative ones, as well as outstanding professionals from academics, business consultants or freelancers:

- banking and financial business;
- global dynamics of the domestic and international economic and financial system and of the trends and prospects in the reference sector (banking, financial and insurance business);
- risks and controls (identification, assessment, monitoring, control and mitigation methods of the main types of risk of a credit institution, or of an insurance or reinsurance company, including with reference to the risks of money laundering and financing of terrorism and climate and environmental risks);
- accounting and financial reporting (financial statements, accounting policies and tax matters), gained in the financial sector or in auditing firms;

- guidance and strategic planning (awareness of the company's strategic policies or business plan) accrued with credit institutions, insurance or reinsurance companies, listed companies or multinationals or leading international strategic consulting companies, preferably in financial services, and related implementation);
- information technology in information systems and new technologies applied to the banking and financial sector (with specific reference to Digital Transformation, Fintech, Cryptocurrency, Artificial Intelligence and Cybersecurity) gained in leading international strategic consulting firms or in firms, preferably listed;
- regulation in the banking, financial and insurance sector, gained in leading law firms or in companies or groups of significant size;
- organisational and corporate governance structures, gained in credit institutions, insurance or reinsurance firms, listed companies or multinationals, or with leading international consulting firms;
- human resources and remuneration systems and policies, gained in credit institutions, insurance or reinsurance firms, listed companies or multinationals, or with leading international consulting firms;
- ESG/social and environmental sustainability.

The Board must express an actual willingness to make further changes in view of rapid changes in the frame of reference, while maintaining - at the same time - the spirit of integration and its specific aspirations.

Board induction/continuous training activities

Banco BPM, also in view of Article 12 of Italian Ministerial Decree 169/2020, recommendations in the Supervisory Provisions for Banks and of the EBA/ESMA Guidelines, encourages the participation of Directors and Statutory Auditors and members of General Management in specific training initiatives aimed at providing in-depth knowledge of the Bank and Group operating sectors and to guarantee continuity and maintenance of the experience accumulated over the years by the corporate bodies of Banco BPM.

The training and induction plans are also aimed at helping Directors and Statutory Auditors, in particular, to get a clear understanding of the structure of the Bank and the Group, the business model, the company dynamics and their development including from the perspective of sustainable success, proper risk management profiles, the legal and regulatory framework in place and to give them in-depth knowledge of issues of strategic relevance.

On the basis of the above, training sessions were organised during 2023, also open to the Statutory Auditors and the representatives of the Group Banks invited if necessary, and that represented – as encouraged by the Supervisory Provisions of the Bank of Italy and the Corporate Governance Code – an opportunity to obtain more in-depth information on matters of current interest and relevance for the banking system.

Specifically, the topics covered in 2023 concerned the following areas in particular: (i) Information systems and new technologies (with a focus on: Digital Transformation, Fintech, Cryptocurrency, Artificial Intelligence and Cybersecurity); (ii) Remuneration and incentive policies; (iii) Banking, financial and insurance business and relations with the Supervisory Authorities; (iv) Controls to protect against the risk of money laundering and compliance with international sanctions - governance model, risk assessment and evolutionary strategies; (v) Strategic policies and planning (with a focus on Bancassurance, Private Banking, Investment Banking and assessment, management and control of related risks); (vi) In-depth analysis of governance issues: - Management of inside information in light of Regulation (EU) no. 596/2016 ("MAR") and the CONSOB Guidelines; - Fit & Proper of corporate representatives of banks and insurance companies; (vii) IT and Operations strategy: main market trends, evidence of the maturity assessment and initial indications on possible guidelines for the review of the Strategic Plan; (viii) Review of the Strategic Plan: strategic trends, business model and commercial challenges; (ix) AML risk governance: the changes in light of the new provisions of the Bank of Italy on organisation, procedures and internal controls; (x) In-depth analysis of governance issues of a financial conglomerate (with a focus on challenges, roles and composition of the board, fit & proper).

The Directors were also updated - including specific information reports provided during the Board of Directors and Board of Statutory Auditors meetings - on the main legislative and regulatory news involving the Company and the corporate bodies. In order to ensure that the members of the Board are kept constantly updated and trained, a regulatory alerting service was prepared and created by the applicable company departments on topics of legal and tax interest.

Role and availability of directors

To correctly carry out the duties assigned to them, all Board Members of Banco BPM are expected to:

- be fully aware of their strategic role and the powers and obligations inherent in the functions carried out;
- have adequate authority for the role to be covered;
- dedicate adequate time and resources to their overall role, also taking into account any roles within Internal Committees, guaranteeing consistent and pro-active presence at meetings, and consulting materials supporting agenda items.

The specific skills and authority of the Board Members must in any case be such so as to guarantee a significant contribution to Board discussions to contribute to taking decisions in line with the company's interest.

Pursuant to Article 20.1.6 of the Articles of Association of Banco BPM, the following are considered "executive directors":

i. the chief executive officer, directors to whom the Board of Directors have granted powers pursuant to Article 2381, paragraph 2 of the Italian Civil Code (and article 24.2.2, letter f) of the Articles of Association) and directors who de facto carry out roles pertinent to the current management of the company for which they serve as directors;
ii. directors who are members of an executive committee;

iii. members of a board of directors that plays a supervisory role in the company managed, overseeing specific areas of company operations.

Also bear in mind that the Chairperson of the Board of Directors is qualified as "non-executive" as they do not have management powers.

It should also be noted that, pursuant to Article 20.3.2. of the Banco BPM's Articles of Association - without prejudice to any other reasons for incompatibility envisaged by the legislation in force at the time - persons that become members of management bodies or employees of companies or belong to groups whose business activities are in competition with those of Banco BPM or the Group to which the same belongs, with the exception of central trade institutions or investee companies held directly or indirectly by Banco BPM, may not be appointed to the position, and if appointed, will be removed from office.

The above prohibition is not applicable when the participation in management bodies of other banks relates to the representation of trade organisations or associations of the banking system.

Number of director, management and control positions held by members of the management body.

The Shareholders' Meeting, held on 20 April 2023 in ordinary session, renewed the Company's Board of Directors, comprised by 15 members who shall remain in office for three financial years (until approval of the financial statements for 2025). The table below shows the total number of director, management and control positions held by each member of the Board of Directors in other listed, financial, banking, insurance or significantly sized companies; the latter have been identified in light of the provisions set forth in the "Regulations on the limits to the number of positions that may be held by Directors of Banco BPM Group" adopted by Banco BPM.

The detailed list of positions is attached to the "Report on corporate governance and ownership structures - 2023" published on the company website.

Name and Surname	Office held	No. other offices
Massimo Tononi	Chairperson Director	1
Maurizio Comoli	Deputy Chairperson Director	5
Giuseppe Castagna	Chief Executive Officer Director	1
Mario Anolli	Director	1
Paolo Boccardelli	Director	2
Paolo Bordogna, Engineer	Director	2
Nadine Farida Faruque	Director	1
Paola Ferretti	Director	0
Marina Mantelli	Director	2
Chiara Mio	Director	3

Name and Surname	Office held	No. other offices
Alberto Oliveti	Director	1
Mauro Paoloni	Director	4
Eugenio Rossetti	Director	4
Manuela Soffientini	Director	3
Luigia Tauro	Director	1

The following table provides information on the composition of the governing bodies as indicators of diversity.

Gender	Board of Directors	Board of Statutory Auditors	Total
Men	60.00%	50.00%	57.00%
Women	40.00%	50.00%	43.00%

Chief Executive Officer

The Chief Executive Officer of the Parent Company, Giuseppe Castagna, was appointed by the Board of Directors as the "Director in charge of the internal control and risk management system", for the current mandate and in compliance with Article 6 (Recommendation no. 32) of the Corporate Governance Code. The specific duties that the Code assigns to said position are described below:

- to ensure the identification of the main company risks, taking into account the characteristics of the activities performed by Banco BPM and its subsidiaries, and periodically submit them to the examination of the Board of Directors;
- to implement the guidelines established by the Board of Directors, organising the planning, formation and management of the internal audit and risk management system, and continuously verifying its overall adequacy and effectiveness;
- to handle the adaptation of said system to changes in operating conditions and the legislative and regulatory environment.

  In addition, the following powers and obligations are assigned:

- the power to ask the Audit function to conduct audits on specific operating areas and on compliance with internal rules and procedures when performing company transactions, promptly informing the Chairperson of the Board of Directors, the Chairperson of the Internal Control and Risk Committee and the Chairperson of the Board of Statutory Auditors;
- the obligation to promptly inform the Internal Control and Risk Committee (or the Board of Directors) of problems and critical areas that have emerged during the performance

of their duties or which they have been informed of, so that the Committee (or Board) may adopt the appropriate measures.

Note that the provisions of Article 7.C.4. of the previously-in-force Code of Conduct of Borsa Italiana have been fully transposed in Article 6 (Recommendation no. 34) of the new Corporate Governance Code, and therefore the appointment of the Chief Executive Officer as the "Director in charge of the internal control and risk management system" is considered valid also with reference to the new Code.

The Chief Executive Officer, as indicated in the Integrated Internal Control System Regulation:

- oversees the implementation of the strategic guidelines, the RAF and the risk governance policy defined by the Board of Directors and is responsible for the adoption of all the necessary initiatives to ensure the compliance of the organisation and the internal control system with the principles and requirements defined by the Supervisory Authorities, continuously monitoring their observance;
- implements the necessary initiatives and actions to constantly guarantee the completeness, adequacy, functionality and reliability of the internal control system and brings the results of the checks performed to the attention of the Board of Directors.

The Chief Executive Officer monitors and verifies the functioning of the internal control and risk management system through the Management Committees, established in the Parent Company organisation and operating at Group level, to support the Chief Executive Officer and the General Management in carrying out their activities.

For further details on the activities performed by the Chief Executive Officer, please refer to the "Report on corporate governance and ownership structures - 2023" published on the company website.

Board of Statutory Auditors

Pursuant to Article 33.1. of the Articles of Association, as amended on 7 April 2022, the Board of Statutory Auditors consists of five Standing and three Alternate Auditors, who hold office for three years, expiring on the date of the Shareholders' Meeting called to approve the financial statements relating to the last financial year of their office, and can be reappointed. The statutory auditors must meet requirements of eligibility, independence, professionalism and integrity and respect the criteria of competence, fairness and time commitment and the specific limits on the maximum number of offices prescribed by the currently applicable regulations and the provisions of the Articles of Association.

Without prejudice to the professionalism requirements set by regulations (primary and secondary) and by the Articles of Association of Banco BPM for the assumption of office, at its meeting of 6 December 2022 the outgoing Board of Statutory Auditors, appointed by the Shareholders' Meeting of 4 April 2020 and later supplemented by the Shareholders' Meeting of 15 April 2021, in compliance with the provisions of Article 12, Italian Ministerial Decree no. 169 of 23 November 2020, approved the "Qualitative-quantitative Composition of the Board of Statutory Auditors", which identifies a qualitative-quantitative profile considered optimum for ensuring adequate collective composition of the Board of Statutory Auditors in anticipation of its renewal for the years 2023-2025, also taking into account the outcome of the periodic self-assessment exercise of the Board. This document is available on the company website, to which reference should be made for detailed information.

Pursuant to Article 33.3. of the Articles of Association, the composition of the Board of Statutory Auditors guarantees gender balance, in compliance with the currently applicable legislation and regulations.

In this regard, it should be noted that, in compliance with the legal and regulatory provisions that govern equal access to the control bodies of listed companies on regulated markets, two out of five Standing auditors of the current Board of Statutory Auditors of Banco BPM belong to the less represented gender.

The Board of Statutory Auditors, also in view of the importance and complexity of the duties entrusted to it and prevailing external and internal regulations, approved the "Regulation of the Board of Statutory Auditors", last updated in May 2022, to govern the operation of the Control Body. Said regulation also regulates, inter alia, aspects relating to the composition of the Board of Statutory Auditors, with particular reference to the degree of diversification in terms of skills, experience, age, gender and international outreach, as well as aspects relating to the disclosure obligations on the part of members of the Board of Statutory Auditors regarding any assumption of interests, on own behalf or on behalf of third parties, in a given transaction of Banco BPM by describing the nature, terms, origin and extent of its interest. The process of self-assessment that the Board of Statutory Auditors must periodically subject itself to is also governed in order to assess its composition (both from a quantitative and qualitative standpoints) and performance.

Pursuant to Article 36.1. of the Articles of Association, the Board of Statutory Auditors carries out the duties and exercises the control functions laid down by legislation in force at the time, and particularly it supervises:

a. observance of laws, regulations and the Articles of Association as well as compliance with the principles of proper administration;
b. the adequacy of the Company's organisational and administrative/accounting structure and the financial reporting process, within its scope of responsibility;
c. the effectiveness and adequacy of the risk management and control system, the internal audit system, as well as the functioning and adequacy of the overall internal control system;
d. the independent audit process of the separate and consolidated accounts;
e. the procedures for the proper implementation of the rules of corporate governance with which the Company states that it complies;
f. the adequacy of the orders imparted by the Company to its subsidiaries in the exercise of supervision and coordination activities;
g. the independence of the independent auditors, particularly as regards the provision of non-auditing services.

Additionally, pursuant to Article 19 of Italian Legislative Decree 39/2010 (as amended by Legislative Decree 135/2016), the Board of Statutory Auditors is assigned the functions of the Internal Control and Audit Committee.

In any case, the Board of Statutory Auditors is invested with the powers established in the regulatory provisions and reports to the Supervisory Authorities pursuant to the regulations in effect at the time.

The Board of Statutory Auditors informs the Board of Directors of flaws and irregularities that may be identified, requests the adoption of appropriate corrective measures and verifies their effectiveness over time.

Auditors also have the right to undertake, at any time, including individually, audit and control activities, as well as to ask for information from directors, including with reference to subsidiaries, regarding the condition of corporate operations or given business, or to send the same requests for information directly to the administrative and control bodies of the subsidiaries.

The Board of Statutory Auditors may also exchange information with the corresponding bodies within subsidiaries with regards to administration and control systems and the general status of corporate activities.

For further details on the activities performed by the Board of Statutory Auditors, please refer to the "Report on corporate governance and ownership structures - 2023" published on the company website.

Internal Control and Risk Committee

Pursuant to Article 24.4.1. of the Articles of Association, the Board of Directors establishes an Internal Control and Risk Committee (hereinafter also the "Committee"), by drafting the Regulation, most recently updated at the meeting of 29 May 2023, which regulates its responsibilities and operations in compliance with the Supervisory Provisions for banks and other relevant regulations (hereinafter the "Supervisory Provisions") and the Corporate Governance Code promoted by Borsa Italiana S.p.A. to which Banco BPM S.p.A. (hereinafter, "Banco BPM") has adhered.

The Bank's Articles of Association, recently amended by the extraordinary shareholders' meeting of Banco BPM of 7 April 2022, establish that the Committee will be composed of five Directors, all non-executive and the majority of whom (including the individual appointed as Chairperson) satisfy the independence requirements referred to in Article 20.1.6. of the Articles of Association.

The members of the Committee must have the knowledge, expertise and experience to be able to fully understand and monitor the Group's risk strategies and guidelines; at least one member of the Committee must have suitable experience in accounting and financial matters, or in risk management. The Chairperson of the Committee is appointed by the Board of Directors and cannot coincide with the Chairperson of the latter or the Chairperson of other committees.

On 26 April 2023, the Board of Directors renewed the compositions of the afore-mentioned Committee (established within the BoD since 2017), appointing the following Directors as members until approval of the 2025 financial statements: Eugenio Rossetti (Chairperson), Mario Anolli, Paolo Bordogna, Maurizio Comoli and Nadine Faruque. All members of the Committee are non-executive and independent, including the Chairperson.

The Internal Control and Risk Committee is tasked with the duties provided for in the Supervisory Provisions and the Corporate Governance Code, in particular performing duties to assist the Board of Directors of the Parent Company with regard to risks and the internal control system, the scope of which applies to the entire Group.

The Committee is responsible, inter alia, for investigation and advisory activities with regard to the scope reserved to the Board of Directors relating to:

- internal control system;
- risk analysis, measurement, monitoring and management;
- IT accounting structure.

With regard to the scope of activities, it should be noted that, until the aforementioned Board meeting of 29 May 2023, the Committee's responsibilities also included that specific to sustainability and social responsibility, removed as a result of the establishment of the Sustainability Committee (on 26 April 2023). As part of the revision of the Regulation, without prejudice to the specific responsibilities of the Committee as regards risk measurement and monitoring, also with reference to the impact of ESG factors on the same (particularly environment and climate), the Chairperson of the Sustainability Committee is also expected to attend the meetings of the Internal Control and Risk Committee when topics with implications relating to sustainability and in particular to ESG dimensions are discussed, as illustrated below

In performing its duties, the Committee pays special attention to all activities that are instrumental or necessary for the Board of Directors to be able to establish the Risk Appetite Framework (hereinafter “RAF”) and risk governance policies correctly and effectively.

In compliance with the specific functions envisaged in the Supervisory Provisions and the Corporate Governance Code, the Committee also carries out the following duties in accordance with its specific Regulations:

- assists the Board of Directors by providing its opinion:
    i. on establishing the guidelines of the internal audit and risk management system, so that the main risks to which the Parent Company and its subsidiaries are exposed to are correctly identified as well as adequately measured, managed and monitored;
    ii. on determining the level of compatibility of such risks with the sound and prudent management, consistent with the strategic objectives identified and the pursuit of sustainable success;

- identifies and proposes to the Board of Directors, with the contribution of the Appointments Committee and the managers of the internal control functions to be appointed and formulates the proposal to remove them;
- forms an opinion on changes to the organisational structure of the internal control functions within the scope of the Board of Directors, on the adequacy of the resources assigned to them, with respect to the performance of their duties and, subject to the responsibilities of the Remuneration Committee, on the remuneration of the relative managers in accordance with company policy;
- makes assessments and forms opinions for the Board of Directors on compliance with standards, legislative and regulatory provisions, to which the internal control system and the company organisation must adhere, and the requirements that must be fulfilled by the internal control functions, bringing any weak areas to the attention of the Board of Directors as well as the consequent corrective measures to be implemented; to this end, assess the proposals of the management body;
- examines the programmes (including the audit plan) and the annual reports of the internal control functions addressed to the Board of Directors in advance, providing the Board with its opinion;
- contributes, through assessments and opinions, to the definition of the company outsourcing policy as regards the internal control functions;
- supervises the internal control functions, ensuring that they correctly comply with the recommendations and the guidelines of the Board of Directors, assisting it in drawing up the Regulation for the coordination and collaboration of the Control Functions and Bodies;
- assesses the correct use of accounting standards for the preparation of the separate and consolidated financial statements, to this end coordinating with the Financial Reporting Manager and with the Board of Statutory Auditors, also consulting, if deemed appropriate, the parties assigned the independent auditing of the accounts;
- expresses its opinion to the Board of Directors regarding the assessment of the results illustrated by the parties assigned to independently audit the accounts in any letter of recommendations and in the report on fundamental matters that arose at the time of the independent audit;
- forms its opinion, and informs the Board of Directors on the description, in the report on corporate governance, of the main characteristics of the internal audit and risk management system and on assessments as to its adequacy;
- assesses, every six months, the adequacy of the internal control and risk management system with respect to the characteristics of the Group and its selected risk appetite, as well as its effectiveness, providing its opinion regarding the similar annual assessment conducted by the Board of Directors;

and with specific reference to its risk management and control duties, it:

- verifies the consistency of risk management policies and the evolution over time of the Group's risk profile with respect to the strategic guidelines and the RAF framework;
- supports the Board of Directors in defining and approving strategic guidelines and policies for risk management. More specifically, as regard the RAF, in the process of determining the risk appetite, it makes assessments and proposals, in accordance with company regulations, so that the Board of Directors may define and approve the risk appetite and the risk tolerance;
- supervises the alignment between all substantial financial products and services offered to customers with the business model and the risk strategy of the Group;
- assists the Board of Directors in defining the policies and the processes to assess company activities, including ensuring that the price and the terms of transactions with customers are consistent with the business model and risk strategies;
- provides support to the Board of Directors in verifying the correct implementation of the strategies, the risk governance policies and the RAF, also by examining the periodic reports on Group risk exposure prepared by the relevant company functions;
- through reports from the control functions, examines and formulates its own opinion on compliance with regulatory requirements for the use of risk measurement models;
- without prejudice to the responsibilities of the Remuneration Committee, it verifies that the incentives underlying the remuneration and incentive system are consistent with the RAF.

For the performance of the assigned tasks, where appropriate, the Committee collaborates and coordinates with the other internal committees of the Board of Directors of the Parent Company and with the similar internal committees of the Boards of Directors of the other Group companies, also through joint meetings, without prejudice to the responsibilities of each committee.

The Committee, in particular, acquires the observations and makes use of the support of the Sustainability Committee, taking into account the responsibilities reserved to the latter in matters of sustainability. To this end, as indicated above, the Chairperson of the Sustainability Committee is invited to participate in Committee meetings when topics that have sustainability implications are discussed.

The Committee reports to the Board of Directors, when necessary, through its Chairperson, on the outcome of the activities performed, as well as, at least every six months, at the time of the approval of the annual and interim financial statements, prepares a specific report on the activities performed and on the adequacy of the internal control and risk management system.

The Committee must structure the execution of its tasks around the standards of autonomy and independence. To this end, it must be granted autonomous powers of initiative and, to effectively perform its duties, it may carry out verification and audit activities within all areas of Group activities.

To perform its assigned tasks, the Committee normally makes use of the internal control functions as well as the Financial Reporting Manager. The Committee also has access to all business areas and company functions of the Parent Company and the companies of the Group, including central offices and peripheral structures, and has the right to obtain any information, data or copies of documents deemed necessary to carry out its tasks.

The Committee, in accordance with company regulations, may suggest that the Chairperson of the Board of Directors requests the Internal Audit Function to conduct specific audits.

Using the annual budget approved by the Board of Directors, the Committee may also make use of external expert advice from independent persons of recognised expertise. In any case, the Board of Directors will ensure that the Committee is suitably equipped with adequate resources to fulfil its tasks independently and exercise its powers.

The Committee meets, when called by the Chairperson, each time the Chairperson deems suitable. Committee meetings are convened by notice, containing an indication of the items to be discussed on the agenda, to be sent via any means, which guarantees receipt, sent at least three days before the date set for the meeting, in time to provide the members with sufficient information on the issues to be discussed, and this shall be followed by delivery of the necessary documentation, where available, to ensure the best operation of the Committee work. The notice is sent to the Committee members, as well as the Chairperson of the Board of Statutory Auditors for information.

The following may be invited to attend the meetings, in relation to the topic being discussed: (i) the Chairperson of the Board of Directors, (ii) the Chief Executive Officer, (iii) the other directors, (iv) where appointed, the General Manager and the Co-General Managers, (v) the managers of the internal control functions, (vi) informing the Chief Executive Officer of them, the managers of the company functions of Banco BPM and of other Group companies competent on the matter, (vii) the statutory auditors of Group companies, (viii) the members of the Supervisory Board pursuant to Italian Legislative Decree 231/2001, (ix) the parties assigned the independent auditing of the accounts and (x) other parties whose presence is deemed useful by the Committee.

When deemed necessary and/or appropriate, the Committee actually availed of the support of other managers of the Bank to carry out its activities, in order to deal with individual items on the agenda The meetings of the Committee were attended by the Chairperson of the Board of Statutory Auditors or another Statutory Auditor designated by the latter, without prejudice to the right of all members of the Board of Statutory Auditors to attend meetings as provided for in the Regulation.

The meetings of the Committee were attended, as permanent guests, by the Chief Risk Officer and the Audit Manager, in person or through their delegate and unless otherwise determined from time to time by the Chairperson.

The Chairperson coordinates the Committee's work. The data and information provided to support the discussion of the topics are managed in a manner that protects confidentiality, through a dedicated application, and in such a way as to not jeopardise the timeliness and completeness of the information flows.

If a Committee member has a personal interest, or third-party interest in an item to be discussed, they must inform the committee and abstain from participating in the debate and voting.

Specific minutes are drawn up by a Secretary designated by the Committee, even if not a member, for each Committee meeting. The minutes, approved by the Committee, are signed by the Chairperson and by the Secretary.

When the minutes of the Committee's resolutions cannot be drawn up in time for the Board of Directors meeting in which a proposal must be formulated or an opinion granted, the Chairperson of the Committee must notify, also verbally, the Board of Directors at the next meeting of the same, on the Committee's resolutions.

As envisaged by the specific Regulation, the Chairperson of the Internal Control and Risk Committee reports to the Board, usually at the first meeting, on the activities carried out by the Committee, making available the index of the topics of the meeting and providing a summary illustration thereof, possibly also in verbal form.

Between 1 January and 31 December 2023, the Internal Control and Risk Committee met 18 times, with an attendance of 98%, and the meetings lasted on average five hours and thirty minutes.

In 2023, the Committee also assisted the Board of Directors with regard to:

- ✓ the support activities in the preparation of the 2023 Funding Plan and the 2023 Capital Plan, examining the risk opinion of the CRO Area prepared for this purpose and aimed at assessing the robustness of the estimates of the cost of credit; updates to these documents were also examined;
- ✓ the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP);
- ✓ the process of defining the overall Risk Appetite Framework with particular reference to (i) the RAF Guidelines in support of the 2023-2026 Business Plan; and (ii) the 2024 Credit Policies; (iii) the possible evolutions of the 2024 RAF concept as well as (January 2024) the definition of the 2024 RAF Guidelines aimed, inter alia, at guiding the definition of the Budget; (iv) the integration of the subsidiaries within the scope of the Conglomerate into the RAF of the Group;
- ✓ the examination of the periodic risk monitoring and control reports prepared by the competent corporate functions, including the Risk Appetite Monitoring and the Integrated *Tableau de Bord* produced by the Internal Control Functions;
- ✓ the monitoring of Conduct Risk, conducting in-depth analyses of the components of fiscal and legal risk to which the Group is exposed;
- ✓ the update of the risk measurement internal models;
- ✓ the review of reports on activities performed by Internal Control Functions during 2022, as well as the respective action plans for 2023 (and/or long-term plans) and subsequent proposed revisions and updates;
- ✓ the examination of issues concerning relations with the Supervisory Authorities, with particular regard to in-depth analysis of the results of inspection activities, the

preparation of the related remediation plans by carrying out careful control and monitoring activities on the implementation of corrective actions and on the fulfilment of the requests made by the Supervisory Authority;

- ✓ the adoption and updating of relevant Regulations and legislation within the scope of the internal regulatory framework relating to the organisational and functional model of Banco BPM;
- ✓ the assessment of the adequacy of the organisational, administrative, accounting and IT structure of Banco BPM and of strategically important subsidiaries, with specific reference to the internal control and risk management system;
- ✓ the qualitative and quantitative dimensioning of the Internal Control Functions;
- ✓ the activities to update the 2023 Recovery Plan.

For the pursuit of its own activities in the year in question, the Committee received all the information deemed necessary and the support of competent company functions. The data and information provided in support of the discussion of the topics in the meetings of the Committee were managed in such a way as not to jeopardise the timeliness and completeness of the information flows. As a rule, 5 days before the meeting, according to the terms set forth in the Regulation of the Internal Control and Risk Committee, the documentation produced by the company functions concerned was made available to the Directors, except on certain occasions in which, albeit with adequate advance, a delay was recorded due to the particular sensitivity of the subject matter or the nature of relevant or inside information contained therein.

A total of 20 meetings were scheduled for 2024, of which 6 had already been held by the date of approval of this Report.

Group Risk Committee

The role of the Group Risk Committee is to oversee integrated management of the company risks to which the individual Group companies and the Group as a whole are exposed to.

The main duties of the Committee pursuant to the Regulation, as well as assisting the Chief Executive Officer and the administrative and control bodies, are:

- to direct the strategies and the policies for the integrated management of Group risks, as well as the methods, the tools and the procedures adopted to measure and control said risks, ensuring compliance with the guidelines of the Supervisory Authorities as well as the effectiveness of the measurement and reporting system;
- to examine reports on risks as regards the process of measuring and monitoring the risk profile, continuously verifying any changes in corporate risks and the compliance with the thresholds set for assuming various types of risk;
- to express opinions relative to the Risk Appetite Framework, the development of the ICAAP and ILAAP reports, as well as the preventive analysis of the Recovery and Resolution Plans;

- to examine and approve, where required and for specific matters, the topics falling under the responsibility of the Board of Directors.

The Committee comprises: the Chief Executive Officer (who acts as chairperson); the Co-General Manager CFO; Co-General Manager CBO; Chief Lending Officer; Chief Risk Officer; Chief Innovation Officer; Compliance Manager; Manager of Budget Strategy and Capital Planning; Manager of Administration and Financial Statements – Financial Reporting Manager; Finance Manager; Manager of Corporate and Investment Banking, Manager of Planning and Control; Internal Validation Manager and the Audit Manager (without voting rights).

Moreover, the Chief Executive Officer of Banca Aletti is regularly invited by the Chairperson to participate in Committee meetings.

During 2023, the Committee met 17 times and examined and discussed the following topics (adopting related resolutions where relevant):

- Risk Appetite Framework: Group Strategic thresholds and indicators and RAF Guidelines for the Parent Company and Legal Entities Banca Aletti and Banca Akros budgets have been defined within the RAS concept. In the last quarter of the year, the RAF Guidelines of the new Strategic Plan (2023-2026) and the RAF 2023 Report were also examined. Also note that the timing of the monthly and quarterly monitoring was correct.
- ICAAP and ILAAP: the topic was discussed both with reference to the presentation of the "ICAAP/ILAAP package", accompanied by the Reports of the Control Functions both with reference to periodic monitoring;
- updating of the Risk Identification;
- proposals for the review of internal models;
- Recovery Plan: the Committee reviewed the analyses of the provisions of the Recovery Plan;
- the summary report on the IT risk situation and the analysis of risk on payment systems were also examined by the Committee, on the proposal of the Data Governance and IT structures.

The periodic monitoring reports prepared by the Risk Function as well as the analyses and proposed changes relating to the various risks were also examined.

With reference to Validation activities, in addition to the analyses of the Internal Validation function on the methodological changes presented to the Committee, also as a result of the resolution of findings, note should be taken of the report on Algorithmic Trading and the annual reports on market and credit risks, as well as the annual backtesting and IFRS 9 analysis. The audits conducted on the ICAAP and ILAAP processes were also presented.

On the proposal of the Credit Governance function, the Committee examined the periodic monitoring of 2023 Credit Policies.

In 2023, on the proposal of the Budget and Capital Plan Strategies and the Planning and Control functions, the Committee examined the Funding and Capital Plans of the 2023

Budget. In line with the regulations, the Committee periodically provided an opinion - always positive - on the assessments of the payment of the coupons of the Additional Tier 1 loans. The following topics were also examined and reviewed by the Committee:

- The CRO Risk Opinions regarding the activities of the Credit Function in line with Supervisory Authority recommendations. In addition to the analysis of regulatory aspects such as correct classification, credit management, level of provisions, etc., the analyses also included the new Strategic Plan;
- In-depth analysis of existing insurance coverage including the overall Annual Insurance Risk Transfer Plan;
- disclosures relating to the EU-Wide Stress Test EBA 2023;

the discussions that emerged within the Committee were reflected in the minutes of each session, drawn up by the Secretary and signed by the Secretary and the Chairperson of the Committee. The copies and extracts of the minutes, declared as conforming by the Chairperson or Secretary, constitute conclusive evidence of their validity and have been sent to the Committee members. During the year, the Secretary handled the archiving of the minutes and related supporting documentation.

Other Group Committees

In addition to the Risk Committee, the following committees operate within the committees envisaged by the relevant internal regulations, with specific duties as part of the risk assumption, management, measurement and control processes:

- Finance Committee (chaired by the Chief Executive Officer or, in their absence, by the Co-General Manager CFO): established with a view to providing support to the Administrative Bodies in analysing and optimising the risk/return profile at Group level as regards interest rate, liquidity, market and counterparty risks; it defines and implements policies regarding liquidity and financial investments, excluding equity investments, and hedging transactions for interest rate mismatches for Asset Liability Management (ALM);

- New Products and Markets Committee (chaired by the Co-General Manager CBO): established to examine and approve proposals for new products and services, the entry into new (or exit from) markets and distribution channels, the introduction of new counterparties or the launch of new activities, the disposal of existing products and services also through entering into or changing commercial distribution agreements;

- NPE Committee (chaired by the Chief Executive Officer or, in his absence, by the Chief Lending Officer, CLO): provides support in defining and implementing policies concerning the management of exposures classified as non-performing: past due, unlikely to pay and bad loans. In addition, this Committee: i) oversees the management and collection of loans classified as non-performing; ii) resolves within the limits of the powers delegated; iii) monitors collection rates, performance and results achieved;

- Environmental, Social and Governance ESG Committee (chaired by the Chief Executive Officer or, in the event of their impediment, by the Communication Manager): promotes awareness of the culture and practices of social responsibility and sustainable development within the Group and externally, it makes proposals to the Corporate

Bodies to establish the Group's social responsibility model, and oversees the implementation of company strategies and initiatives relating to the environmental, social and governance spheres.

Also note that the Group's Coordination Committee for the Internal Control System has, among other things, the responsibility for strengthening coordination and cooperative mechanisms between the Internal control functions.

The Committee provides a full and properly graduated representation of the overall risks to which the Group is exposed, supporting the adoption of consistent identification and measurement methods and of reporting models relative to these risks that support understanding and proper assessment with an integrated logic. The Committee is chaired by the Audit Manager.

The following paragraphs contain a description of the structure and the duties of the internal control functions of Banco BPM Group.

The main corporate functions of the Parent Company Banco BPM S.p.A. involved in risk management and control are the following:

- ***Audit*** Function;
- **Risk** Function (Chief Risk Officer);
- **Compliance** Function;
- **Credit** Function (Chief Lending Officer).

The **Audit Function** carries out internal auditing activities required under the supervisory provisions through third-level controls on the regular performance of operations and developments in risks. It assesses the completeness, adequacy, functionality and reliability of the organisational structure and other components of the internal control system, also informing the competent bodies of possible improvements to the risk management process.

The **Risk Function**, enhanced through establishment of the office of CRO (Chief Risk Officer) and which reports to Banco BPM S.p.A.'s Chief Executive Officer, oversees – at Group level and in an integrated manner – the processes of managing risk (Enterprise Risk Management), developing and measuring risk (Risk Models & Methodologies) and the process of validating internal risk measurement models (Internal Validation).

The Manager of the Risk Function also seeks to facilitate the Corporate bodies in performing their respective duties as regards the Internal Control System, by:

- intercepting all the relevant information required to quantify and manage risk promptly and in a coordinated manner;
- ensuring a more integrated ability to process, organise and contextualise the information acquired and to make assessments (both in terms of risk and asset value) separately from other cases;

- drawing up a summarised (integrated) report on company risks and, therefore, enabling the Corporate Bodies to gain a better understanding of the main problems identified by the second-level internal control system;
- promptly implementing corrective measures, in accordance with the problems and the relative priorities indicated by the second-level Internal Control Functions.

The Risk Function and its internal structures are independent from operational functions and activities. In particular, they are responsible for:

- proposing and developing guidelines and policies regarding the management of the relevant risks, in accordance with the company's strategies and objectives;
- coordinating the implementation of the guidelines and the policies regarding the management of the relevant risks by the units assigned by the Group, also in different corporate areas;
- guaranteeing the measurement and control of the Group's exposure to the different types of risk and of the relative capital absorption, verifying the implementation of the guidelines and the policies established for the management of the relevant risks and the compliance with the thresholds established within the Group's Risk Appetite Framework;
- overseeing the processes of definition, updating and management of the Risk Appetite Framework (RAF) and verifying the impact of the Most Significant Transactions (MST) and Significant Transactions (ST);
- expressing an ex-ante opinion with respect to the decision on proposals for granting or classification identified with risk-based criteria (MST/ST);
- defining and implementing risk governance policies through an adequate risk management process, proposing the operating limits to be assigned to the various functions, also in line with the allocated capital;
- guaranteeing the development and continuous improvement of models and metrics for the measurement of risk - of the First and Second Pillar, under ordinary and stressed conditions - also through projects to implement and apply advanced models, to align with the standards that are gaining recognition at international level on each occasion, to implement supervisory regulations and directives, and to develop increasingly effective controls;
- approving the criteria for defining the levels of importance ("tiering") to be associated with the models used for purposes other than regulatory ones and the criteria for identifying changes and substantial extensions of the same;
- guaranteeing the monitoring of insurance and asset management risks, both those specific to the business and those relating to Group companies;
- contributing to defining the methodologies for a correct allocation of the risk profile of retail customers in line with the reference regulatory framework;
- contributing to defining the product governance models and processes of financial products intended for retail customers;

- overseeing the processes relating to the measurement of effective risk and a correct representation ex post of the performance of retail customer portfolios and individual portfolios;
- ensuring the monitoring of ICT and security risks, and the maintenance of the levels of these risks within the limits of the Group's risk appetite, by verifying the effectiveness of the IT risk mitigation measures proposed in the periodic reports on the evolution of ICT and security risks;
- monitoring the process used to validate internally developed models used to calculate Pillar I and II capital and liquidity requirements;
- overseeing the process to verify, through second level controls, that the trends of individual exposures are being correctly monitored, as well as to assess the consistency of the classifications, the appropriateness of provisions and the adequacy of the recovery process;
- continuously ensuring that the Group - and the individual Legal Entities it is comprised of - operates with adequate levels of capital and liquidity;
- overseeing ICAAP and ILAAP processes;
- coordinating the Disclosure to the public (Pillar III) process and the processes for collecting the information required by the Supervisory Authorities;
- ensuring that information used for relevant risk measurement, monitoring and reporting is done in the context of a robust Data Quality and Aggregation framework.
- overseeing the management of relations with the Prudential Supervisory Authority.

The organisational structure of the Risk Function includes three structures which directly report to the Manager:

- "Enterprise Risk Management", through:
    - "Risk Control": guarantees the performance of second-level controls in the credit area and on the quality of the operating processes for managing and processing data, in line with the requirements indicated in the current Supervisory regulations. It prepares integrated risk reports for the Corporate Bodies relating to checks conducted in the credit area and as regards data quality, and the adequacy of data-quality controls, which allows them to be continuously aware of the risk profile undertaken by the Group, verifying its consistency with the approved risk appetite; It guarantees second-level controls on the assets embedded in the main items of the Group's financial statements, in compliance with the requirements set out in current supervisory regulations, focusing in particular on the proper implementation of the relevant processes by the operating structures, as well as on the accuracy and representativity of the information used in these areas. It contributes to the extension of the Risk Data Aggregation and Reporting principles of the Basel Committee (BCBS239) and guarantees the full application of the Group Data Governance

framework, in addition to the monitoring of regulatory legislation and contributes, insofar as it is responsible, to the preparation of the information required by the Supervisory Authorities. It provides support to the business lines in the use of risk information within the processes under their responsibility, promoting the dissemination of the risk culture and awareness of the quality of said information.

- "Risk Strategy": guarantees the supervision of IT and security risks, the functioning of the operating aspects of the operational enforcement process of the RAF and the preparation of the documents required for the Group's capital adequacy assessment (ICAAP).[5] It prepares integrated risk reports for the Corporate Bodies that allows them to be continuously aware of the risk profile undertaken by the Group, verifying its consistency with the approved risk appetite. It provides support to the competent Bodies in defining the Group's risk appetite through a risk appetite proposal that allows them to increase their awareness of the risks the Group takes in pursuit of its strategic objectives. It prepares integrated risk reports for the Corporate Bodies that allows them to be continuously aware of the risk profile undertaken by the Group, verifying its consistency with the approved risk appetite. It guarantees second-level controls on investment and bancassurance products and services, in compliance with the requirements set out in current supervisory regulations, focusing in particular on the proper implementation of the relevant processes by the operating structures, as well as on the accuracy and representativity of the information used in these areas. It assists in assuring Corporate Bodies that the Group is continuously operating with an adequate amount and composition of capital by preparing the necessary analysis and documentation for the purposes of the annual capital adequacy self-assessment (ICAAP).

▪ Risk Models & Methodologies, through:
    - "Credit & Non-Financial Risks": guarantees the management and control of credit, operational and other non-financial risks pertaining to the CRO, ensuring unitary direction and governance at Group level. It proposes the development and continuous improvement of internally developed risk measurement models and methodologies for regulatory, budgetary and management purposes, consistent with the prudential Supervisory Provisions for banks, accounting standards and strategies defined by competent Corporate bodies, formulating proposals for mitigating risk exposure. It ensures the preparation and maintenance of a document containing the "model sheets" that illustrate the main characteristics of the risk measurement models under its responsibility. It supports, for the parts under its responsibility, the RAF, MST, ICAAP, Recovery Plan and Resolution Plan processes, contributing to the definition of the operating limits of exposure to risks for each type. It contributes to ensuring the preparation of the information and analyses required by the Supervisory Authorities, of the notes to the financial statements and the public disclosure (Pillar III) relating to the risks under their responsibility, providing specialist methodological support for the definition of relevant company regulations and for

[5] It should be noted, in particular, that in 2023, a specific organisational unit dedicated to this monitoring and oversight was established within the "Risk Strategy" structure ("ICT & Security Risk" Office).

the performance of regulatory exercises and the activities of the inspection team engaged in the assessment of the internal risk measurement systems under their responsibility.

- "Financial Risk": guarantees the management and control of liquidity, interest rate, market and counterparty risks, ensuring a unitary direction and governance at Group level. It proposes the development and continuous improvement of internally developed risk measurement models and methodologies for regulatory, budgetary and management purposes, consistent with the prudential Supervisory Provisions for banks, accounting standards and strategies defined by competent Corporate bodies, formulating proposals for mitigating risk exposure. It ensures the preparation and maintenance of a document containing the "model sheets" which illustrate the main features of the risk measurement models under its responsibility. It assists in assuring Corporate Bodies that the Group continuously operates with an adequate amount and composition of liquidity by preparing the necessary analysis and documentation for the purposes of the annual adequacy self-assessment (ILAAP). It provides support, for the parts under its responsibility, to the RAF, MST, ICAAP, Recovery Plan and Resolution Plan processes, contributing to the definition of the operational limits of exposure to risks for each type. It ensures the preparation of information and analyses required by the Supervisory Authorities, of the notes to the financial statements and the public disclosure (Pillar III) and of company regulations relating to the risks under its responsibility, providing specialist methodological support for the definition of company regulations; It contributes to the development and evolution of models relating to financial risks that incorporate ESG issues and facilitate their application in business processes. It provides support for the performance of regulatory exercises and the activities of the inspection teams involved in the assessment of the internal risk measurement systems within their responsibility;

- Internal Validation: intended to independently monitor the internal validation processes of risk measurement and management systems, assess the model risk implicit in the methods used to measure risk, and conduct controls aimed to validate the calculation of capital requirements and to validate pricing models.

The Group's **Compliance function** carries out its activities, reporting directly to the Chief Executive Officer, both for the Parent Company and for the Group companies that have outsourced the service, and has direct access to the Corporate Bodies, communicating with them without any restrictions or intermediation.

The Function oversees the management of compliance risk with regard to all Group activities, according to a risk-based approach, verifying that internal procedures are adequate to mitigate that risk. It ensures the second level verification of i) the correct application of banking rules; ii) the implementation of rules for the performance of investment services and activities. In this context, the Compliance Function verifies that in all operating areas of the Banking Group – i.e. for the Parent Company and for all Companies that have outsourced the regulatory compliance function to the same – there are mechanisms that ensure compliance with the rules applicable to the all banking activities, in particular those referring to relations with customers and their protection.

The Compliance Manager – whose appointment and termination is the exclusive responsibility of the Strategic Supervisory Body (after consulting the body with control function) with the support of the Internal Control and Risk Committee, which identifies and proposes the managers of internal control functions to be appointed and formulates related termination proposals – must be able to report and operate in close contact with the Corporate Bodies. They exercise their duties on the basis of a specific appointment that ensures independence of the Compliance Function from other company functions, defining their role, skills and responsibilities.

The Compliance Manager has also been given the role of Data Protection Officer (DPO) in accordance with European Regulation 2016/679 (GDPR) concerning personal data protection.

The current organisational structure of the Compliance Function is divided into four specific structures, two of which report to the Compliance Manager (one responsible for guidance and methodological coordination, preparation of management reporting, and definition of the functional requirements for developing supporting applications, while the other is responsible for overseeing the privacy regulatory framework) and two "in line" structures are dedicated to regulatory issues applicable to Banco BPM Group.

Specifically, the Organisational Units are as follows:

- Methodology and Reporting Coordination (staff);
- DPO support (staff);
- Banking Services, Governance, and ICT Compliance (in line);
- Investment Services and Markets Compliance (in line).

As established in the “Regulation on managing compliance risk”, the compliance risk management model envisages:

- the definition, development and maintenance of methodologies, models and tools supporting the risk management processes: activities that allow the identification, analysis, assessment, monitoring and mitigation/prevention of compliance risks;
- ex-ante compliance activities: assessment of the technical-organisational impacts following regulatory developments; support and advice with regard to compliance with regulations; validation of internal regulations;
- risk assessment: preventive and ongoing identification of compliance risk, namely potentially harmful events, the relative frequency and impact; identification of the monitoring in place and the related evaluation of its effectiveness and suitability for monitoring the identified risks; measurement of the residual risk component;

- scheduling of control activities: periodic formulation of a document in which the activities of the Compliance Function and the Specialist Units are defined and scheduled (see below);
- performing controls and audits and identifying risk mitigation interventions: controls and audits during the periodic assessment envisaged in the planning of the control activities or in execution of specific requests by the Supervisory Authorities or Corporate bodies; assessment of the adequacy and effectiveness of organisational and control measures in place to mitigate the compliance risks; recording evidence that emerges of a significant exposure to compliance risk;
- monitoring of corrective actions: periodic analysis of the status of implementation of corrective interventions undertaken or planned and compliance with the defined deadlines and periodic activities to assess the level of adequacy and effectiveness of the interventions and corrective actions implemented to mitigate detected risks and resolve any verified non-compliance issues;
- assessment and maintenance of the Control System: collaborates with other control functions and, for the areas under its responsibility, in the process of assessing the Internal Control System;
- reporting and information flows: preparation of appropriate information flows towards the other control functions and Corporate bodies;
- monitoring and analysis, from a forward-looking perspective, of the main regulatory changes applicable, with specific reference to those with a significant impact on governance and on the company's business model and subsequent communications to Corporate Bodies and to top management.

With regard to training aspects, the Compliance Function collaborates with the functions responsible for raising staff awareness and for carrying out training programs on issues of regulatory compliance.

With reference to the process for approving new products and entry into new markets, the Compliance Function assesses all the significant elements linked to compliance risk, issuing a specific compliance assessment on completion of the technical investigation.

The Function also participates in the specific "New Products and Markets Committee", representing the various organisational units that is responsible for validating new products/services and the entry into new markets.

The **Credit Function** (Chief Lending Officer) pursues the objectives of optimising credit quality and minimising global credit risk costs for the Group, through the following activities:

- coordinating activities for implementing credit guidance and policies;
- defining lending rules in order to ensure standardised approaches and language within

the Group, contributing to the development of the Rating System;

- proposing maximum limits for credit facilities for large customers;
- expressing a mandatory, non-binding opinion on the maximum amount of credit facilities which may be granted to single or associated customers with exposures exceeding the pre-set thresholds;
- monitoring and managing the most significant anomalous positions.

In addition to these functions, the operating structures within the Parent Company and in the Subsidiaries, which are in charge of first-level controls, are also involved in risk control.

Risk profile and risk management and measurement systems

The Board of Directors of the Parent Company Banco BPM approved the Risk Appetite Framework (hereafter, also "RAF") in the first quarter of 2023, through which the strategic supervision body defines the risk levels the Group is willing to assume in pursuing its strategic objectives. Specifically, Circular 285 requires the adoption of an RAF which:

- assigns the body in charge of strategic supervision the task of defining and approving risk objectives, the tolerance thresholds (where identified) and the risk governance policies;
- envisages the adoption of an integrated approach to risk management;
- highlights the circumstances, including the outcomes of stress scenarios, in which the assumption of certain categories of risk should be avoided or contained with respect to the objectives and the limits set;
- uses appropriate quantitative and qualitative parameters to establish the elements that make up the RAF;
- indicates the procedures for operational measures to activate (escalation) if it is necessary to reduce risk levels to within the pre-set objective or limits;
- states the timing and procedures to be followed to update the RAF (due to changes in legislation, in the reference scenario or internal context) as well as the tasks of the Bodies and all corporate functions involved in process definition.

The Risk Appetite Framework of Banco BPM Group is comprised of 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 summarise risk exposure;
3. the “system of thresholds”, through which the risk appetite is defined;
4. the “escalation process”, which is activated with different intensities and parties when different thresholds are surpassed;

5. the methodological document “Risk Appetite Statement (RAS)”, which contains an analytical description of the calculation procedures for the metrics and definition of the relative thresholds;
6. the "instruments and procedures", which support the representation and operational management of the RAF, including "Most Significant Transactions (MST)".

The RAF is the tool that makes it possible to establish, formalise, communicate, approve and monitor the risk objectives that the Group and the individual relevant Legal Entities intend to assume. To this end, it is divided into thresholds and risk areas that make it possible to identify in advance the levels and types of risk that the Group intends to assume, stating the roles and responsibilities of the Corporate bodies and functions involved in the process of managing these risks. The Group must guarantee that the operating version of the RAF is used and internalised and represents a guideline when developing processes, such as, by way of example, the Strategic Plan and the Budget, as well as the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP). The framework is also used as an operational tool within the Recovery Plan and when defining Remuneration Policies.

The general principles that guide the Group’s risk assumption process can be summarised as follows:

- the activities carried out take into account the risks assumed and the measures set in place to mitigate them over the short and medium-long term;
- particular attention is paid to capital and liquidity adequacy and to the credit quality of the portfolio, also in the light of the introduction of new legislation and regulatory restrictions imposed by the Supervisory Body.

The RAF indicators are structured by risk area and make use of the Risk Identification Process, taking into account regulatory indications regarding Risk Governance. All significant risks identified during the process are considered when defining the Risk Appetite Framework, and specific indicators are identified for monitoring purposes.

In particular, the Group’s RAF has identified different indicators for the main risk areas: First and Second Pillar Capital and Structural Adequacy, Adequacy of Liquidity/Funding and IRRBB, Credit Quality, Profitability and Operational/Conduct. Since 2019, an additional area was also envisaged which represents other relevant aspects, for most of which organisational controls are applied (e.g. anti-money laundering risk and monitoring of the bank’s critical issues opened by both the Regulator and the Internal Control Functions), which was also supplemented in 2021 by macro-economic type indicators whose monitoring is, moreover, part of the Recovery Plan process.

In addition, in 2023 the Framework was strengthened through the introduction of new indicators, mainly relating to finance, ICT and ESG, in particular with reference to energy consumption and gender equality.

The indicators that summarise the Group’s risk profile have been divided into 3 levels, differentiating between strategic indicators, which enable the Board of Directors to guide the Group’s strategic decisions, operational indicators, which integrate and anticipate the dynamics - where possible - of the strategic indicators, and Early Warning indicators, which express the risk areas of the RAF and make it possible to anticipate or further leverage the dynamics of the Strategic and Operational indicators. 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 comprehensive number of indicators, which express the risk appetite approved by the Board of Directors and represent the summary performance of the overall risk profile. These indicators also include many of the indicators used to define the RAF Guidelines that are part of the Budget and Business Plan process;
- 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 constitute a set of metrics useful for predicting signs of deterioration of the indicators included in the Strategic and Operational RAF, for which an Alert threshold is defined.

The system of thresholds for the strategic indicators envisages the definition of the following limits:

- *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.
- 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*").
- 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.
- 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.
- 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.

Exceeding the risk limits triggers specific escalation processes, revised in 2023 to take into account the insurance companies and their organisational structure.

The Risk Function, in collaboration with Planning and other relevant Functions, develops the RAF, by providing support to the management body, from a legislative and operating perspective, consistent with the strategy, business plans and capital allocation in ordinary conditions and in situations of stress. 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, by performing a specific assessment of the overall framework of the previous year aimed at updating and fine-tuning it, preserving its basic elements.

RAF 2023 – main indicators	Type of indicator	Risk Profile - Dec 2023	Risk Trigger	Risk Tolerance	Risk Capacity
CET 1 ratio*	Strategic	14.16%	11.25%	10.25%	7.07%
Tier 1 ratio	Management	16.33%	13.25%	==	==
Total Capital ratio	Management	19.0%	16.0%	==	==
Leverage ratio	Strategic	5.22%	4.25%	4.00%	3.00%
Liquidity Coverage ratio (LCR) **	Strategic	187%	130%	115%	100%
Net Stable Funding ratio (NSFR)	Strategic	129%	115%	105%	100%
Gross NPE/Total Gross Loans	Strategic	3.48%	5.00%	6.00%	7.00%

* The capital ratios shown in the table consider the entire profit for 2023 net of the proposed dividend pay-out.

** Exact reporting data.

Banco BPM Group also defines the Risk Appetite Framework not just at Group level, but also for all significant Legal Entities, by means of cascading the risk appetite to individual companies that are relevant for RAF purposes (Banca Akros and Banca Aletti, respectively the Investment Bank and Private Bank of the Group), taking the respective core businesses into account, also with a view to guaranteeing that limits at consolidated level will be observed. After finalisation of the acquisition of Bipiemme Vita and subsequently of Vera Vita, the RAF cascading for Legal Entities was reviewed in order to include the Insurance Companies in the overall Framework.

From an operating perspective, risk prevention activities are also found in the process to manage Most Significant Transactions (relating to credit, finance, credit assignment and other transactions) and leverage operations, which primarily involve the Risk Function, which must express a non-binding preventive opinion on all transactions that meet the identification criteria established and regulated internally.

During 2023, the scope of transactions subject to prior non-binding opinion by the Risk Function was further extended, envisaging - in specific cases - the release of ex-ante assessments of Project Finance transactions, the Review of the credit structure of the top 10 groups of related customers falling within the scope of Major Risks reporting, and multiple forbearance proposals.

Reporting and Monitoring Activities

The risk monitoring and control activities performed by the Risk Function seek to ensure, at Group and individual company level, the harmonised supervision of the risks within its scope, by guaranteeing appropriate and timely information to the Corporate bodies and Organisational Units involved in managing said risks, ensuring the development and continuous improvement of the methods and models adopted for their measurement.

To that end, the Parent Company prepares reports for the Corporate Bodies on a monthly basis, in line with the Group's internal policies. In the context of integrated risk reporting, the Risk Function analyses the main risks to which the Group is exposed and periodically assesses the risk profile of RAF indicators, comparing it with the thresholds established in the framework, providing historical and detailed analyses that explain the trends, the issues that require attention and the areas for improvement.

The Risk Function also conducts a benchmarking analysis of the main Italian banks, and where available also on a panel of European banks, which allows Corporate Bodies and top management to have a more integrated view of Group risks.

Activities performed within the context of the reporting system ensure that appropriate and timely information reaches the Corporate Bodies, Senior Management, Internal Control Functions and the Organisational Units involved in risk management.

First and second pillar capital adequacy

To provide its management team and the Supervisory Authority with a complete and informed disclosure, which confirms the adequacy of its own funds, the first defence against the risks assumed, Banco BPM Group assesses its capital situation from a current and future 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 Financial Statements 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 by Supervisory regulations are maintained. These ratios are also estimated at the time of the Budget or Strategic Plan and their consistency with the thresholds set within the Risk Appetite Framework 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 summarised in the annual ICAAP (Internal Capital Adequacy Assessment Process) report and in the periodic interim updates.

The ICAAP, regulated internally by specific regulations and circulars, enables the Group's exposure to be assessed as regards Pillar I risks (credit, counterparty, market and operational) as well as that to other relevant risks identified internally or on the basis of the regulatory provisions through the Risk Identification process.

Within ICAAP, the capital adequacy assessment uses the Risk Appetite Framework to verify compliance of the Pillar I and Pillar II strategic capital indicators (Capital reserve calculated as the ratio between Available Financial Resources (AFR) and capital requirements, calculated using advanced methods developed internally and validated by the competent corporate function), as well as qualitative elements.

The result of the ICAAP, performed on a multi-year basis, takes into consideration simulations performed both from a regulatory perspective and through the application of internal management methodologies. The simulations are conducted under normal operating conditions and also consider the results of the application of stress scenarios.

Regulatory and operational liquidity adequacy

Banco BPM Group manages the adequacy of its liquidity and funding profile both from a current and future perspective, as regards Pillar I and Pillar II, based on Basel III rules and the guidelines of the Supervisory Authority.

The Group's regulatory liquidity adequacy is continuously monitored through two ratios: the Liquidity Coverage Ratio (LCR), which promotes the short-term resilience of the liquidity risk profile of the bank by ensuring that it has sufficient high-quality liquid resources to overcome a situation of acute stress lasting one month; and the Net Stable Funding Ratio (NSFR), which seeks to encourage longer-term resilience by providing the bank with greater incentive to fund its activities by utilising more stable sources of funding on a structural basis. This structural ratio has a time horizon of one year and was developed to guarantee that assets and liabilities have a sustainable maturity structure. As part of the Pillar II, these indicators are supplemented by metrics developed internally, complementary to the regulatory liquidity indicators, and by stress tests.

The Group has also set in place an Internal Liquidity Adequacy Assessment Process (ILAAP) and strategy. In fact, the ILAAP is the internal process through which Banco BPM Group manages and monitors liquidity risk at Group level and assesses liquidity adequacy in both the short and medium-long term. The ILAAP also includes an annual internal self-assessment of its overall liquidity risk management framework, aimed at continuous improvement of the same.

Categories of risks monitored and managed by Banco BPM Group

The process of identifying risks (Risk Identification) represents the starting point for all the Group's strategic processes. This process is a structured and dynamic path that is performed annually at the Group level by the Risk Function, involving the Bank's top management and the main companies in the Group, making it possible to identify the main risk factors and emerging risks to which it is or could be exposed, ensuring the process is effectively performed and disseminated within the Group. The output of the process takes the form of a Risk Inventory, which is a list of all the risks considered significant by the Group, including those against which an economic capital has been calculated, for which suitable organisational controls are defined for their prevention and mitigation, and a Risk Map, which comprises a list of risks only considered significant for the Group, from which they are quantified using internal models or regulatory metrics. The Parent Company guarantees the measurement, monitoring and management of the capital requirements for each type of significant risk included in the Risk Map and guarantees the supervision and the quantification of the capital resources available to the Group to cover its risk exposure with a view to complying with the regulatory obligations of Basel Pillar I and Pillar II.

More specifically, the centralised management of Group capital adequacy, which entails a comparison between the amount of available capital resources and the capital requirements resulting from the risks to which the Group is exposed, from a current and forward-looking perspective, in ordinary and stressed conditions, is performed by implementing the internal capital adequacy assessment process (ICAAP).

The following paragraphs illustrate the main characteristics of the risks considered significant by the Group following the implementation of the Risk Identification process between the end of the second quarter and start of the third quarter of 2023.

New elements that emerged from the updating of the Risk Identification process, compared to 2022, include the preparation of a dedicated risk factor map for ICT and SGR issues, in addition to those already present in the liquidity, ESG and insurance business areas.

Credit and counterparty risk

Definition and objectives

This is the risk that a debtor of the Group (including counterparties in financial transactions involving over-the-counter derivatives - which in this case more specifically involves counterparty risk, for which please refer to the specific section on "Counterparty risk") does not comply with their obligations, entirely or partially, or that their credit standing deteriorates.

Concentration risk (dealt with below) is closely connected to credit risk, and derives from exposure to counterparties, groups of associated counterparties, or counterparties in the same economic sector or which carry out the same business, or are located in the same geographic area.

With regard to guarantees, the residual risk (which is illustrated hereinafter) is managed in relation to the possibility that generally accepted techniques to mitigate credit risk used by banks may be less effective than expected.

Internal regulations have been developed to handle this risk, which govern the processes of acquisition, finalisation and management of guarantees in a standardised way throughout the entire Group.

The assessment of possible losses that could be incurred by the Group with regard to a single credit exposure or the total loan portfolio depends upon many factors, including the general economic conditions or those of specific production sectors, the change in the rating of single counterparties, structural and technological changes within borrowing companies, a deterioration in the competitive position of counterparties, the possible mismanagement of companies or borrowing counterparties, the growing indebtedness of households, as well as structural macroeconomic factors and other external factors, such as legal and regulatory requirements applicable to this matter.

Group credit policies

Banco BPM Group pursues credit policy objectives that seek to:

- support the growth of the business activities operating in its market territories, with a strong customer-relationship focus on small and medium-sized companies and on households;
- diversify its portfolio, limiting loan concentration on single counterparties/groups and on single sectors of economic activity or geographical areas above all in particularly adverse economic scenarios;
- apply a homogeneous credit management model, based on internal IT and regulatory rules, methodologies, processes and procedures that have been standardised for all Group banks.

The loan portfolio monitoring, carried out by the Parent Company's Credit Function, is focused on the performance analysis of the risk profile of economic sectors, geographical areas, customer segments and types of granted credit lines, as well as on other analysed spheres of action, allowing the definition of possible corrective actions at central level. Reports produced are submitted periodically for the attention of the Parent Company's collective bodies.

The organisational model of the Group with respect to its lending activity complies with the following principles:

- the Parent Company guarantees a consistent management, planning, coordination and control of the credit process and of the associated risks for the Group banks and companies, by defining policies, procedures and processes, roles and responsibilities, assessment criteria, adequate organisational, operational, IT and training tools and making sure that they are properly adopted;
- the banks and operating companies of the Group autonomously (i.e. within the set limits established by the Parent Company) assess and approve the loans they grant directly, and retain the ownership of the relationships and of the related profit and risk components.

With the aim of optimising credit quality and minimising global credit risk costs for the Group and the individual companies, under the organisational model, the Parent Company's Credit Function is in charge of guiding, coordinating and controlling credit policies.

To actually implement the Group credit model, the Parent Company:

- defines Group credit policies in keeping with the strategies, risk appetite and economic objectives specified by the Governance Bodies, with the aim of guiding the overall size, risk profile and diversification of the loan portfolio;

- determines the principles and rules for assigning decision-making responsibilities and credit authorities, taking the most significant credit decisions;
- prepares line controls and risk management controls, carrying out monitoring on overall loan portfolio trends;
- defines "country risk" limits.

With respect to the procedures to assess creditworthiness, and the approval and management of positions, each lending company adopts its own structure of decision-making bodies and defines the delegated powers to authorise loans, in keeping with the guidelines issued by the Parent Company.

Within the context of the Group, guidelines are established relative to the assumption of credit risk, in order to avoid excessive concentration, limit potential losses and guarantee credit quality. In particular, when credit is granted, the Parent Company serves to guide, govern and support the Group through:

- lending rules, regulating credit risk assumption procedures with respect to customers in the approval phase as well as in the lending formalisation phase;
- the lending ceiling, that is, the global limit for loans that Group companies can grant to larger risk groups;
- the formulation of "prior approvals" on the total amount of loans that can be granted to a single customer or a group of customers borrowing from the Group.

A careful assessment of creditworthiness is carried out also for institutional counterparties (banks and investment banks), in particular with regard to financial transactions (trading of derivatives and money market instruments, lending, investments in bonds).

The key principles underlying the management of risk originating from these counterparties, as indicated above, are as follows:

- centralisation of the lending process in the Parent Company;
- internal system for the assignment and periodic review of ratings (in addition to those issued by international agencies);
- systems that measure and control credit exposure and compliance with limits on a daily basis;
- minimisation of the risk generated by OTC derivative contracts by making extensive use of risk mitigation mechanisms (Credit Support Annex agreements with all main counterparties).

Management and control processes and instruments

Banco BPM Group makes use of a detailed combination of tools to monitor trends in the quality of the loan portfolio, which also includes internal ratings. These latter are calculated using differentiated models, estimated specifically by customer segment (large corporate, mid corporate plus, mid corporate, small business and private customers).

The rating, together with other parameters underlying the Risk Weighted Assets (RWA) calculation, contributes to the resolution of the competent decision-making body for the approval of loans, and helps guide the decisions of loan managers when classifying positions based on their performance.

Rating plays a key role in loan granting, monitoring and management. When specific cases occur, the Rating Desk organisational unit must examine the positions and decide whether to change the rating ("override" process).

As to the internal lending limits of Banco BPM Group, in addition to the compliance with risk concentration limits defined by supervisory regulations, whenever a pre-set loan threshold is exceeded in case of major customers, the Group Credit Function must approve maximum ceiling or the Parent Company's competent boards must express their decision thereon.

The Parent Company also decides the Country classification and the Group's maximum exposure level for each Country.

The credit risk estimate models are developed under the responsibility of the Risk Models & Methodologies unit. Amongst these, in particular, the following rating models were authorised in 2012, for the use for prudential supervisory purposes until 31 December 2017 (for further details relating to rating models and their scope of application for reporting purposes, please refer to the "Capital Adequacy" and "Credit risk - IRB" sections below):

- five rating models, used to estimate the Probability of Default (PD), respectively of the segmented Business counterparties ("first acceptance" and monitoring): Large Corporate, Mid Corporate Plus, Mid Corporate, Small Business and Private customers ("rating model" segmentation);
- two Loss Given Default (LGD) models, for estimating the loss rate in the event of default of the Corporate and Private counterparties respectively for the different statuses (performing and non-performing).

Following acceptance of the "model change" application made by the former Banco Popolare in May 2015, ECB authorised the Group to make the requested model changes, incorporating a series of temporary prudential measures into the calculation of non-performing RWAs, of non-performing expected losses and on the retail EAD. These measures would have expired after authorisation to use the new A-IRB models for retail EAD, LGD defaulted assets and ELBE. Starting from the reporting of 31 March 2017, and for all of 2017, the following prudential measures (add-ons) were therefore made operational:

- application of a credit conversion factor of 100% for IRB Retail exposures:
- calculation of non-performing IRB RWAs through application of a regulatory formula;
- obligation of a floor for non-performing expected credit loss corresponding to 45% of gross exposures.

On 16 February 2018 Banco BPM S.p.A. received authorisation to use internal models to calculate capital requirements for the post-merger Banco BPM portfolio. This authorisation includes, in addition to the updated PD model, a new EAD retail model, and the ELBE and

LGD Defaulted Asset model. Following the authorisation, Banco BPM must use the Add-ons (LGD parameter multipliers) until all the findings outlined by ECB in the authorisation letter have been resolved.

These models have been used to calculate capital requirements starting from the reports issued on 31 March 2018.

March 2021 saw the conclusion of the IMI-4141 inspection process, launched in the final quarter of 2019, aimed at validating the new PD, LGD and EAD models. For the EAD, in particular, a new corporate customer model was introduced.

The models in production also include the effects of the new definition of default in relation to the entry into force of the relevant EBA guideline (EBA/GL/2016/07) and the notification to the Bank of the Final Decision relating to the inspection (IMI-4738).

For more details, please refer to the section on the Capital Requirements.

Lastly, in 2021, BBPM launched the Next Application A-IRB 2021 (NAA-2021), as part of the alignment of the current credit risk models with the EBA Guidelines on the development of PD and LGD models (EBA/GL/2017/16), estimation of downturn (EBA/GL/2019/03, EBA/RTS/2018/04) and Credit Risk Mitigation techniques (EBA/GL/2020/05). The inspection phase relating to this model change started in February 2022 and concluded with the exit meeting on 20 September. On 15 December 2023, BBPM received the Final Decision from the Regulator. The transition to production of the new A-IRB NAA-2021 framework is scheduled for regulatory reporting on 31 March 2023.

In May 2023 the Bank started the formal authorisation request process for the use of the Slotting Criteria on Specialised Lending exposures (as per the provision of Article 147-8 of REGULATION (EU) No. 575/2013). The inspection process ended in the fourth quarter of 2023; the Final Decision should be received by the second quarter of 2024.

During 2023, the Bank launched a project to redevelop the A-IRB EAD model, with the aim of adapting it to the current regulations deriving from Basel III finalised and the ECB guidelines (ECB guide to internal models). This initiative will lead to an A-IRB model change application being sent to the Regulator in the first quarter of 2024.

The Risk Models & Methodologies organisational unit has also developed additional models to estimate risk factors (PD, LGD and EAD) used solely for management purposes.

The credit risk parameters (PD, LGD and EAD), determined using internal models, are used in management reports. Credit risk monitoring at the portfolio level is done through the use of a VaR statistical risk estimate model, belonging to the category of "default models", applied on a monthly basis to the credit exposures of the Group's banks. The model used makes it possible to estimate economic capital against credit risk, taking into account portfolio concentration, and with a hypothesis of joint non-compliance by counterparties, under a pre-established situation of significant macroeconomic variables. The confidence interval used is 99.9% and the reference time horizon is one year.

In particular, the operating capital absorbed by counterparties is determined using a "Monte Carlo" approach that simulates a sufficiently high number of scenarios to provide a good empirical approximation of the theoretical distribution of loan portfolio losses in an adverse context.

For residual exposures (e.g., securitisations, other assets, exposures to governments, etc.) excluded from the perimeter of the portfolio model, the economic capital is calculated by using supervisory regulatory metrics (Standard/IRB) with the addition of the granularity adjustment to take into account the concentration risk.

Finally, the portfolio model is periodically stress tested to verify how sensitive the credit risk of the Group portfolio is to extreme changes (albeit plausible) of one (sensitivity analysis) or more (scenario analysis - historic and hypothetical) economic and financial factors.

With regard to the measurement of Counterparty Risk specifically, please refer to the qualitative disclosure in the section on that topic.

Main management and control structures

The Parent Company's Credit Function defines credit rules which must be followed by the companies in the Group and formulates, in line with the economic strategies and objectives approved by the Parent Company Board of Directors, the relative credit policies with the aim of guiding the overall size, classification and diversification of the Group's loan portfolio, with the goal of minimising the cost of credit. The Credit Function is also responsible for monitoring and managing the Group's problematic credit portfolio. In particular, the Default Monitoring and Prevention unit supports the commercial network in the proactive management of customers with signs of deteriorating trends, identifying needs and sharing the most appropriate credit interventions.

For "large customers" of the Group, the Function suggests reliability ceilings to be submitted for approval to the relevant decision-making bodies and expresses an obligatory but non-binding "preventive opinion" on the maximum amount of loans which can be granted to customers with exposures exceeding pre-established thresholds.

Within the Credit Function, the Rating Desk is tasked with examining and assessing possible changes to ratings on positions that could be contradictory and refers to the Risk Function for an analysis and possible measures on the rating models.

Risk Models & Methodologies involves the Credit Risk Function for the management and control of credit risk, through the following areas:

- Credit Risk Models: have the mission to develop and maintain the methods, models and metrics for the measurement of credit risks, with particular reference to the internal models for the calculation (i) of the risk factors (PD, LGD, EAD); as well as (ii) the credit risk according to a managerial approach (credit-VaR): these models are intended to (i) calculate the minimum capital requirements on an individual and consolidated basis in compliance with that authorised, from time to time, by the Supervisory Body; as well as (ii) calculate the internal capital in accordance with Pillar II of Basel II;
- Credit Risk Measurement and Control: has the task of measuring, monitoring and controlling absorption of capital against credit risk, from a regulatory (Pillar I of Basel III)

and managerial standpoint (Pillar II of Basel III), also with reference to the exposure limits defined from time to time. It also works together with the competent company structures for calculating the weighted assets for the risk for the entire loan portfolio as well as in order to estimate the Full Fair Value of performing mortgages and loans that incorporates PD and LGD risk measures.

Coverage and mitigation policies

Banco BPM Group gives particular attention to the acquisition of loan collateral and securities, i.e. the use of tools and techniques that mitigate credit risk.

When deemed necessary, the typical bank guarantees are acquired, namely mortgages on properties, collaterals on securities, guarantees with authorised entities, 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.

The system for the recording of collateral property for loan transactions, which also allows for periodically revaluing the property, has been strengthened.

The value of the real and financial guarantees is constantly and automatically monitored, so as to compare the present value of the guarantee to the initial one, and to allow the manager to act in time in case the guarantee suffers from a significant impairment loss.

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.

For more information on the management of collateral, see the "Risk Mitigation Techniques" and "Counterparty Risk" sections.

Market risk

Definition

Market risk consists in the possibility of generating fewer revenues than expected, impairment in balance sheet items or capital losses on financial positions held, due to sharp adverse changes in market conditions and, specifically, in interest rates, share prices, exchange rates, prices of commodities and the associated volatilities and correlations (general risk), or due to events that may impair the issuer's repayment capacity (specific risk).

Risk management strategies and processes

With regard to trading books, market risks stemming from the commercial activities performed by Group banks are systematically transferred over to the subsidiary Banca Akros. The commercial banks hold only residual positions as compared to the above books, for specific needs and purposes of individual banks or those directly linked to commercial activity.

The organisational model adopted by Banco BPM Group for trading books is based on the centralisation:

- of Treasury positions in the Parent Company's Finance function in charge of coordinating the management of short-term liquidity and interest rate risk and exchange risk positions within the Group, and of managing the Proprietary portfolio to optimise its overall risk/return profile, by diversifying risks across different asset classes of financial instruments;
- in the subsidiary Banca Akros of the risk positions and the operating flows associated with securities, currency, OTC derivative trading and other financial assets.

Structures and organisations involved in risk management.

Control of financial risk management, with the aim of identifying the type of risks, defining and implementing the risk measurement methods and controlling limits at strategic level is centralised within the Risk Function for the main Group companies.

For the identification, measurement, management and operating control of the risk positions of the Banks of the Group, the Group's Finance function and Banca Akros make use of position-keeping and risk control systems that provides a constant control over exposure levels and over the accurate verification of compliance with the operating limits defined by the Corporate Bodies.

In case of financial instruments with very complex and innovative structures, these models are complemented by pricing and sensitivity measurement models developed internally, that consider product characteristics and the dynamics of the underlying market variables. For each new pricing model, or any changes in models already in place, validation tests are carried out by the Risk Function.

This consists in the verification and validation of the pricing model being analysed, so it can be used in Front Office systems and to control and measure risks.

The quality of a model is subsequently verified on a continuous basis, through appropriate revision of models.

The sale of each new product and its inclusion on the product catalogue are systematically preceded by an in-depth analysis of the measures required to ensure correct product management in terms of accounting, laws/regulations, settlement, pricing and risk management.

These activities are coordinated by a specific Product Innovation Committee, composed of the managers of the main structures involved.

The Committee assesses and analyses observations made by individual operating and governing structures and, if necessary, deals with issues identified. It approves proposals for new products, possibly formulating its comments and/or operating instructions by drawing up a specific document, accounting to a predefined template, which becomes the "product information sheet" setting forth all the features of the new products and the certification of the effective examination and assessment of related risks.

Measurement method

Generic and specific risk on the trading book is monitored on a daily basis using deterministic indicators, such as risk exposure, sensitivity, and probabilistic indicators as well as Value at Risk (VaR).

In particular, these indicators are considered the most appropriate instruments to ensure an effective and precise measurement and control of market risks generated by exposures to complex derivatives, also from a regulatory standpoint.

Value at Risk (VaR) is a synthetic measurement of risk, expressing the maximum potential loss caused by market changes under normal conditions. The methods used to calculate VaR are part of the class of historic simulation VaR models. Historical simulation is a method used to construct the distribution of probability for a risk factor, based on past changes in the same. No hypotheses are adopted regarding the type of distribution for the factor, but a (discrete) distribution is generated starting from the current value of the factor and assuming changes (generally logarithmic) identical to those seen in the historical series. Another significant characteristic of the model adopted is "full joint evaluation" of transactions. Each transaction is repriced with the market parameters obtained through application of the historical scenarios for each of the past days. These parameters are jointly changed, in this way capturing the effects of interactions between them when measuring financial instruments.

In order to gauge the risk deriving from the credit component implicit in bond positions, credit derivatives and bond futures, the VAR method based on historic simulation implemented also includes the credit spread risk factor.

The risk estimate is made with a confidence level of 99% and a time horizon of one day. The observation period is 250 days. The correlations used are those implicit in historical scenarios applied to estimate the empirical distribution of values in the trading book. Operational risk is defined as the maximum between those calculated with equally weighted scenarios and those calculated giving greater weight to more recent scenarios, through the use of a lambda decay factor of 0.99.

In order to verify overall capital adequacy, the Risk Function also takes a monthly measurement of market risk with a confidence level of 99.90% and a time horizon of 10 business days for VaR and VaR in stressed conditions, and of 12 months for the measurement of Incremental Risk Charge, as well as considering a residual risk component not covered by existing models if material (Risk Not In Model Engine). In addition, at operational level and for the purposes of assessing capital adequacy with a view to the second pillar, an indicator is also used consisting of the operational Var operational, with a confidence level of 99% and a time horizon of 10 days, and the Incremental Default Risk (IDR), with a confidence level of 99.9% and a time horizon of 12 months.

The terms Incremental Risk Charge (IRC) or Incremental Default Risk mean the indicators that measure the default and migration risk component (IRC) or just the default risk (IDR) of the bond portfolio with respect to the current value of the securities. More specifically, the risk in question is measured by means of a model that estimates, using a Monte Carlo simulation, the value of the issuers and, if these surpass specific thresholds, this will result in a migration to other rating classes or a default.

The reference aggregate for calculating the VaR and the IRC is represented by the trading book; as regards the VaR measurement, the exchange rate risk component of the banking book, recently introduced in the scope of the internal model, is also included.

The VaR model currently in use entirely covers generic and exchange rate risks and specific risk, both for debt securities and equity securities. The risk factors considered are interest rate, stock market, exchange rate and credit spread. Correlation and dividend risks are also included in the measurement of operational VaR.

To estimate the component of issuer risk implicit in positions in bonds in the banking book, the VaR method relating only to the credit spread risk component, associated with Incremental Default Risk, is used at management level and for the purpose of assessing capital adequacy with a view to Pillar II, associated with Incremental Default Risk, as regard the non-HTC perimeter (non-Held to Collect); instead, as regards the HTC perimeter, the reference measurement is the IRC.

VaR reports are prepared, through which monitoring is ensured at Group level, at single bank level, by organisational unit, and by trading book. Said reports are sent to the Bank Head Offices, the Finance Function and to Internal Audit.

With regard to scenario analyses (“stress testing”), simulations are implemented by applying predefined shocks to the main risk factors, in order to assess the current and prospective level of capital adequacy, as required by the Basel II Pillar II regulations. The calculation methods envisage historic, scenario and discretionary stress tests.

The VaR method described above is used to measure managerial and regulatory risks, the latter from 31 December 2020. Following the request submitted in 2019 by Banco BPM Group, in the Internal Model Decision document dated 16 November 2020, the Supervisory Authority granted the authorisation to extend the Internal Model for Market Risk to the specific risk of debt securities in the trading book. In addition, starting from 17 April 2023, following the resolution of two ECB Obligations, the Group was able to extend the internal model for market risks also to the exchange rate risk of the banking book.

Therefore, from the reporting date of 30 June 2023, Banco BPM Group has used the model extended to all risks for which the application was submitted, for the calculation of the capital requirement against Market Risk. This measurement is calculated on the basis of VaR and Stressed VaR metrics – including specific risk on debt securities and foreign exchange risk in the banking book – of IRC (Incremental Risk Charge) metrics and those of the RNIME framework (Risk Not In Model Engine).

At present, this methodology is applied to Banco BPM and, up until 31 December 2023, it was applied to Banca Akros.

In fact, on 22 September 2023, the ECB authorised the demerger of Banca Akros Global Markets into Banco BPM.

The transaction takes legal effect on 1 January 2024. The target operating model envisages that the capital markets activities, which involve assuming market risk, are centralised within the Parent Company.

For each Group company that holds a trading book specific maximum daily VaR, IRC and RWA limits are defined, determined according to the metrics illustrated above.

Compliance with these limits is generally required of the Chief Executive Officers of each company and, on a top-down basis, of the specialist departments, which periodically report to their respective Board of Directors, highlighting any overruns and the actions implemented to restore normal conditions.

The Parent Company's Risk Function is in charge of monitoring compliance with these limits, which is carried out on a daily basis, promptly reporting any overruns.

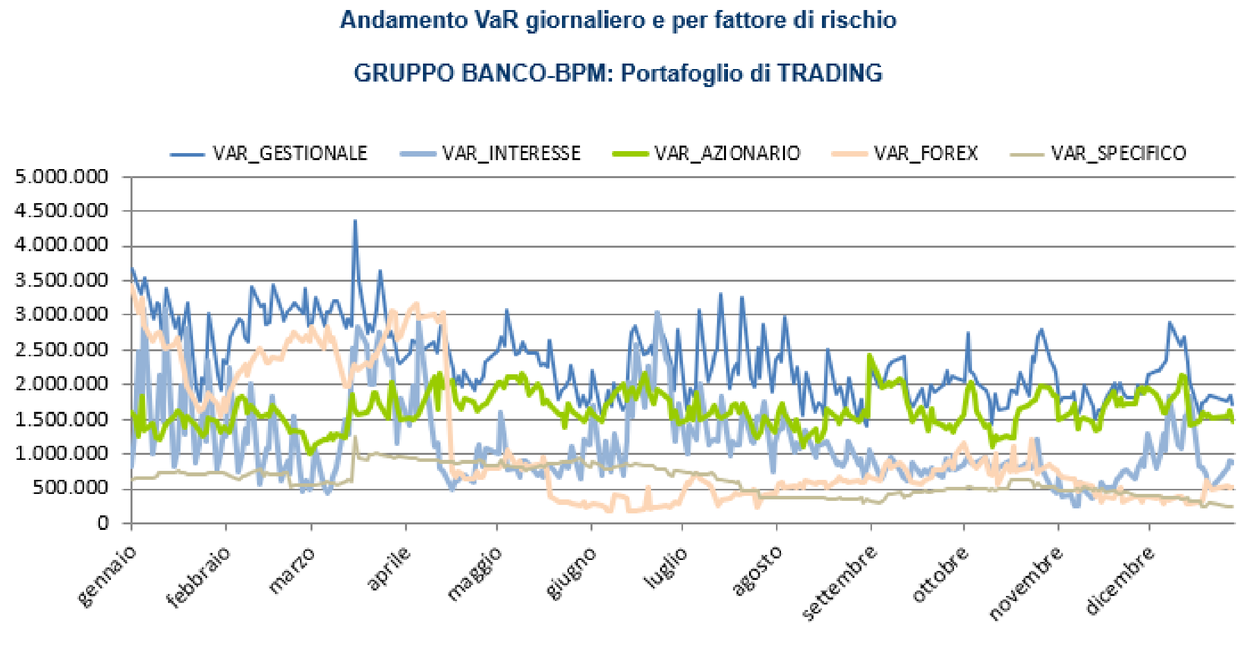
Moreover, the Risk Function notifies the companies involved and the parties in charge of risk management when 90% of the risk limits (warning level) has been reached, regarding the consequent assessments and possible corrective measures.

Development of market risk

The development of market risk assumed by the Group, measured using internal operating metrics, is summarised by the following quantitative information, which is also included in Part E of the Notes to the Consolidated Financial Statements 2023.

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 and dividend risks are also included.

The performance graph and the VaR figures (confidence level 99%, holding period 1 day) are shown below for 2023, referring to the regulatory trading book of Banco BPM Group.



Regulatory trading book *(in millions of euro)*	2023			
	29-Dec	average	maximum	minimum
Interest Rate Risk	0.874	1.133	3.081	0.251
Exchange Rate Risk	0.524	1.116	3.419	0.177
Equity Risk	1.458	1.615	2.409	1.002
Dividend and Correlation Risk	0.466	0.643	1.102	0.234
Specific Debt Securities Risk	0.250	0.619	1.261	0.250
Total uncorrelated	3.573			
Diversification effect	-1.863			
Combined risk (*)	1.710	2.328	4.358	1.391

(*) Overall operational VaR

The prevailing risk component in 2023 is that relating to equity risk (levels and volatility), followed in order of importance by interest rate risk.

The specific risk component on debt securities is low and constantly decreasing during the year.

Following 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.

With reference to the banking book, the Group also assesses the exposure to default and migration risk of the rating classes of the debt securities classified as HTC and HTCS using a method which, for HTCS, involves calculating the VaR spread to capture the Migration component and the Incremental Default Risk (IDR) to take into consideration the Default component, whereas for the HTC component a single measurement is made that jointly assesses migration and default (the IRC, Incremental Risk Charge).

Operational risk

Definition

Operational risk is the risk of suffering losses caused by inadequacy or failure attributable to procedures, human resources and internal systems, or caused by external events.

This definition does not include strategic or reputational risk, but does include legal risk, understood as the risk of infringing laws and other regulations, of failing to comply with contractual and non-contractual liabilities, as well as other disputes that may arise with counterparties in the course of business activities.

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 when not adequately structured and monitored, the excessive concentration of the number of suppliers, changes in strategies, incorrect personnel management and training policies and finally social and environmental impacts.

Risk management model and organisational structure

Also, in compliance with the relevant regulations, Banco BPM 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, who 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 a specific Group Regulation approved by the Corporate Bodies.

The quantitative assessment is based on internal loss data, gathered through a loss collection process and combined with external loss data pertaining to the Italian banking scenario (inbound flows of the DIPO consortium, set up by the major Italian Banking Groups within the ABI - Italian Banking Association), and on data deriving from the Risk Self Assessment, in which also qualitative information resulting from the ongoing assessment of the internal and external operational context are used.

Reporting system

Banco BPM Group has a reporting process which envisages:

- a management information system, with quarterly analyses and assessments of all significant issues concerning operational risk (in particular, material losses and the associated recoveries, based on historical or income statement data, the overall assessment of the risk profile, capital absorption, the outcome of risk self-assessment processes and the monitoring and assessment of the operating environment and the risk management and mitigation policies implemented and/or planned);
- an operational reporting system, which is also quarterly, understood as a tool for the operating structures that take part in loss collection processes, useful for adequate risk assessment and management in the related specific areas.

The Group pursues an objective to continuously develop the risk management framework in accordance with the objectives of the Strategic Plan, best practices in the industry and regulatory changes.

In 2023, the following activities are worth a specific mention:

- constant rationalisation and continuing streamlining of the processes for the collection of internal loss data of the Commercial Network and the Central Headquarters, also via adaptation of the IT infrastructure, as well as relying on the training/informational support provided by the ORM oversight bodies (central and local) to the staff responsible for surveying operating losses;
- constant enhancement and development of active risk management processes (monitoring, reporting and mitigation);
- definition, implementation and monitoring of specific operational risk indicators within the RAF (Risk Appetite Framework) system adopted by the Group;

- implementation of processes aimed at considering the climate & environmental components of ESG factors in the operational risk management model;
- monitoring and assessment of the Group's outsourcing initiatives;
- constant focus on and adequate monitoring of all aspects related to cyber risk, in consideration of the external importance of these issues, as confirmed by the inclusion of an outlook indicator within the RAF framework mentioned above;
- continuous strengthening of the IT architecture, which implemented the integration of all operating loss data archiving and processing functions, with application tools that enable the structures responsible for risk management to actually carry out use tests.

Concentration risk

Concentration risk derives from credit exposures to counterparties, groups of counterparties that are connected to one another or belong to the same economic sector or carry out the same business or belong to the same geographical area.

Concentration risk is monitored and managed at centralised Group level, by the Credit Function, which covers the role of guiding the lending activities and credit policies for the Group banks and companies. Specifically, it formulates lending policy strategies regarding the composition of the Group loan portfolio, also in terms of maximum exposure for each significant aspect, such as geographical area, industry, counterparty type, etc.

For large customers, the Credit Function specifically assesses the reliability of the counterparties and monitors the credit lines granted. It also analyses the overall and organic structure of the loan portfolio and its composition/diversification. Lastly, it periodically produces reports highlighting exposures relative to main customers.

Concentration risk is quantified by the Risk Function, specifically as part of the models used to estimate credit risk in the performing portfolio of resident counterparties, with specific reports included in the vertical reporting of reference.

Interest rate risk on the banking book

The interest rate risk relating to the Group's banking book mainly derives from the process of transforming maturities (see the "Interest rate risk on positions in the banking book" section, which should be referenced for more details on the nature of the risk, the management strategies and the measurement methods used by the Group).

An organisational model has been adopted by the Group for risk management and control which involves the centralisation of the activities in specific structures specially delegated by the subsidiaries. Specifically:

- interest rate risk management is performed by a specific structure of the Parent Company's Finance function;
- risk measurement and control are assigned to the Parent Company's Risk Models & Methodologies unit.

In particular, as part of the monitoring of interest rate risk, the risk measures used internally and included in the RAF are:

- the change in 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 of spot interest rate curves of +/- 200 basis points; 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.

The bodies of the Parent Company are required to comply with these limits. They periodically report to the Board of Directors, highlighting any overruns and the consequent actions implemented to restore normal conditions.

Compliance with the limits is monitored by the Risk Models & Methodologies unit of the Parent Company, which reports any overruns to the parties delegated to manage them.

In accordance with standard management practices and with internal and external regulations, Banco BPM also conducted periodic stress testing, applying shocks, parallel or not parallel, to the curves of the currency rates utilised in the banking book. Furthermore, within the risk self-assessment process, the impact of historic and hypothetical scenarios (specific stress) is assessed, processed according to a method-based approach which takes into account the specific features of this risk, as well as a scenario common to all the risks (joint stress).

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: funding and liquidity 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 due to the inability to raise funds without compromising its core business activities and/or its financial situation; 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.

Risk management model

Banco BPM Group had adopted internal policies and procedures with a view to stabilising the governance, management and control of liquidity and funding risk, and the Internal Liquidity Adequacy Assessment Process. The policies adopted seek to:

- pursue the sound and prudent management of liquidity in accordance with the legislation in force and with the risk-return objectives approved in the Group's Risk Appetite Framework;
- ensure that the Group operates with stable levels of liquidity and collections that are adequate to cover current payment commitments, planned and unplanned future

commitments, and to fund the Group's banking business with stability.

Liquidity risk management and control policies are regulated in a specific internal Regulation, approved by the Management Bodies, which establishes the roles and responsibilities of corporate bodies and functions, the approaches and the metrics to identify and measure the risk, the guidelines for stress testing and the Liquidity Contingency Plan (LCP), namely a plan of countermeasures that can be activated in the event of internal or external liquidity pressure for the Group.

Liquidity risk is continuously managed and monitored as part of the Internal Liquidity Adequacy Assessment Process (ILAAP), which is the process adopted by the Group to identify, measure, monitor, mitigate and report its liquidity and funding risk profile from an operational perspective.

As part of this process, the Group also conducts an annual self-assessment as to the adequacy of the risk profile and of the overall framework to manage and measure liquidity risk with regard to governance, approaches, IT, measurement tools and reporting. This self-assessment is a fundamental aspect of the process to ensure the continuous internal improvement of liquidity risk supervision.

The results of the internal adequacy assessment are reported to the Corporate bodies and sent for information purposes to the Supervisory Authority.

Liquidity governance is centralised within the Parent Company, which also plays the role of lender of the last instance for the subsidiaries.

Reporting and monitoring system

The Group measures and monitors exposure to liquidity and funding risk with regard to the current and future risk profile, in normal conditions and in stressed conditions.

More specifically, the Group uses a monitoring system that includes both short-term liquidity indicators (a time horizon from intraday to twelve months) and medium/long-term ones (beyond twelve months). To this end, regulatory metrics are also used (regulatory schedule that includes LCR, NSFR, ALMM) and metrics developed internally (internal schedule that includes survival period, gap ratio, indicators of funding concentration and the level of commitment of the assets). These latter metrics include the use of models to estimate behavioural parameters and/or optional parameters specific to the characteristics of Banco BPM Group, with a view to integrating the regulatory metrics in terms of frequency or the scope of the analysis.

Liquidity risk monitoring and control is conducted on a daily basis (short-term liquidity) and a monthly basis (medium/long-term liquidity). The objective is to monitor changes in the risk profile, verifying its adequacy with respect to the Risk Appetite Framework and the operating limits envisaged. Stress testing is conducted on a monthly basis, in order to test the Group's resilience to unfavourable scenarios, while the liquidity estimates that may be generated with countermeasures (known as the action plan, an integral part of the Liquidity Contingency Plan) that may be adopted in the event of a stress scenario are updated on a quarterly basis.

The Group also has a reporting system to provide the Bodies, Committees and relevant corporate functions with results from monitoring activities, guaranteeing prompt reporting with regard to the Group's exposure to liquidity and funding risk.

Risk deriving from securitisations.

Risk that a securitisation transaction carried out or structured by Banco BPM, as Originator, does not fully reflect the risk assessment and measurement decisions in line with the Group's policies; this risk is not applicable to self-securitisation transactions or to assets transferred but not derecognised for accounting purposes, in which there is no transfer of credit risk.

The Group Finance Function is also in charge of monitoring those elements which could generate unexpected negative impacts on profit for the year, such as portfolio selection and definition of transaction structures, and review of legal documentation, including contractual and tort clauses.

More details regarding the treatment of this risk are provided in the specific section of this Disclosure to the public.

Equity investment risk

This is the risk resulting from changes in the value of interests held in the banking book due to market volatility or the status of the issuer.

Risk governance is performed with regard to financial instruments representing equity securities in the banking book, and stock investments made by the Group consolidated in equity. Absorbed capital is quantified using a VaR methodology (variance/covariance approach) instead of the standard regulatory approach.

Strategic risk

This is the current and future risk associated with a potential fluctuation of profits or of capital due to an inadequate market positioning or flawed managerial decision making. More specifically, it represents the risk that the competitive/strategic positioning choices do not produce the expected results, penalising the achievement of short and medium to long-term economic and capital objectives, or even provoking unwanted decreases in profitability levels and capital soundness. In this view, strategic risk related to the possibility of failure of company projects, which results in disruption to bank management and inertia when faced with unforeseen market dynamics. The risk in question is evaluated through an assessment process that combines a mix of quantitative and management techniques, according to an earnings at risk and risk scoring approach.

Reputational risk

This is the risk associated with a negative perception of the bank's image by its customers, shareholders, investors, financial analysts and the Supervisory Authorities, which could have a negative influence on the bank's ability to maintain or develop new business opportunities or to continue to have access to funding.

In addition to internal regulations, which govern general conduct for all Group employees, the various corporate functions monitor this risk, for the purpose of controlling quality and customer satisfaction objectives, managing complaints submitted by customers, managing relations with shareholders, and overseeing relations with financial analysts and institutional investors.

This type of risk is subject to managerial assessment carried through a specific internal assessment process that allows simultaneous verification of the Group's reputational position and quantification of a specific measure of economic capital. It also considers the Web Sentiment Reputation component in order to increase the accuracy and timeliness of the overall monitoring of reputational risk.

Real estate risk

This is the current and future risk resulting from changes in the value of the properties held by the Group caused by fluctuations in the Italian real estate market.

Operationally, the Risk Function estimates the economic capital in the presence of this risk by means of a Value at Risk (variance/covariance approach) statistical method with a confidence interval of 99.9% and a one-year time horizon, applied to the market value of the properties owned by the Group (including that purchased under financial lease).

This method is applied with reference to non-operating assets; instead the standard regulatory approach is used for the other types.

Risk of excessive financial leverage

This is the risk that a particularly high level of debt with respect to own funds could make the Bank vulnerable, requiring it to take corrective measures in its business plan, including selling assets at a loss, which could require recognising value adjustments on other assets as well.

Pension risk

This is the risk that, with regard to pension funds, the contributions paid/allocated are not sufficient to cover the guaranteed defined benefit as a result of unexpected demographic changes and/or there is an insufficient return on the assets in which the contributions have been invested, resulting in additional costs for the bank.

ICT risk

This is the risk of financial, reputational and market share losses due to the use of information and communication technology (ICT).

Cyber and security risk

This represents the risk of incurring financial, reputational and market share losses due to cyber and security measures.

Compliance risk

Bank of Italy Circular 285/2013 defines the risk of non-compliance with regulations as the risk of incurring legal or administrative sanctions, significant financial losses or reputational damage as a result of the violation of binding rules (laws, regulations) or self-regulatory systems (e.g., Articles of Association, codes of conduct, codes of corporate governance).

In this sense, the Compliance Function oversees the risk of failure to comply with regulations governing all company activities.

The Compliance Function directly carries out all the tasks assigned by the Supervisory Provisions with specific reference to the regulatory areas considered to be of greater importance or for which centralised management of compliance risk is deemed necessary, i.e. the rules concerning the exercise of banking and brokerage activities, management of conflicts of interest, transparency to customers and, more generally, consumer protection regulations, it being understood that compliance risk monitoring refers to all provisions applicable to the bank.

For certain regulatory provisions, in any case relevant for compliance risk purposes that do not fall within the scope of activities directly assigned to the Compliance Function, specific forms of Specialist Control Unit are envisaged with the necessary expertise. In fact, on adoption of a tiered compliance model, the Compliance Function - based on an adequacy assessment of the specialist controls for managing compliance risk profiles - is responsible (in collaboration with the delegated specialist functions) for at least: i) defining the methodologies for assessing compliance risk; ii) identifying the related procedures; iii) verifying the adequacy of the procedures to prevent compliance risk.

Therefore, the Function coordinates the Compliance initiatives and verifies their effective application by the specialist control units, which submit suitable information flows.

For the areas directly supervised by other second-level Control Functions, the compliance risk management model is implemented by these Functions, limited to the aspects falling under their specific responsibilities.

In 2023, the Compliance Function of Banco BPM progressively extended its methodological and operating model to the Compliance Function of BBPM Vita (a company that joined the Group in the second half of 2022), in order to ensure an integrated control model.

In addition to the implementation of coordination mechanisms between the two Functions through specific information flows formalised in the Group policy and in a specific collaboration protocol, with BBPM Vita's participation in the Regulatory Services of the external provider Accenture (RegHUB), during the reference year, the use of the Insurance platform supported the integrated Rulemap model for the definition of the regulatory taxonomy applicable to the Company, based on the taxonomy in use in the Parent Company.

This activity allowed the identification, measurement, assessment and representation of the risks of non-compliance with the regulations to which BBPM Vita is exposed.

In 2023, the Compliance Function managed compliance risk through: (i) in-depth knowledge of the relevant legislation and of the relative changes over time; (ii) the consequent prior identification of potential compliance risks that the Group could be exposed to; (iii) proposing and analysing compliance monitoring to implement in order to avoid that the risk could develop into an infringement; (iv) the management of gaps encountered in ex-post audits and of the relative mitigation measures, in accordance with the provisions of external regulations and internal company rules.

In particular, the Function was committed to continuously identifying applicable regulations and assessing their impact on company processes, models and procedures, to analysing the existence and completeness of monitoring/controls covering the various compliance risks, to providing compliance consulting, carrying out the compliance audit of internal regulations in the issue process, as well as verifying the effective application of internal rules and the effectiveness of monitoring/controls adopted to mitigate non-compliance situations.

In application of the annual or specific plan required by the Corporate Bodies or the Supervisory Authorities, the Function conducted compliance checks to evaluate the existence and adequacy of governance, organisation, control and IT measures of the Group, their strength and effectiveness in mitigating compliance risks, and the compliance of the operating practices and conduct of employees or workers, reporting any situations of non-compliance and identifying possible remediation actions, monitoring their implementation.

The Compliance Function also provided advice and assistance to the Banking Group's corporate units on topics where compliance risk is important, particularly prior to the issue of internal regulations and sales proposals. The Function also provided its assistance in conducting personnel training courses, in order to disseminate and promote within the Banking Group a solid and robust risk management culture, adequate knowledge of the regulations and the relative responsibilities, as well as ensure full awareness of the supporting instruments and procedures in the fulfilment of obligations.

Among the most significant activities that involved the Compliance Function in 2023, we draw attention to specific company projects aimed at strengthening and streamlining the operations linked to the checks carried out by the Compliance Function through remote indicators (known as "Key Risk Indicators" or "KRIs"), in order to improve the ongoing monitoring of certain issues of particular importance.

Model risk

This represents the risk that the model used in a measurement process or which strategic decisions are based on gives an erroneous output due to an erroneous specification, flawed processing or the improper use of the model.

Execution risk

Losses due to shortcomings in the settlement of transactions or in process management, as well as losses due to relations with commercial counterparties, sales agents and suppliers.

Regulatory risk

This is the risk resulting from current regulatory developments which could influence the pursuit of the strategies identified by the Group.

Concentration of risks

This represents the risk that the exposure towards a single counterparty may lead to different types of risk at the same time.

Conduct risk

This risk is included in operational risk. This is defined as the current and future risk of losses caused by the inadequacy of the financial services provided, including the risk of misconduct and incorrect treatment of customers.

Tax risk

This is the risk of operating in violation of tax regulations or contrary to the principles or purposes of the tax system.

Outsourcing risk

This is the risk that derives from outsourcing/service contracts with partners outside the Group.

Insurance risks

Represent the following risks:

- of the **life insurance portfolio** related to underwriting risks of a biometric nature (risks of uncertainty of assumptions in the valuation of insurance liabilities) and operational risks (risks of uncertainty of the amount of expenses and the exercise of contractual options by policyholders).

- of the **non-life business insurance portfolio** relating to 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.

Financial risks deriving from the investment of premiums collected and other risks of the insurance business (e.g., operational, liquidity) are also included.

With reference to **climate risk**, defined as the set of potential direct and indirect impacts related to climate change issues, this factor is included and considered within the scope of the individual specific types of risk examined (credit, market, liquidity, reputational, strategic, operational, etc.).

Stress testing

Banco BPM Group has implemented a detailed stress testing framework, meaning the set of quantitative and qualitative techniques used by the bank to assess its vulnerability to exceptional, but plausible events. As part of the framework, guidelines have also been established regarding the application of stress scenarios as well as the roles and responsibilities of the company functions and the Corporate Bodies.

The framework for long-term forecasting and for stress testing adopted by Banco BPM therefore represents a coordinated set of methods, processes, controls and procedures that establish the main variables to use for forecasting purposes for estimates in ordinary and adverse conditions, with a view to both planning and risk management processes and regulatory, operational and accounting purposes. Therefore, it integrates the tools and processes able to verify the Group's ability to generate value both over an annual (viability) and multi-year (sustainability) horizon.

The stress test exercises allow the Group to assess its future exposure to risks and, consequently, to verify the potential impacts in economic and financial terms. The objective is, therefore, to identify possible vulnerabilities of the Group and to be able to take appropriate managerial actions that make it possible to deal with adverse, but plausible, events.

The Scenario Council, set up in 2019, is tasked with confirming or proposing a review of the scenarios used in Group processes, in light of external events or the Bank's specific vulnerabilities, also taking account of any considerations from top management deriving, for example, from substantial changes in the risk and profitability estimates, changes in the market or reference context, the introduction of new regulatory standards or specific indications of the Supervisory Authority, also identifying the related processes impacted and assessing their potential update. The updates of macroeconomic scenarios made by different external providers are examined continuously, at least on a quarterly basis, assessing on each occasion whether to transpose them into the related strategic processes.

To better enhance and structure the activity performed by the Scenario Council, from 2021, the Bank has defined a framework to update the macroeconomic scenarios, also supported by the definition of a method to identify materiality triggers for scenario changes, which if surpassed require the Scenario Council to be convened for an in-depth analysis of the scenarios that originated said overruns and a technical assessment of their adoption in the Bank's strategic processes.

In 2023, the Scenario Council met 10 times, to continuously assess the changes in the external macroeconomic scenario and the impacts on the Bank's strategic and management processes.

Consistent with the aims of analysis and the principle of proportionality, the Group periodically performs stress tests with specific objectives associated with the main company processes, specifically:

- Risk Identification, as regards defining the materiality of risks, which is verified under ordinary and stressed conditions;
- Drafting the Risk Appetite Framework (RAF);

- Strategic and operational planning;
- Quantifying operational limits in stress scenarios (where envisaged);
- Calculation of IFRS 9 ECL;
- *Internal Capital Adequacy Assessment Process (ICAAP);*
- *Internal Liquidity Adequacy Assessment Process (ILAAP);*
- *Liquidity Contingency Plan;*
- *Recovery Plan*.

Vertical stress tests are also included in these tests and conducted at the portfolio and individual risk level, based on sensitivity or scenario analyses, also aimed at identifying potential concentrations of risks.

Specific stress tests are also conducted for management and regulatory purposes. Known as Supervisory Stress Tests, they are conducted in accordance with the timescales dictated regularly by the Supervisory Authority.

The Group uses these tools to support other risk management and measurement techniques, with a view to:

- providing a forward-looking vision of risk, of the relative economic and financial impacts, evaluating the overall solidity of the Bank in the event that adverse scenarios or alternative ones with respect to those of reference occur, therefore providing support to the preparation of the budget and of the business plan;
- contributing to the most important planning and risk management processes, as regards setting RAF thresholds and establishing the Group's risk/return objectives;
- assessing the development of risk mitigation and recovery plans in certain stressed situations. In fact, the stress tests are used to establish specific internal trigger thresholds, which once reached trigger the resolution plans as envisaged by the BRRD (Bank Recovery and Resolution Directive) regarding the prevention and management of banking and investment company crises.

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 were published by the EBA at the end of July 2023.

In the second half of the year, the Bank started preparatory activities for the performance of:

i. the first Cyber Resilience Stress Test exercise conducted under the guidance of the ECB, launched on 2 January 2024. The exercise is designed as a "learning experience" for both banks and the ECB and does not envisage any impact on capital or liquidity. The exercise, managed centrally by the Enterprise Risk Management function, envisages the crossdepartmental collaboration of numerous company functions, in particular the IT and Logical and Physical Security teams. The result for the year will be announced in July 2024;

ii. the first "Fit-for-55 climate risk scenario analysis" exercise, conducted under the guidance of the EBA, with the collaboration of the ECB, launched in December 2023. The exercise is part of the new mandates received by the EBA as part of the renewed sustainable finance strategy of the European Commission, which seeks to assess the resilience of the banking sector in line with the "Fit for 55" package and to acquire information on its ability to support the transition to a low-carbon economy under stress conditions. To this end, the EBA has therefore launched a data collection with the ECB of the starting points as at 31/12/22 of the climate data of EU banks, which will be included in the banking sector module of the One-off Fit-for-55 climate risk scenario analysis. The results for the banking sector module will be obtained using the ECB's top-down climate risk stress test models. Therefore, no projections are envisaged by the banks. The results and any follow-up dialogue will constitute inputs, via qualitative scores, for the SREP requirements of the following year. There will be no implications on the Pillar II Guidance (P2G) requirement.

Information flows on risks (Risk area)

The Risk Function generates the following documentation regarding risk information flows.

Integrated risk disclosure:

- RAF monitoring report (known as Risk Appetite Monitoring);
- ICAAP reporting and ILAAP reporting;
- Related Parties and Large Exposures Report;
- Report on Most Significant Transactions (MST) and Significant Transactions (ST);
- *Benchmarking risk areas (regulatory view)*.

Specific individual risk disclosure:

- Reporting on credit risk, with detailed analysis of the performing and non-performing AIRB portfolio, progress relative to the findings issued by the Supervisory Authorities and Control Functions, methodological developments and the roll-out plan;
- Reporting on market risk, with analysis of stop-loss, VaR and IRC limit monitoring for the trading and banking books, monitoring of sensitivity limits, stress tests and backtesting; reporting on Group exposure to financial risks and the use of limits and any exceeding of managerial limits;
- Reporting on liquidity risk, containing monitoring of short-term liquidity with LCRs, operating liquidity, medium/long-term liquidity monitoring with the NSFR, and the result of stress tests, also with reference to the survival period and adequacy of action plans established in the Liquidity Contingency Plan (LCP);
- Interest rate reporting relating to monitoring the risk of impairment losses and the net interest income of the banking book;

- Operational risk reporting with analyses of the capital requirement according to the regulatory approach, final risk evaluation, thanks to the pervasive loss collection process, risk monitoring activities (continuous assessment), evidence of the RSA (risk self-assessment) process and the potential impact on risk in relation to new products/markets;

The table below summarises the main information flows to the Governance Bodies of the Parent Company Banco BPM and to the main Committees that develop the risk management policy.

Information flow name
Report on the activities performed by the Risk Function
Activity plan
RAF Guidelines
Risk Appetite Framework and relative system of operating limits
RAF indicators risk profile monitoring report (known as Fast Risk Appetite Monitoring and full RAM)
Report on the outcome of the Risk Identification process
ICAAP and ILAAP Frameworks
ICAAP Package and ILAAP Package, including the Reports of the control functions and the applicable stress testing scenarios and the relative outcomes
ICAAP and ILAAP interim monitoring
Risk Opinion credit / capital plan / other areas
Positioning of risk areas - regulatory view
Regulatory stress test disclosures
Disclosure to the Public (Pillar III)
Model for Disclosure to the Public (Pillar III)
Annual Insurance Plan
Renewal of main policies and claims performance
Monitoring and periodic disclosure relating to Covered Bond programmes
Report on the order routing and execution strategy
Operational and security risk analysis in payment services report
Report on investment service activities
Summary report on the ICT risk and security situation
Report on second-level controls on Data Quality
Report on compliance with GL BCBS 239 Data quality
Report on Second-Level Controls on IT Risk
Report on second-level controls on credit
Disclosure on the assessment of the Most Significant Transactions (MST) and Significant Transactions (ST)
Report on monitoring limits on exposure to Related Parties and Large Exposures
Pre-application/application requests and ex-ante/ex post notifications to be sent to the ECB regarding the internal models used in the regulatory sphere
Report on interest rates, liquidity, market and monitoring of limits
Report on market risk stress tests
Report on operational risks
Credit risk report
Certification of Minimum requirements internal models validated

It should also be noted that the Risk Function produces ad hoc reports on processes/assessments at the specific request of the Supervisory Authority, Corporate Bodies or Manager of FAC.

As already stated in the introduction, the Group regulates the principles, criteria, roles and responsibilities regarding the control system through a specific regulation known as the "Integrated Internal Control System Regulation" which also contains the list of information flows addressed to the corporate bodies and control functions as well as the related frequency of preparation.

Information flows on risks (Compliance area)

As established in the Information Flow Model annexed to the "Integrated Control System Regulation", the Compliance Function reports its activities to the Corporate Bodies of the Parent Company and Subsidiaries, as well as to the other control functions through specific event or periodic information flows.

With reference to periodic reporting, the Compliance Function submits to the Corporate Bodies of the Parent Company and Subsidiary Banks, in particular:

- the Activity Plan (both annual, with at least half-yearly review, and long-term) which describes the scheduled activities, identifying the main risks to which Banco BPM and the Group Companies are exposed and the related audit measures;
- the Periodic Summary of the activities performed, which on a quarterly basis provides, at Group level and for each company, a summary overview of the main activities performed by the Compliance Function and any requests for analysis/investigation made by the Supervisory Authority, as well as measurement of the residual risk for all areas directly supervised or in those for which forms of Specialist Control Unit are envisaged, by assessing the effectiveness of controls to mitigate the intrinsic risk, indicating the risks detected, the audits performed, any weaknesses that emerged and action to be taken to remove any gaps found;
- the Report on the activities performed, including the SCI assessment (at the end of the management cycle), which communicates the audits conducted, the results that have emerged, any weaknesses detected and the proposed interventions for their removal;
- the Annual Report on complaints received, out-of-court banking and financial mediation, and on the adequacy of procedures and organisational solutions adopted (Bank of Italy Provisions on transparency of banking and financial transactions and services);
- the Report on investment services and activities pursuant to Article 89 of the Intermediaries Regulation as adopted with Consob Resolution no. 20307 of 15 February 2018 and updated with Resolution no. 22430 of 28 July 2022;
- the Report on the adequacy and functionality of the organisational controls for the performance of Euronext Growth Advisory activities - former "Nomad".

Adequacy of risk management measures

Following the merger on 1 January 2017, Banco BPM Group has acted to rationalise, harmonise and improve the tools, methods, processes and IT systems of the two former banks in compliance with Prudential Supervisory provisions (CRR Regulation, CRD4 Directive, Circular 285, as amended), beginning a multitude of projects over time aimed at improving its risk management and control system.

The risk management and control tools (models and controls) used were found to be suited to measuring and mitigating the risks to which the Group is exposed, also in the future and in stressed conditions.

Measurement models are periodically submitted to Internal Validation and Internal Audit. Risk measurement methodologies have been brought to the attention of the competent Corporate Bodies - the Board of Directors, the Risk Committee and the Board of Statutory Auditors. In addition, the breadth and detail of the ICAAP and ILAAP and the complexity/granularity of the Risk Appetite Framework make it possible to cover all risk governance areas.

Measurement, monitoring and reporting to the Control Bodies are carried out periodically to guarantee rapid and effective risk management.

Consistency between the overall risk profile and business strategies

Banco BPM Group operates in such a way as to guarantee full integration between strategic/operational planning and the risk management system.

More specifically, as regards "Regulation for ICAAP" and "Regulation for liquidity risk, funding risk and ILAAP", a connection has been established between the annual budget processes and the preparation of the strategic plan and the processes to prepare ICAAP and ILAAP Reports, regulating and illustrating, also through the exchange of specific information flows, the collaboration and coordination between the Risk Function and the Planning and Control Function. In the same way, the roles and collaborative activities amongst the above-mentioned Functions are defined within the "Risk Appetite Framework (RAF) Regulation" in order to define, update, verify and manage the Group's Risk Appetite Framework.

During 2023, the sustainability of the Group's long-term projections was verified within the ICAAP. The capital adequacy assessments were conducted on a baseline and stressed prospective basis.

The process, documented within company regulations, requires the application of a "baseline" and various alternative "stress" scenarios by the Studies and Research function (Planning and Control Function).

The prospective internal capital is calculated for each risk, and compliance with the RAF thresholds in force at that date is checked. The management body of Banco BPM Group also certifies, pursuant to Article 435(1), point e) of the CRR Regulation, that the risk management systems put in place are aligned with the profile and strategy of the entity.

This declaration is included at the end of this document together with the certifications from the Financial Reporting Manager (declaration of conformity with accounting records) and the Chief Executive Officer (regulatory and organisational consistency).

Scope of application

Name of the bank to which the disclosure requirements apply

Banco BPM Società per Azioni, Parent Company of the "Banco BPM Banking Group".

Change in the scope of consolidation

Changes in the scope of consolidation compared to the situation as at 31 December 2022 are shown in the tables below:

Fully consolidated companies	
Incoming companies due to incorporation or acquisition of control	
Vera Vita S.p.A.	100.00%
BBPM Life Dac	100.00%
Banco BPM Invest SGR S.p.A.	100.00%
Outgoing company due to liquidation	
Consorzio AT01	95.00%
Outgoing company due to loss of control and transfer to the segment of companies carried at equity	
Banco BPM Assicurazioni S.p.A.	100.00%

Companies consolidated with the equity method	
Incoming company due to loss of control and transfer from the segment of the companies consolidated line-by-line	
Banco BPM Assicurazioni S.p.A.	35.00%
Outgoing company due to liquidation	
Bussentina S.c.a.r.l.	20.00%
Outgoing company due to acquisition of control and transfer to the segment of the companies consolidated on a line-by-line basis	
Vera Vita S.p.A.	35.00%

Template EU LI3: Outline of the differences in the scopes of consolidation (entity by entity)

Name of the entity:	Method of accounting consolidation: line-by-line	Method of accounting consolidation: equity	Method of regulatory consolidation: line-by-line	Method of regulatory consolidation: Proportional consolidation	Method of regulatory consolidation: Neither consolidated nor deducted	Method of regulatory consolidation: Deducted	Description of the entity: Sector	Description of the entity: Registered office	Description of the entity: Country
Agos Ducato S.p.A.		X				X	Consumer credit companies	Milan	ITALY
Agriurbe S.r.l. (in liquidation)	X				X		Production companies	Milan	ITALY
Alba Leasing S.p.A.		X				X	Leasing companies	Milan	ITALY
Aletti & C. Banca di Investimento Mobiliare S.p.A.	X		X				Banking system	Milan	ITALY
Aletti Fiduciaria S.p.A.	X		X				Trust administration companies	Milan	ITALY
Anima Holding S.p.A.		X				X	Asset management	Milan	ITALY
Aosta Factor S.p.A.		X				X	Factoring companies	Aosta	ITALY
Banca Akros S.p.A.	X		X				Banking system	Milan	ITALY
Banca Aletti & C. (Suisse) S.A.	X		X				Banking system in non-EU countries	Lugano	SWITZERLAND
Banco BPM S.p.A.	X		X				Banking system	Milan	ITALY
Banco BPM Assicurazioni S.p.A.		X			X		Insurance companies	Milan	ITALY
Banco BPM Invest SGR S.p.A.	X					X	Fund management companies	Milan	ITALY
Banco BPM Vita S.p.A.	X				X		Insurance companies	Milan	ITALY
BBPM Life Dac	X				X		Insurance companies	Dublin	IRELAND
Bipielle Bank (Suisse) S.A. in liquidation	X		X				Banking system in non-EU countries	Lugano	SWITZERLAND
BP Covered Bond S.r.l.	X		X				Covered bond issuing companies	Milan	ITALY
BP Mortgages S.r.l.	X				X		Other financial intermediaries	Milan	ITALY
BPL Mortgages S.r.l.	X				X		Other financial intermediaries	Conegliano V. (TV)	ITALY
BPM Covered Bond 2 S.r.l.	X		X				Covered bond issuing companies	Rome	ITALY
BPM Covered Bond S.r.l.	X		X				Covered bond issuing companies	Rome	ITALY
BRF Property S.p.A.	X				X		Production companies	Parma	ITALY
Calliope Finance S.r.l. in liquidation		X			X		Other financial intermediaries	Milan	ITALY
Gardant Liberty Servicing S.p.A.		X			X		Production companies	Rome	ITALY
Etica SGR S.p.A.		X				X	Fund management companies	Milan	ITALY
GE.SE.SO. S.r.l. *	X				X		Production companies	Milan	ITALY
GEMA Magazzini Generali BPV-BSGSP S.p.A.		X			X		Production companies	Castelnovo Sotto (RE)	ITALY

Name of the entity:	Method of accounting consolidation:		Method of regulatory consolidation:				Description of the entity:		
	line-by-line	equity	line-by-line	Proportional consolidation	Neither consolidated nor deducted	Deducted	Sector	Registered office	Country
Lido dei Coralli S.r.l.	X				X		Production companies	Sassari	ITALY
P.M.G. S.r.l. (in liquidation)	X				X		Production companies	Milan	ITALY
Partecipazioni Italiane S.p.A. (in liquidation)	X				X		Other financial companies	Milan	ITALY
Oaklins Italy S.r.l. *	X					X	Other financial companies	Milan	ITALY
Profamily SPV S.r.l.	X				X		Other financial intermediaries	Conegliano V. (TV)	ITALY
S.E.T.A. Società Edilizia Tavazzano S.r.l. (in liquidation)		X			X		Production companies	Milan	ITALY
Sagim S.r.l. Società Agricola	X				X		Production companies	Asciano	ITALY
Selma Bipiemme Leasing S.p.A.		X				X	Financial companies	Milan	ITALY
Sirio Immobiliare S.r.l.	X				X		Production companies	Lodi	ITALY
Tecmarket Servizi S.p.A.	X				X		Production companies	Verona	ITALY
Terme Ioniche S.r.l.	X				X		Production companies	Lodi	ITALY
Terme Ioniche Società Agricola S.r.l.	X				X		Production companies	Cosenza	ITALY
Vera Assicurazioni S.p.A.		X			X		Insurance companies	Verona	ITALY
Vera Vita S.p.A.	X				X		Insurance companies	Verona	ITALY
Vorvel SIM S.p.A. **		X				X	Investment companies (SIM)	Milan	ITALY

* Companies not included in the prudential consolidation pursuant to article 19(1) of Regulation (EU) no. 575/2013.
** By means of a press release dated 14.12.2022, HI-MTF SIM S.p.A. changed its name to Vorvel SIM S.p.A.

The companies that are neither consolidated nor deducted are considered in the calculation of risk-weighted assets.

Current or foreseeable legal or substantive impediments to the prompt transfer of capital or funds within the banking group

There are no restrictions that impede the prompt transfer of capital or funds within the Group.

Aggregate amount by which actual own funds fail to meet requirements for all affiliates not included in the consolidation scope and names of such affiliates

As at 31 December 2023, the affiliates excluded in the scope of consolidation are not entities required to meet the own funds requirements set forth in Regulation (EU) 575/2013 or Directive 2013/36/EU.

Name of the subsidiaries not included in the prudential scope of consolidation

Please see table EU LI3 in the previous section for the list of companies included in the scope of consolidation for the purpose of drafting the financial statements but excluded from the prudential scope of consolidation.

EU LI1 Model: differences between the area of accounting consolidation and that of prudential consolidation and association of balance sheet categories with regulatory risk categories (1 of 2)

	a	b	c	d	e	f	g
			Book values of the elements				
	Book values shown in the published financial statements	Book values as part of prudential consolidation	subject to the framework relating to credit risk	subject to the framework relating to CCR	subject to the framework relating to the securitisation	subject to the framework relating to market risk	not subject to own fund requirements or subject to deduction from own funds
Assets							
10. Cash and cash equivalents	18,297,496	18,183,723	18,183,723	-	-	-	-
20. Financial assets at fair value through profit and loss	12,767,534	6,400,707	2,041,059	1,951,493	5,348	4,342,738	11,562
20.a Financial assets held for trading	4,354,003	4,342,738	-	1,951,493	-	4,342,738	-
20.b Financial assets designated at fair value	-	-	-	-		-	-
20.c Other financial assets mandatorily measured at fair value	8,413,531	2,057,969	2,041,059	-	5,348	-	11,562
30. Financial assets measured at fair value through other comprehensive income	19,679,644	10,692,718	10,692,718	-	-	-	-
40. Financial assets at amortised cost	135,192,553	135,471,692	120,743,210	5,949,389	8,738,177	-	40,916
40.a Due from Banks	5,926,109	5,926,062	5,127,687	798,375	-	-	-
40.b Loans to Customers	129,266,444	129,545,630	115,615,523	5,151,014	8,738,177	-	40,916
50. Hedging derivatives	980,017	979,916	-	979,916	-	-	-
60. Fair value change of financial assets in macro fair value hedge portfolios	-68,964	-68,964	-	-68,964	-	-	-
70. Interests in associates and joint ventures	1,454,249	2,202,290	1,731,539	-	-	-	470,751
80. Technical reserves of reinsurers	37,124	-	-	-	-	-	-
90. Property, plant and equipment	2,857,953	2,810,750	2,810,750	-	-	-	1,028,016
100. Intangible assets	1,257,425	1,204,258	176,242	-	-	-	1,028,016
110. Tax assets	4,384,485	4,058,185	2,791,975	-	-	-	1,266,210
110.a Current tax assets	351,374	269,046	269,046	-	-	-	-
110.b Deferred tax assets	4,033,111	3,789,139	2,522,929	-	-	-	1,266,210
120. Assets associated with CGUs held for sale	468,685	454,089	454,089	-	-	-	-
130. Other assets	5,007,103	4,756,564	4,756,564				
Total assets	**202,315,304**	**187,145,928**	**164,381,869**	**8,811,834**	**8,743,525**	**4,342,738**	**2,817,455**

EU LI1 Model: differences between the area of accounting consolidation and that of prudential consolidation and association of balance sheet categories with regulatory risk categories (2 of 2)

	a	b	c	d	e	f	g
	Book values shown in the published financial statements	Book values as part of prudential consolidation	Book values of the elements				
			subject to the framework relating to credit risk	subject to the framework relating to CCR	subject to the framework relating to the securitisation	subject to the framework relating to market risk	not subject to own fund requirements or subject to deduction from own funds
Liabilities							
10. Financial liabilities at amortised cost	143,185,876	143,530,096	-	5,057,998	-	-	119,266,970
10.a Due to banks	21,765,750	21,703,917	-	3,767,949	-	-	17,935,968
10.b Due to customers	102,530,321	102,621,051	-	1,290,049	-	-	101,331,002
10.c Securities outstanding	18,889,805	19,205,128	-	-	-	-	19,205,128
20. Financial liabilities held for trading	20,894,156	20,933,217	-	19,299,694	-	20,933,217	1,633,523
30. Financial liabilities designated at fair value	6,580,165	3,780,044	-	-	-	-	3,780,044
40. Hedging derivatives	1,041,678	1,041,678	-	1,041,678	-	-	-
50. Adjustment of financial liabilities in macro fair value hedge portfolios	-710,938	-710,938	-	-	-	-	-710,938
60. Tax liabilities	637,260	282,414	-	-	-	-	282,414
60.a Current	63,342	3,488	-	-	-	-	3,488
60.b Deferred	573,918	278,926	-	-	-	-	278,926
70. Liabilities associated with CGUs held for sale	212,011	204,318	-	-	-	-	204,318
80. Other liabilities	3,302,454	3,157,593	-	-	-	-	3,157,593
90. Provisions for employee severance pay	246,192	243,865	-	-	-	-	243,865
100. Provisions for risks and charges	648,649	653,147	-	-	-	-	653,147
110. Technical reserves	12,239,641	-	-	-	-	-	-
120. Valuation reserves	-276,378	-276,378	-	-	-	-	-
130. Redeemable shares	-	-	-	-	-	-	-
140. Equity instruments	1,465,843	1,465,843	-	-	-	-	-
150. Reserves	4,507,110	4,483,988	-	-	-	-	-
170. Share capital	7,100,000	7,100,000	-	-	-	-	-
180. Own shares (-)	-22,936	-22,936	-	-	-	-	-
200. Profit/Loss for the year	1,264,453	1,279,969	-	-	-	-	-
190. Minority interests (+/-)	68	8	-	-	-	-	-
Total liabilities	**202,315,304**	**187,145,928**	**-**	**25,399,370**	**-**	**20,933,217**	**128,510,936**

The breakdown of values from column b) into columns c) through f) was done using the following approach:

- for asset items, based on the type of risk to which each item may be subject;
- for liability items, considering the amount of the liabilities included when calculating risk-weighted exposures.

The sum of the values indicated in columns c) through g) may be greater than the amount in column b) in that certain elements are subject to multiple types of risk.

Model EU LI2: main sources of differences between amounts of exposures determined for regulatory purposes and book values.

The following table shows the reconciliation between the book values and the values of exposures considered in the calculation of credit risk, counterparty risk and the risk associated with securitisation transactions for prudential purposes.

		a	b	c	d	e
			Exposures subject to			
		Total	the framework relating to credit risk	the framework relating to the CCR	the framework relating to the securitisation	the framework relating to market risk
1	**Book value of the assets as part of prudential consolidation (as in LI1 model)**	181,937,228	164,381,869	8,811,834	8,743,525	4,342,738
2	**Book value of the liabilities as part of prudential consolidation (as in LI1 model)**	25,399,370	-	25,399,370	-	20,933,217
3	**Total net amount as part of prudential consolidation**	**156,537,858**	**164,381,869**	**(16,587,536**	**8,743,525**	**(16,590,479)**
4	**Off-balance-sheet amounts**	**62,403,406**	**62,403,406**	**-**	**-**	
5	*Valuation differences*	(27,327)	(27,327)			
6	*Differences due to different netting rules from those already included in line 2*	82,367,043	-	82,367,043	-	
7	*Differences due to treatment of value adjustments*	1,880,417	1,880,417	-	-	
8	*Differences due to the use of credit risk mitigation techniques (CRM)*	(64,828,807)	(1,386,600)	(62,083,675)	(1,358,532)	
9	*Differences due to credit conversion factors*	(40,769,289)	(40,769,289)	-	-	
10	*Differences due to securitisation with transfer of risk*	-	-	-	-	
11	*Reclassification of initial margins and variation margins included in counterparty risk*	-	(481,630)	481,630	-	
11	*Other differences*	230,866	107,972	50,630	72,264	
12	**Amounts of exposures considered for regulatory purposes**	**197,794,167**	**186,108,817**	**4,228,093**	**7,457,257**	**1,452,718**

Reconciliation between the regulatory scope and the financial statements scope as at 31 December 2023

Reclassified asset items(in thousand euro)	Banking Group	Insurance companies	Other businesses	Consolidation adjustments	31/12/2023
Cash and cash equivalents	18,183,723	55,630	313,265	(255,122)	18,297,496
Loans at AC	109,852,479		1,669,167	(1,953,287)	109,568,359
- Loans to banks	4,141,593		1,669,167	(1,669,130)	4,141,630
- Loans to customers	105,710,886			(284,157)	105,426,729
Other financial assets	43,692,554		2,461	11,366	43,706,381
- Measured at FVTPL	7,380,623			11,366	7,391,989
- Measured at FVOCI	10,692,718				10,692,718
- Measured at AC	25,619,213		2,461		25,621,674
Financial assets pertaining to insurance companies		15,748,391		(403,383)	15,345,008
Interests in associates and joint ventures	2,202,290	611,759	11,283	(1,371,083)	1,454,249
Property, plant and equipment	2,810,750	6,289	44,295	(3,381)	2,857,953
Intangible assets	1,204,258	447	1	52,719	1,257,425
Tax assets	4,058,185	137,122	8,083	(2,236)	4,201,154
Non-current assets and disposal groups held for sale	454,089		29,591	(14,995)	468,685
Other asset items	4,687,600	318,845	8,106	(39,288)	4,975,263
Total assets	**187,145,928**	**16,878,483**	**2,086,252**	**(3,978,690)**	**202,131,973**

Reclassified liability items(in thousand euro)	Banking Group	Insurance companies	Other businesses	Consolidation adjustments	31/12/2023
Direct funding	121,179,035		1,975,486	(2,384,457)	120,770,064
- Due to customers	101,955,612			(93,648)	101,861,964
- Securities and financial liabilities designated at fair value	19,223,423		1,975,486	(2,290,809)	18,908,100
Direct funding from insurance business and insurance liabilities:		15,142,231		(102,469)	15,039,762
- financial liabilities pertaining to insurance companies measured at fair value		2,800,121			2,800,121
- insurance liabilities		12,342,110		(102,469)	12,239,641
Due to banks	21,698,583		66,530	(74,340)	21,690,773
Lease payables	670,773				670,773
Other financial liabilities measured at FV	25,736,644			(39,061)	25,697,583
Other financial liabilities pertaining to insurance companies		221,507		(148,946)	72,561
Liability provisions	897,012	4,243	5,061	(11,475)	894,841
Tax liabilities	282,414	117,341	3,553	50,621	453,929
Liabilities associated with assets classified as held for sale	204,318		13,331	(5.638)	212,011
Other liability items	2,446,655	169,818	10,191	(35,148)	2,591,516
Total liabilities	173,115,434	15,655,140	2,074,152	(2,750,913)	188,093,813
Non-controlling interests	8			60	68
Group shareholders' equity	14,030,486	1,223,343	12,100	(1,227,837)	14,038,092
Consolidated shareholders' equity	14,030,494	1,223,343	12,100	(1,227,777)	14,038,160
Total liabilities and shareholders' equity	**187,145,928**	**16,878,483**	**2,086,252**	**3,978,690**	**202,131,973**

Details of the balance sheet assets of companies consolidated line-by-line for financial statements purposes that are excluded from the scope of prudential consolidation

	Company name (Insurance companies)	Total assets as at 31/12/2023
1	Banco BPM Vita S.p.A.	6,827,158
2	BBPM Life DAC	2,499,969
3	Vera Vita S.p.A.	7,551,356
		18,878,483

	Company name (Other businesses)	Total assets as at 31/12/2023
1	Agriurbe S.r.l. in liquidation	11,295
2	Banco BPM Invest SGR S.p.A.	2,516
2	BRF Property S.p.A.	14,043
3	Ge.Se.So. S.r.l.	1,464
4	Lido dei Coralli S.r.l.	13,447
5	Oaklins Italy S.r.l.	3,113
6	Partecipazioni Italiane S.p.A. in liquidation	3,538
7	P.M.G. S.r.l. in liquidation	3,134
8	Sagim S.r.l. Società Agricola	13,234
9	Sirio Immobiliare S.r.l.	14,952
10	Tecmarket Servizi S.p.A.	19,621
11	Terme Ioniche S.r.l.	8,404
12	Terme Ioniche Società Agricola S.r.l.	665
13	BP Mortgages S.r.l.	91
14	BP Mortgages 2007-2	228
15	BPL Mortgages S.r.l.	79
16	BPL Mortgages 5	1,075,907
17	BPL Mortgages 8	743,042
18	Profamily SPV S.r.l.	157,479
		2,086,252

Own Funds

Template EU CCA: main features of regulatory own funds instruments and eligible liabilities instruments

The tables on the features of equity instruments are uploaded in editable format (Excel) on the Group's institutional website.

The template provides a description of instruments issued by the entity and eligible for calculation in:

- Common Equity Tier 1 Capital;
- Additional Tier 1 Capital;
- Tier 2 Capital.

Amounts are shown in millions of euro.

Composition of own funds

The tables of own funds (Regulatory Capital) and risk assets are presented below, calculated in accordance with the rules stated in the introduction.

The breakdown of own funds as at 31 December 2023 is also presented. This uses the template for the publication of information on own funds, in accordance with Annex VII of Implementing Regulation (EU) no. 637 of 15 March 2021, compiled according to the pertinent instructions in Annex VIII.

Template EU CC1: composition of regulatory own funds

		31/12/2023	
		a)	b)
		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Equity instruments and related share premium accounts	7,100,000	EU CC2 - SHAREHOLDERS' EQUITY 170
	Of which ordinary shares	7,100,000	EU CC2 - SHAREHOLDERS' EQUITY 170
	Of which instrument type 2		
	Of which instrument type 3		
2	Retained earnings	-	
3	Accumulated other comprehensive income (and other reserves)	4,207,610	EU CC2 - SHAREHOLDERS' EQUITY 120 + EU CC2 - SHAREHOLDERS' EQUITY 150
EU-3a	Funds for general banking risks	-	
4	Amount of qualifying items referred to in Article 484(3) CRR and the related share premium reserves subject to phase out from CET1	-	
5	Non-controlling interests (amount allowed in consolidated CET1)	-	
EU-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	427,467	EU CC2 - SHAREHOLDERS' EQUITY 200.1
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**11,735,077**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(27,327)	
8	Intangible assets (net of related tax liability) (negative amount)	(965,911)	EU CC2 - ASSETS 70.2 + EU CC2 - ASSETS 100.1 and 100.3 + EU CC2 - LIABILITIES 60 b.1
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38(3) CRR are met) (negative amount)	(815,273)	EU CC2 - ASSETS 110 b.1/1
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not measured at fair value	16,098	EU CC2 - SHAREHOLDERS' EQUITY 150.1
12	Negative amounts resulting from the calculation of expected loss amounts	-	
13	Any increase in equity that results from securitised assets (negative amount)	-	
14	Gains or losses on liabilities measured at fair value resulting from changes in own credit standing	60,643	EU CC2 - SHAREHOLDERS' EQUITY 120.1 for 43.1 million euro (17.5 million euro in Income Statement)
15	Defined-benefit pension fund assets (negative amount)	-	

		31/12/2023	
		a)	b)
		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
16	Direct, indirect and synthetic holdings by the institution of own CET1 instruments (negative amount)	(22,936)	EU CC2 - SHAREHOLDERS' EQUITY 180
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to artificially inflate the own funds of the institution (negative amount)	-	
18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions) (negative amount)	-	
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	(131,887)	EU CC2 - ASSETS 70.1/1
EU-20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	(27,008)	
EU-20b	Of which: qualifying holdings outside the financial sector (negative amount)	-	
EU-20c	Of which: securitisation positions (negative amount)	(27,008)	
EU-20d	Of which: free deliveries (negative amount)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liabilities where the conditions in Article 38(3) CRR are met) (negative amount)	-	
22	Amount exceeding the 17.65% threshold (negative amount)	(550,672)	
23	Of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	(282,312)	EU CC2 - ASSETS 70.1/2
25	Of which: deferred tax assets arising from temporary differences	(268,360)	EU CC2 - ASSETS 110 b.1/2
EU-25a	Losses for the current financial year (negative amount)	-	
EU-25b	Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)	-	
27	Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)	-	
27a	Other regulatory adjustments	(235,285)	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1) capital**	**(2,699,558)**	
29	**Common Equity Tier 1 (CET1) capital**	**9,035,519**	
	Additional Tier 1 (AT1) capital: instruments		
30	Equity instruments and related share premium accounts	1,389,670	EU CC2 - SHAREHOLDERS' EQUITY 140
31	Of which: classified as equity under applicable accounting standards	1,389,670	EU CC2 - SHAREHOLDERS' EQUITY 140

		31/12/2023	
		a)	b)
		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
32	Of which: classified as liabilities under applicable accounting standards	-	
33	Amount of qualifying items referred to in Article 484(4) CRR and the related share premium accounts subject to phase out from AT1	-	
EU-33a	Amount of qualifying items referred to in Article 494a(1) CRR subject to phase out from AT1	-	
EU-33b	Amount of qualifying items referred to in Article 494b(1) CRR subject to phase out from AT1	-	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including non-controlling interests not included in row 5) issued by subsidiaries and held by third parties	-	
35	of which: instruments issued by subsidiaries, subject to phase out	-	
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**1,389,670**	
	Additional Tier 1 (AT1) capital: regulatory adjustments		
37	Direct, indirect and synthetic holdings by an institution of own AT1 instruments (negative amount)	-	
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)	-	
42a	Other regulatory adjustments to AT1 capital	-	
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**-**	
44	**Additional Tier 1 (AT1) capital**	**1,389,670**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**10,425,189**	
	Tier 2 (T2) capital: instruments		
46	Equity instruments and related share premium accounts	1,894,504	EU CC2 - LIABILITIES 10.1
47	Amount of qualifying items referred to in Article 484(5) CRR and the related share premium accounts subject to phase out from T2 as described in Article 486(4) CRR	-	
EU-47a	Amount of qualifying items referred to in Article 494a(2) CRR subject to phase out from T2	-	
EU-47b	Amount of qualifying items referred to in Article 494b(2) CRR subject to phase out from T2	-	
48	Qualifying own funds instruments included in consolidated T2 capital (including non-controlling interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	
49	of which: instruments issued by subsidiaries, subject to phase out	-	
50	Credit risk adjustments	70,670	
51	**Tier 2 (T2) capital before regulatory adjustments**	**1,965,174**	
	Tier 2 (T2) Capital: regulatory adjustments		

		31/12/2023	
		a)	b)
		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
52	Direct, indirect and synthetic holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	
53	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
55	Direct, indirect and synthetic holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	(194,940)	EU CC2 - ASSETS 40.1
EU-56a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)	-	
EU-56b	Other regulatory adjustments to T2 capital	(70,670)	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**(265,611)**	
58	**Tier 2 (T2) capital**	**1,699,564**	
59	**Total Capital (TC = T1 + T2)**	**12,124,752**	
60	**Total risk-weighted exposure amount**	**63,823,093**	
	Capital ratios and requirements, including capital buffers		
61	Common Equity Tier 1 capital	14.16%	
62	Tier 1 Capital	16.34%	
63	Total capital	19.00%	
64	Institution CET1 overall capital requirements	8.74%	
65	Of which capital conservation buffer requirement	2.50%	
66	Of which countercyclical buffer requirement	0.045%	
67	Of which systemic risk buffer requirement	-	
EU-67a	Of which Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) capital buffer requirement	0.25%	
EU-67b	Of which additional own funds requirements to address risks other than the risk of excessive leverage	1.45%	
68	**Common Equity Tier 1 (as a percentage of risk exposure amount) available after meeting the minimum capital requirements**	**8.21%**	
	Amounts below the thresholds for deduction (before risk weighting)		
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	324,860	EU CC2 - ASSETS 20.1 + EU CC2 - ASSETS 30.1 + EU CC2 - ASSETS 40.2 + EU CC2 - LIABILITIES 20.1
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% threshold and net of eligible short positions)	713,024	EU CC2 - ASSETS 70.1/3

		31/12/2023	
		a)	b)
		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liabilities where the conditions in Article 38(3) CRR are met)	677,787	EU CC2 - ASSETS 110 b.1/3
Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to application of the cap)	-	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	70,670	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	124,533	
Equity instruments subject to phase out arrangements (only applicable between 1 January 2014 and 1 January 2022)			
80	Current cap on CET1 instruments subject to phase out arrangements	-	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	
82	Current cap on AT1 instruments subject to phase out arrangements	-	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	
84	Current cap on T2 instruments subject to phase out arrangements	-	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	

Transitional arrangements applied by Banco BPM to calculate own funds up to 31 December 2022

Transitional arrangements to mitigate the impact of the introduction of IFRS 9 on own funds.

Banco BPM had exercised the option for full application of the transitional arrangements envisaged in Article 473a of Regulation (EU) 575/2013, which allowed the impact on own funds resulting from application of the new impairment model introduced by accounting standard IFRS 9 to be deferred over time. The aforementioned transitional arrangements envisaged the option of including a positive transitional component in Common Equity Tier 1 equivalent to a percentage share of the increase in provisions for expected credit losses deriving from the application of IFRS 9. This percentage share decreased over five years, from 2018 to 2022. The percentage applicable to the final period - from 1 January 2022 to 31 December 2022 - was 25%.

From 1 January 2023 the impact of first-time adoption of IFRS 9 is fully recognised in the calculation of own funds.

Transitional arrangements to mitigate the impact on own funds of unrealised gains and losses resulting from the valuation of financial assets measured at fair value through other comprehensive income.

From 30 June to 31 December 2022, Banco BPM made use of the option allowing application of the transitional arrangements envisaged in Article 468 of Regulation (EU) no. 575/2013, as amended by Regulation (EU) 2020/873 ("CRR Quick-fix").

On the basis of these arrangements, from 1 January to 31 December 2022 entities could exclude a portion corresponding to 40% of unrealised gains and losses, recognised from 31 December 2019 against the fair value measurement through other comprehensive income of debt securities issued by the central governments, regional governments, local entities referred to in Article 115(2), and public sector entities referred to in Article 116(4) of Regulation (EU) no. 575/2013, from the calculation of Own Funds.

From 1 January 2023 these transitional arrangements no longer apply.

Given the end of the transitional provisions, from 31 March 2023 the figures are "fully phased".

Template EU CC2: reconciliation of regulatory own funds to the balance sheet in the audited financial statements

	a	b	c
	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	As at period end	As at period end	
Assets			
10. Cash and cash equivalents	18,297,496	18,183,723	
20. Financial assets at fair value through profit and loss	12,767,534	6,400,707	
20.1 of which: direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		243,468	EU CC1 72
30. Financial assets measured at fair value through other comprehensive income	19,679,644	10,692,718	
30.1 of which: direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		62,365	EU CC1 72
40. Financial assets at amortised cost	135,192,553	135,471,692	
40.1 of which: direct, indirect and synthetic holdings of T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities		194,940	EU CC1 55
40.2 of which: direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		24,791	EU CC1 72
50. Hedging derivatives	980,017	979,916	
60. Fair value change of financial assets in macro fair value hedge portfolios (+/-)	-68,964	-68,964	
70. Interests in associates and joint ventures	1,454,249	2,202,290	
70.1 Interests in associates and joint ventures - significant influence - measured at equity	1,418,687	2,145,738	
70.1/1 of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)		131,887	EU CC1 19
70.1/2 of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount exceeding the 17.65% threshold)		282,312	EU CC1 23
70.1/3 of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below the 17.65% threshold and net of eligible short positions)		713,024	EU CC1 73
70.2 Interests in associates and joint ventures measured at equity, positive differences in shareholders' equity	35,562	56,552	EU CC1 8
80. Technical reserves of reinsurers	37,124	-	
90. Property, plant and equipment	2,857,953	2,810,750	
100. Intangible assets	1,257,425	1,204,258	

100.1 Goodwill	56,709	42,968	EU CC1 8
100.2 Other intangible assets	1,200,716	1,161,290	
100.3 of which: intangible assets deducted from own funds		985,048	EU CC1 8
110. Tax assets	4,201,154	4,058,185	
110.a current	351,374	269,046	
110.b deferred	3,849,780	3,789,139	
110.b.1 deferred - Other than It. Law 214/2011	2,004,638	1,943,997	
110.b.1/1 of which: deferred tax assets that rely on future profitability, excluding those arising from temporary differences		815,273	EU CC1 10
110.b.1/2 of which: deferred tax assets arising from temporary differences (amount exceeding the 17.65% threshold)		268,360	EU CC1 25
110.b.1/3 of which: deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability where the conditions in Article 38(3) CRR are met)		677,787	EU CC1 75
110.b.2 deferred - Pursuant to It. Law 214/2011	1,845,142	1,845,142	
120. Non-current assets and disposal groups held for sale	468,685	454,089	
130. Other assets	5,007,103	4,756,564	
Total assets	**202,131,973**	**187,145,928**	
Liabilities			
10. Financial liabilities at amortised cost	143,185,876	143,530,096	
10.1 of which: Tier 2 equity instruments and related share premium accounts		1,894,504	EU CC1 46
20. Financial liabilities held for trading	20,894,156	20,933,217	
20.1 of which: direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		5,764	EU CC1 72
30. Financial liabilities designated at fair value	6,580,165	3,780,044	
40. Hedging derivatives	1,041,678	1,041,678	
50. Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	-710,938	-710,938	
60. Tax liabilities	453,929	282,414	
60.a current	63,342	3,488	
60.b deferred	390,587	278,926	
60.b.1. of which: deferred tax liabilities on goodwill and other intangible assets already offset as lower deductions of regulatory capital		118,657	EU CC1 8
70. Liabilities associated with disposal groups held for sale	212,011	204,318	
80. Other liabilities	3,302,454	3,157,593	
90. Provisions for employee severance pay	246,192	243,865	
100. Provisions for risks and charges	648,649	653,147	
110. Insurance liabilities	12,239,641		

Total liabilities	**188,093,813**	**173,115,434**	
Shareholders' equity			
120. Valuation reserves	-276,378	-276,378	EU CC1 3
120.1 of which: gains or losses on liabilities measured at fair value resulting from changes in own credit standing		-43,107	EU CC1 14
140. Equity instruments	1,465,843	1,465,843	EU CC1 31
150. Reserves	4,507,110	4,483,988	EU CC1 3
150.1 of which: fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not measured at fair value		16,098	EU CC1 11
170. Share capital	7,100,000	7,100,000	EU CC1 1
180. Own shares (-)	-22,936	-22,936	EU CC1 16
190. Minority interests (+/-)	68	8	
200. Profit (loss) for the year	1,264,453	1,279,969	
200.1 of which: calculable profit		427,467	EU CC1 EU-5a
Total shareholders' equity	**14,038,160**	**14,030,494**	
Total liabilities	**202,131,973**	**187,145,928**	

Analysis of changes in the aggregate amount of Own Funds in the period

(in thousands of euro)	31/12/2023
Common Equity Tier 1 (CET1) capital	
Opening balance *	**8,604,413**
CET1 instruments	**(211,742)**
Increase/decrease in reserves from measurement at fair value through other comprehensive income	347,633
Profit (loss) for the period	1,279,969
Profit (loss) non-calculable	(852,502)
Increase/decrease in shareholders' equity	-
Changes in other CET1 transitional items	(918,741)
Increase/decrease in other reserves	(68,101)
Increase/decrease in non-controlling interests calculable in CET1	-
Prudential filters	**43,153**
Increase/decrease in regulatory value adjustments (prudent valuation)	18,517
Increase/decrease in gains or losses on liabilities measured at fair value resulting from changes in own credit standing	31,118
Increase/decrease in cash flow reserve	(6,482)
Deductions	**599,695**
Increase/decrease in intangible assets (net of related tax liabilities)	14,232
Increase/decrease in significant investments in CET1 instruments of financial sector entities and tax assets from temporary differences exceeding the threshold	787,700
Increase/decrease in tax assets from tax losses carried forward	5,828
Increase/decrease in non-significant investments in CET1 instruments	-
Increase/decrease in excess of expected losses with respect to value adjustments (shortfall)	11,835
Increase/decrease in exposures deducted instead of risk-weighted at 1250%	15,175
Insufficient coverage of non-performing exposures	167
Other CET1 deductions due to Article 3 CRR	(235,242)
Closing balance	**9,035,519**
Additional Tier 1 (AT1) capital	
Opening balance	**1,389,794**
AT1 instruments	**(124)**
Increase/decrease in AT1 instruments	(124)
Increase/decrease in minority interests calculable in AT1	-
Deductions	**-**
Increase/decrease in items to be deducted from AT1	-
Closing balance	**1,389,670**
Tier 2 (T2) capital	
Opening balance	**1,724,383**
T2 instruments	**70,670**
Increase/decrease in T2 instruments and subordinated liabilities	-
Decrease in T2 instruments calculable under grandfathering arrangements	
Increase/decrease in non-controlling interests calculable in T2	-
Increase/decrease in excess of value adjustments with respect to expected losses	70,670
Deductions	**(95,490)**
Increase/decrease in items to be deducted from T2	(24,819)
Other Tier 2 (T2) deductions due to Article 3 CRR	(70,670)
Closing balance	**1,699,563**
Total own funds	**12,124,752**

(*) Figure amended with respect to that contained in the published Pillar III disclosure as at 31 December 2022, for the reasons illustrated in the introductory notes of this disclosure.

Common Equity Tier 1 (CET1) posted an increase of 431.1 million euro during the year. The most significant components underlying the above net performance are as follows:

- the decrease of 918.7 million euro recorded in the item "changes in other CET1 transitional elements", following the end of application of the transitional arrangements from 1 January 2023, as illustrated in the paragraph "Transitional arrangements applied by Banco BPM to calculate own funds";

- the increase in valuation reserves of 347.6 million euro, of which 142.1 million euro deriving from the valuation of financial assets measured at fair value through other comprehensive income and 205.5 million euro from changes in other valuation reserves (mainly due to adoption of the new accounting standard IFRS 17, which required a review of the presentation criteria for insurance business in financial statements from 1 January 2023);

- the decrease in other reserves of 68.1 million euro;

- the inclusion of 427.5 million euro, corresponding to the result for the period (1,280 million euro), net of the portion proposed for distribution in the form of dividends and charitable donations (852.5 million euro);

- the positive change in prudential filters of 43.2 million euro, mainly as a result of the combined effect of the following components: i) offsetting the negative impact of changes in the fair value of financial liabilities due to changes in own credit standing (+31.1 million euro) and ii) decrease in writedowns from prudent valuation (+18.5 million euro);

- the decrease in deductions for a total of 599.7 million euro, mainly due to the 787.7 million euro reduction of significant investments in CET1 instruments of financial sector entities, and tax assets from temporary differences exceeding the thresholds, mainly deriving from the application of the "Danish compromise", authorised by the European Central Bank on 3 November 2023, which made it possible not to deduct the value of the equity investment in Banco BPM Vita from regulatory capital.

This difference was partly offset, for 235.2 million euro, by other CET1 deductions, which the Bank, in compliance with the provisions of Article 3 of Regulation (EU) no. 575/2013, voluntarily decided to consider in addition to the requirements calculated by applying the rules envisaged in this Regulation. The calculation of these additional requirements is made as part of the Bank's formal process. As at 31 December 2023, the additional requirements also[6] include the estimate of the impacts on capital levels deriving from the application of the new internal credit risk measurement model that the ECB authorised to apply starting from the first quarter of 2024.

[6] On 15 December 2023, following the validation request submitted in 2022, the ECB authorised the bank to use the new internal credit risk measurement model. The new model will actually be used from 1 January 2024 and therefore the impacts of its application will be included for the first time in the COREP report referring to 31 March 2024. Using the discretion allowed by Article 3 of Regulation no. 575/2013 (CRR), the bank anticipated the recognition of the estimate of the impacts that will derive from the application of the new model starting from the COREP report referring to 31 December 2023. To this end, the impacts were estimated by taking the exposures in place as at 30 September 2023 as reference, adjusted to take into account the synthetic securitisation completed at the end of December 2023

Additional Tier 1 (AT1) capital remains substantially aligned with respect to 31 December 2022, due to the combined effect of a new issue, made in November 2023, calculable for 298 million euro, and the repayment of a security, calculable for 298.1 million euro.

Tier 2 (T2) capital recorded a net decrease of 24.8 million euro in the period due to higher deductions, following new subscriptions of subordinated securities of other entities in the financial sector. There was also a change due to the surplus of value adjustments with respect to expected losses (excess) of 70.7 million euro, offset by the effect resulting from the voluntary deductions made within the scope of the provisions of Article 3 of EU Regulation no. 575/2013.

Template EU PV1 - prudent valuation adjustments (PVA) (1 of 2)

		a	b	c	d	e
		Risk category				
	AVA at category level	Equity instruments	Interest rates	Exchange rates	Credit	Commodities
1	Uncertainty of market prices	23,295	2,318	910	1,581	-
3	Closing costs	3,621	2,661	-	-	-
4	Concentrated positions	-	-	-	-	-
5	Early closures of positions	-	52	-	-	-
6	Model risk	-	-	-	-	-
7	Operational risk	-	3,523	-	-	-
10	Future administrative costs	-	-	-	-	-
12	**Total additional valuation adjustments (AVA)**					

Template EU PV1 - prudent valuation adjustments (PVA) (2 of 2)

		EU e1	EU e2	f	g	h
		AVA at category level - Uncertainty of the valuation		Total at category level post-diversification		
	AVA at category level	AVA for unrealised credit differentials	AVA for investment and financing costs (funding)		of which total basic approach in the trading book	of which total basic approach in the banking book
1	Uncertainty of market prices	89	6,943	17,568	12,450	5,118
3	Closing costs	754	-	3,518	2,818	700
4	Concentrated positions			-	-	-
5	Early closures of positions			52	33	19
6	Model risk	5,332	-	2,666	72	2,595
7	Operational risk			3,523	3,054	469
10	Future administrative costs			-	-	-
12	**Total additional valuation adjustments (AVA)**			**27,327**	**18,427**	**8,901**

Capital requirements

Disclosure relating to Pillar I capital adequacy

The minimum requirements established by regulations

On the basis of current prudential supervisory provisions ("Supervisory Provisions for Banks" - Bank of Italy Circular no. 285 of 17 December 2013), the minimum Total Capital Ratio is set at 10.5% (including the capital conservation buffer, which is set at 2.5% as from 2019).

In December 2023, Banco BPM informed the market that it had received a notification from the European Central Bank of the prudential SREP decision containing the outcomes of the annual Supervisory Review and Evaluation Process (SREP). Considering the analyses and evaluations performed by the Supervisory Authority, the consolidated Common Equity Tier 1 ratio requirement for 2024 is 9.07%. This requirement includes:

- the Pillar I minimum requirement of 4.5%; a Pillar II (P2R) capital requirements of 2.52%[7], which must be respected with CET1 for 1.53% (consisting of 0.27% for the "calendar provisioning shortfall" and 56.25% for the remaining 2.25%), with Tier 1 for 0.42% and with Tier 2 for 0.56%;
- a capital conservation buffer of 2.50%;
- the O-SII buffer1 equal to 0.50% of the total risk-weighted exposures[8];
- the countercyclical capital buffer of 0,40%.

The requirements for 2024 in terms of Common Equity Tier 1 ratio are shown below, compared with those for 2023:

Banco BPM Group's prudential requirements - in terms of CET1 ratio	**2024**	**2023**
Minimum Pillar I regulatory capital	4.50%	4.50%
Pillar II requirement (P2R)	1.53%	1.45%
Total SREP Capital Requirement (TSCR)	**6.03%**	**5.95%**
Capital Conservation Buffer (CCB)	2.50%	2.50%
Buffer for Other Systemically Important Institutions (O-SII)	0.50%	0.25%
Countercyclical capital buffer (CCyB)[9]	0.04%	0.01%
Overall Capital Requirement (OCR)	**9.07%**	**8.71%**

As at 31 December 2023, Banco BPM Group was in full compliance with the required regulatory thresholds.

[7] The requirement is an improvement compared to the 2.57% communicated by the Supervisory Authority for the year 2023.
[8] On 21 November 2023, the Bank of Italy confirmed Banco BPM Group as a systemically important institution (Other Systemically Important Institution, O-SII) also in 2024; taking into account the new methodology envisaged by the ECB for the assessment of the appropriateness of capital buffers, it raised the O-SII reserve to 0.50% of regulatory requirements.
[9] For 2023, calculated considering the respective requirements established by the competent national authorities for exposures as at 31 December 2022 in relation to the countries in which the Group operates. As at the date of drafting of this disclosure, the countercyclical capital buffer was 0.045% (as better described below), and consequently the Overall Capital Requirement amounted to 8.74%.

The Pillar I capital requirements of the Group

The minimum capital requirement is equal to the sum of the capital requirements prescribed against credit, counterparty, market and operational risks. These requirements, in turn, arise from the sum of the individual requirements of companies in the Group's prudential scope of consolidation, after removing the effects of intercompany transactions.

As at 31 December 2023, Banco BPM Group is authorised to use its own internal models to calculate regulatory capital absorption with reference to the following Pillar I risks:

- credit risk: the scope subject to the A-IRB approach considers the business and retail loans of Banco BPM S.p.A. covered by the advanced internal rating-based approaches. The standard regulatory approach will continue to be adopted, for prudential reasons, for loan portfolios that are not included in the A-IRB scope of validation.

  March 2021 saw the conclusion of the IMI-4141 inspection process, launched in the final quarter of 2019, aimed at validating the new PD, LGD (Performing, ELBE and Defaulted Asset) and EAD models. In compliance with the new legislative provisions and fulfilling specific ECB obligations, the new models contain significant methodological changes compared to the risk parameters used previously by the Group for Corporate and Retail customers. The new risk parameters, used in the reporting from the first quarter of 2021, envisage partial compliance with the new EBA Guidelines on the estimation of PD and LGD parameters (EBA/GL/2017/16), the downturn (EBA/GL/2019/03) and the CRM (EBA/GL/2020/05). With regard to only the EAD model, the request for validation also included a new model for Corporate customers, whose exposures were previously subject to application of the Standardised CCF method. The Final Decision relating to said inspection has enabled the application of the new models forming the object of the authorisation request starting from the reporting relating to 31 March 2021.

  In 2021, BBPM launched an important project to review the overall A-IRB system, called Next Application A-IRB 2021 (NAA-2021), with the aim of completing the process to align the current credit risk models with the regulatory requirements originating from the EBA Guidelines on the development of PD and LGD models (EBA/GL/2017/16), estimation of downturn (EBA/GL/2019/03, but also EBA/RTS/2018/04) and Credit Risk Mitigation techniques (EBA/GL/2020/05). The inspection process relating to validation of the aforementioned models (IMI-180439) began in February 2022 and concluded with the exit meeting on 20 September.

  The request was finalised in December 2023 with the receipt of the authorisation from the ECB to use the aforementioned models starting from the report referring to 31 March 2024 with limitations. The latter consist of a multiplier to be applied to the PD parameter on the basis of the risk segment (140% for exposures to Large Corporate customers, 130% for Mid Corporate Plus customers, and 105% for Private customers), two multipliers to be applied to performing LGD metrics (106.9% for loans disbursed to businesses and 108.3% for private customers) and two multipliers to be applied to the LGD ELBE and LGD defaulted asset parameters (104.3% for loans disbursed to businesses and 107.9% for private customers). It should be noted that the effects of the new modelling were prudentially included in the COREP report of December 2023, in compliance with the provisions of Article 3 of the CRR.

In addition, in May 2023, the Bank started the formal authorisation request process for the use of the Slotting Criteria on Specialised Lending exposures (as per the provision of Article 147-8 of Regulation (EU) No. 575/2013) originated and managed by structured finance. At the same time, authorisation was requested to extend standardised A-IRB models to Specialised Lending exposures originated and managed by the commercial network. The inspection process ended in the fourth quarter of 2023; the Final Decision should be received by the second quarter of 2024.

Lastly, during 2023, the Bank launched a project to redevelop the A-IRB EAD model, with the aim of adapting it to the current regulations deriving from Basel III finalised and the ECB guidelines (ECB guide to internal models). This initiative will lead to an A-IRB model change application being sent to the Regulator in the first quarter of 2024.

- market risk: the perimeter currently validated with the internal model for the calculation of the capital requirement for supervisory purposes is the generic and specific risk of equity instruments, the generic interest rate risk, the specific credit risk of debt securities and exchange rate risk for both the trading book and the bank book, while commodity risk is measured using the standard method.

With reference to operational risk, from the Reporting date of 31/12/2020, the Supervisory Authority asked the Group to fully adopt the Traditional Standardised Approach to calculate capital requirements for all companies that make up the Supervised Group, while with regard to the other qualitative-quantitative elements envisaged by Supervisory Regulations, to fulfil all of the requirements of the CRR2 for the TSA as well as those envisaged by the above-mentioned AMA in Articles 321 (points b-e) and 322 (points b-f).

Qualitative disclosure on the countercyclical capital buffer

The imposition of additional capital buffers with respect to the regulatory minimums has the objective of giving banks high-quality capital resources to be used in moments of market tension to prevent dysfunctions of the banking system and avoid breakdowns in the loan disbursement process and to manage the risks deriving from the systemic importance at the global or domestic level of certain banks. In this context, the countercyclical capital buffer has the aim of protecting the banking sector in the stages of excessive growth of credit; in fact, its imposition, during phases of credit cycle overheating, makes it possible to accumulate Common Equity Tier 1 Capital, which will then be used to absorb losses in the downturn phases of the cycle.

Entities have an obligation to hold a countercyclical capital buffer equal to their total risk exposure multiplied by the specific countercyclical ratios established by the bank and the other authorities designated by the individual member states. The Bank of Italy, like the other authorities designated by the individual Member States, has an obligation to determine Italy's countercyclical ratio quarterly and to monitor its congruence with ratios applied by other countries, both EU and non-EU. Directive (EU) 2013/36 (CRD IV) specifies that the institution-specific countercyclical ratio is equal to the weighted average of the countercyclical ratios that apply in the Countries where the institution's credit exposures are located.

It should be noted that, in a press release dated 22 September 2023, the Bank of Italy set the countercyclical ratio to be applied to exposures held with Italian counterparties at 0%.

The information in the following tables is published in compliance with Commission Delegated Regulation (EU) 2021/637 of 15 March 2021 and provides detailed evidence of the calculation of the requirement applicable to the Group based on the geographical distribution of credit exposures.

Template EU CCyB2: amount of institution-specific countercyclical capital buffer

		a
1	Total risk-weighted exposure amount	63,823,093
2	Institution-specific countercyclical ratio	0.045%
3	**Institution-specific countercyclical capital buffer requirement**	**28,720**

Template EU CCyB1: geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer (1 of 2)

	a	b	c	d	e	f
	General credit exposures		Relevant credit exposures - Market risk		Value of securitisation exposures for the non-trading book	Total exposure value
	Exposure value under the standardised approach	Exposure value under the IRB approach	Sum of long and short positions of trading book exposures under the standardised approach	Value of trading book exposures for internal models		
Australia	40,639	220	-	-	-	40,859
Bulgaria	61	121	-	-	-	182
Cyprus	1	3	-	-	-	4
Czech Republic	3,540	248	-	-	-	3,789
Germany	283,488	3,162	-	-	-	286,650
Denmark	7,834	27	-	-	-	7,861
Estonia	-	-	-	-	-	-
France	612,866	4,105	-	-	-	616,971
United Kingdom	508,323	21,545	-	-	-	529,868
Hong Kong	190	330	-	-	-	520
Croatia	0	761	-	-	-	761
Ireland	44,913	643	-	-	-	45,557
Iceland	12	-	-	-	-	12
Lithuania	0	0	-	-	-	0
Luxembourg	442,782	1,000	-	-	-	443,782
Netherlands	485,836	1,962	-	-	-	487,798
Norway	19,865	0	-	-	-	19,865
Romania	776	233	-	-	-	1,008
Sweden	22,115	130	-	-	-	22,246
Slovenia	86	-	-	-	-	86
Slovakia	1	-	-	-	-	1
Other	17,895,070	98,325,000	-	-	8,893,692	125,113,762
Total	**20,368,398**	**98,359,491**	**-**	**-**	**8,893,692**	**127,621,581**

Template EU CCyB1: geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer (2 of 2)

	g	h	i	j	k	l	m
	Own funds requirements				Risk-weighted exposure amounts	Own funds requirement weights (%)	Countercyclical ratio (%)
	Relevant credit exposures - Credit risk	Relevant credit exposures - Market risk	Relevant credit exposures - Securitisation exposures in the non-trading book	Total			
Australia	590	-	-	590	7,371	0.02%	1.00%
Bulgaria	3	-	-	3	40	-	2.00%
Cyprus	0	-	-	0	2	-	0.50%
Czech Republic	285	-	-	285	3,561	0.01%	2.00%
Germany	13,247	-	-	13,247	165,591	0.40%	0.75%
Denmark	498	-	-	498	6,226	0.02%	2.50%
Estonia	-	-	-	-	-	-	1.50%
France	34,113	-	-	34,113	426,414	1.04%	0.50%
United Kingdom	29,826	-	-	29,826	372,821	0.91%	2.00%
Hong Kong	18	-	-	18	226	0.00%	1.00%
Croatia	8	-	-	8	100	-	1.00%
Ireland	3,567	-	-	3,567	44,586	0.11%	1.00%
Iceland	1	-	-	1	12	-	2.00%
Lithuania	0	-	-	0	0	-	1.00%
Luxembourg	38,403	-	-	38,403	480,042	1.17%	0.50%
Netherlands	29,696	-	-	29,696	371,205	0.90%	1.00%
Norway	612	-	-	612	7,645	0.02%	2.50%
Romania	68	-	-	68	850	0.00%	1.00%
Sweden	1,760	-	-	1,760	22,000	0.05%	2.00%
Slovenia	3	-	-	3	43	0.00%	0.50%
Slovakia	0	-	-	0	0	0.00%	1.50%
Other	3,038,082	-	99,309	3,137,391	39,217,386	95.35%	0.00%
Total	**3,190,781**	**-**	**99,309**	**3,290,090**	**41,126,119**	**100.00%**	

Template EU MR1: market risk under the standardised approach

		31/12/2023
		a
		RWEAs
	Outright products	
1	Interest rate risk (general and specific)	-
2	Equity risk (general and specific)	-
3	Exchange rate risk	-
4	Commodity risk	2,509
	Options	
5	Simplified approach	-
6	Delta plus approach	-
7	Scenario approach	-
8	Securitisation (specific risk)	-
9	**Total**	**2,509**

Template EU OV1: overview of total risk weighted exposure amounts

		Total risk weighted exposure amounts (TRWEA)		Total own funds requirements
		a	b	c
		31/12/2023	30/09/2023	31/12/2023
1	**Credit risk (excluding CCR) ***	**47,151,291**	**47,422,011**	**3,772,103**
2	Of which standardised approach	26,493,787	25,195,607	2,119,503
3	Of which Foundation IRB (F-IRB) approach	-	-	-
4	Of which slotting approach	-	-	-
EU 4a	Of which equity instruments under the simple risk weighted approach	-	-	-
5	Of which the Advanced IRB (A-IRB) approach	20,657,504	22,226,404	1,652,600
6	**Counterparty credit risk (CCR)**	**1,380,885**	**921,161**	**110,471**
7	Of which standardised approach	657,579	578,325	52,606
8	Of which internal model approach (IMA)	-	-	-
EU 8a	Of which exposures to a central counterparty (CCP)	63,981	65,140	5,119
EU 8b	Of which credit valuation adjustment (CVA)	213,768	230,070	17,101
9	Of which other CCR	445,556	47,626	35,644
15	**Settlement risk**	**1,040**	**1,464**	**83**
16	**Securitisation exposures in the non-trading book (after the cap)**	**1,241,360**	**1,019,895**	**99,309**
17	Of which SEC-IRBA approach	937,744	710,476	75,019
18	Of which SEC-ERBA approach (including IAA)	3,598	4,304	288
19	Of which SEC-SA approach **	300,019	305,115	24,001
EU 19a	Of which 1250%	-	-	-
20	**Position, exchange rate and commodity risks (market risk)**	**1,452,718**	**1,323,170**	**116,217**
21	Of which standardised approach	2,509	7,592	201
22	Of which IMA	1,450,208	1,315,578	116,017
EU 22a	**Large exposures**	**-**	**-**	**-**
23	**Operational risk**	**7,946,338**	**7,352,869**	**635,707**
EU 23a	Of which basic approach	-	-	-
EU 23b	Of which standardised approach	7,946,338	7,352,869	635,707
EU 23c	Of which advanced measurement approach	-	-	-
24	Amounts below the thresholds for deduction (subject to 250% risk weight) ***	3,477,027	3,143,301	278,162
27	Additional amount considered pursuant to the provisions of Article 3, Regulation (EU) no. 575/2013	4,649,462	450,000	371,957
29	**Total**	**63,823,093**	**58,490,569**	**5,105,847**

(*) The figure relates only to credit risk. The associated components referring to counterparty credit risk (CCR), default fund contributions to a central counterparty (CCP) and securitisation transactions are therefore excluded and exposed separately in the same prospect.
(***) Since there is no specific line, this line also includes amounts related to transactions falling within the new classification category "Specific treatment for senior tranches of eligible securitisations of non-performing exposures", having an RWA calculated using the SEC-SA approach.
(***) The amounts in line 24 fulfil the disclosure obligation pursuant to Article 437(a)(d)(iii) and Article 437(b) of Regulation (EU) 575/2013 (CRR). They are already included in the amounts in line 1 calculated according to Article 92(4) of the regulation and therefore not included in the grand total.

The amount in line 27 relates to the additional capital requirements which, in compliance with the provisions of Article 3 of Regulation (EU) no. 575/2013, the Bank has voluntarily decided to consider in addition to the requirements calculated by applying the rules envisaged in this Regulation. The calculation of these additional requirements is made as part of the Bank's formal process.

As at 31 December 2023, the additional requirements totalled 372 million euro, corresponding to 4,649 million euro in higher risk-weighted assets and reflecting, for 950 million euro, the Bank's discretionary assessment of the risk profiles implicit in the preparation processes for its financial position disclosure to the European Central Bank and to the market and, for the remainder, the estimated impacts deriving from the application of the new internal credit risk measurement model, which the ECB authorised the Bank to apply from the first quarter of 2024.

Template EU INS1: equity investments in insurance companies

		a	b
		Exposure value (in euro)	Risk exposure amount (in euro)
1	Own funds instruments held in insurance or reinsurance undertakings or insurance holding companies not deducted from own funds	830,140,000	830,140,000

Template EU INS2: information on own funds and on the capital adequacy ratio of financial conglomerates

		a
1	Additional own funds requirements of the financial conglomerate (amount)	2,821,424
2	Capital adequacy ratio of the financial conglomerate (%)	132.23%

The figures are calculated using the Banking Sector Requirements as at 31 December reported to the ECB and the IV Insurance QRT Requirements, as the Full Year Solvency data have reporting deadlines subsequent to the publication of this report.

Template EU CR8: RWEA flow statement of credit risk exposures under the IRB approach

		RWEA amount	Capital requirement
		a	b
1	**RWEA as at end of previous reporting period**	**22,226,404**	**1,778,112**
2	Asset size (+/-)	240,964	19,277
3	Asset quality (+/-)	(1,046,169)	(83,694)
4	Model updates (+/-)	-	-
5	Methodology and policy (+/-)	-	-
6	Acquisitions and disposals (+/-)	(763,309)	(61,065)
7	Foreign exchange movements (+/-)	-	-
8	Other (+/-)	(385)	(31)
9	**RWEA as at end of current reporting period**	**20,657,505**	**1,652,600**

In December 2023, Banco BPM concluded two transactions called Marlene and Tranched Cover, respectively.

For the first (Marlene), a guarantee was issued on the Mezzanine tranche. The investors participated in the transaction through the subscription of securities issued by a securitisation company pursuant to Italian Law no. 130/99, with a notional value equal to the guaranteed tranche and, with the resulting income, the same vehicle granted a limited recourse loan to Banco BPM on 22 December, the date of effectiveness of the guarantee.

With regard to Tranched Cover, Banco BPM concluded a synthetic securitisation with the Guarantee Fund for Small and Medium Enterprises (hereinafter "SMEGF"), on a portfolio of new loans. The transaction provided for the coverage of the junior tranche through a direct personal guarantee from the Fund and a counter-guarantee from the State starting on 28 December 2023.

Template EU MR2-B: RWEA flow statements of market risk exposures under the IMA

		a	b	c	d	e	f	g
		VaR	SVaR	IRC	Comprehensive risk measure	Other	Total RWEAs	Total own funds requirements
1	**RWEAs as at end of previous period**	**287,309**	**568,471**	**459,798**	**-**		**1,315,578**	**105,246**
1a	*Regulatory adjustment*	*(203,950)*	*(376,564)*	*-*	*-*		*(580,514)*	*(46,441)*
1b	*RWEAs as at the end of previous quarter (close of business)*	*83,359*	*191,907*	*459,798*	*-*		*735,064*	*58,805*
2	Movement in risk levels	-23,105	-114,713	32,734			-105,084	-8,407
3	Model updates/changes							
4	Methodology and policy							
5	Acquisitions and disposals							
6	Foreign exchange movements	16,214	110,025				126,238	10,099
7	Other							
8a	*RWEAs as at end of disclosure period (close of business)*	*76,468*	*187,220*	*491,899*	*-*		*755,586*	*60,447*
8b	*Regulatory adjustment*	*172,969*	*475,161*	*46,492*	*-*		*694,622*	*55,570*
8	**RWEAs as at end of disclosure period**	**249,437**	**662,381**	**538,391**	**-**		**1,450,208**	**116,017**

Disclosure on Pillar II capital adequacy

The Internal Capital Adequacy Assessment Process (ICAAP) supports and supplements the consistency check conducted under Pillar I, which only requires verification of the adequacy of Own Funds in terms of the minimum prudential requirements for credit risk (including counterparty credit risk), market risk and operational risk.

Through the ICAAP, the Group effectively has to assess the capital requirement for its business, considering, as part of the overall assessment, not only Pillar I risks, but also the Pillar II risks identified internally through the Risk Identification process. In fact, the capital requirements must be covered by capital resources that are also sufficient to ensure full achievement of the strategic and operational objectives, with a view to generating value for shareholders and for other stakeholders in the medium and long term, in accordance with the overall risk appetite defined in the Risk Appetite Framework.

Significant risks (credit, counterparty, market, interest rate, operational and other measured risks) are measured using statistic and quantitative methods generally relating to the VaR technique.

Banco BPM Group has opted for a level of probability (or confidence interval) of 99.90%, in line with the confidence level of minimum capital requirements established by supervisory regulations, in order to make the reconciliation with estimates resulting from the application of regulatory approaches easier.

The risks are estimated with reference to an annual time horizon.

The assessment of capital adequacy carried out in the ICAAP context and included in the Group's Risk Appetite framework entails, besides the estimated absorption of all the significant quantifiable risks, definition of the measure of total capital (Available Financial Resources) used as capital amount to cover such business risks.

This amount must not be limited merely to covering total risk capital, but must also be able to:

- expand growth areas beyond what is defined in the strategic plan, ensuring potential flexible operating margins;
- manage going concern issues should cumulative losses recorded over the twelve months exceed those estimated according to the assumed confidence level;
- handle situations where market developments could be substantially worse than projected and incorporated in the risk estimate models;
- maintain an additional capital buffer, for the purpose of maintaining/improving the level of capitalisation, with a view to improving rating agency judgements;
- pursue the target ratio objectives established by Top Management.

The capital adequacy assessment, reported formally each year for supervisory purposes, is updated every six months - in compliance with external legislation and regulations (EBA SREP guidelines, ECB ICAAP guidelines) and internal reference regulations.

Such activity guarantees the continuous performance of the autonomous assessment process required by the Supervisory Authority, enabling any vulnerable areas and/or elements relating to the Group to be identified, and 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. The main results emerging from this specific monitoring exercise are periodically reported to the Bank's Corporate Bodies.

To guarantee this continuous monitoring, Banco BPM Group has adopted an advanced system for risk integration and quantification of available capital resources, with advanced functions of management, control, reporting and simulation of capital adequacy conditions.

Furthermore, it conducts a periodic reallocation process of the economic capital absorbed by each separate type of risk relevant to the Group, for the main Bank business lines already used for Segment Reporting (IFRS 8).

With reference to the Available Financial Resources (AFR), the Bank adopts a more conservative approach to their definition, in line with recent provisions issued by the Regulator in this regard.

Lastly, the time horizon for the economic assessment of capital adequacy is in line with the long-term objectives and limits defined by the Group.

The capital adequacy assessment conducted for ICAAP purposes is also included in the Group's Risk Appetite framework. In fact, the RAF includes specific indicators that make it possible to verify the Group's Pillar II capital adequacy with the relative definition of the monitoring thresholds.

Among the "Strategic" indicators there is the "Capital Reserve" indicator in the "Capital Adequacy" context, defined, in accordance with ICAAP requirements, as the ratio of the amount of own Available Financial Resources (AFRs) to total diversified economic capital.

In the context of Pillar II Adequacy, the MREL indicator is also mentioned, representing the requirement introduced by the European Bank Recovery and Resolution Directive (BRRD), whose objective is to ensure proper functioning of the bail-in mechanism by increasing the Bank's loss absorption capacity.

Credit risk - General information regarding all banks

Definition of “non-performing” loans and methods used to determine value adjustments

Definitions for accounting purposes of “non-performing” credits

Non-performing Banco BPM Group exposures are classified into the following categories, in line with that established under the prudential supervisory regulations:

- non-performing past due and/or overdue exposures: these are exposures which at the reference date have continuously exceeded the relevance threshold for more than 90 days which, under the new definition of default, is calculated by considering the simultaneous existence of a situation in which the "absolute" threshold has been exceeded, as a sum at customer level of past due or overdue amounts equal to 100 euro for "Retail" customers and 500 euro for customers belonging to other segments and where the "relative" threshold has been exceeded equal to 1% of the total overdue amount with respect to the total balance, irrespective of the customer segment, based on the rules in the Supervisory instructions which regulate the technical calculation methods in a detailed manner;
- unlikely to pay: these are exposures which the Bank holds it unlikely that the debtor will fully fulfil their obligations (capital and interest) without changing the repayment profile or the use of actions such as enforcement of guarantees;
- bad loans: these are exposures regarding loans to customers who are insolvent, even if not legally ascertained, relative to which targeted loan collection actions are carried out, total or partial (for capital and interest).

Description of methods adopted to determine value adjustments

Exposures classified as "performing"

To calculate collective write-downs, Banco BPM Group adopts an "Expected Credit Loss" metrics (in accordance with IASB international accounting standards), through the introduction of a forward-looking model based on expected losses at 12 months or lifetime and dependent on "Basel II" risk factors (PD, LGD and EAD).

For more information, please see that found in the section "Credit Risk: disclosure on portfolios to which IRB approaches are applied".

Exposures classified as "non-performing"

The methodology used by Banco BPM Group to forecast expected credit loss on impaired loans identifies the specific recoverability of an individual position, mainly on the basis of the presence and value of the mortgage collateral, appropriately reduced by a percentage that takes into account the age of the appraisal (i.e. Haircut), thus determining the portion of secured and unsecured credit on which to apply different loss percentages deriving from management of the asset and the related settlement costs incurred by the bank and/or by recovery curves guided by the characteristics of the individual position.

The framework described above applies across the board to:

- Bad Loans and Unlikely to Pay (UtP) of a nominal amount of less than 1 million euro;
- Defaulted past due exposures irrespective of the nominal amount.

Unlikely to pay or bad loan positions exceeding pre-established limits are assessed analytically by managers, based on specific decision-making trees aimed at identifying the most appropriate methodology for measuring loss forecasts. In the event the methodology defined is of the "going concern" kind, the recovery forecasts are estimated on the basis of the counterparty's future income flows. In the event the methodology defined is of the "gone concern" kind, the recovery forecasts are estimated in a similar manner as above for positions involving amounts of less than 1 million euro.

The methodologies adopted by Banco BPM to determine the value adjustments are illustrated in detail also in the Annual Financial Report for 2023 – Consolidated Notes – Part A.2 16 b) – "Methods for determining the impairment of financial instruments IFRS 9" to which reference should be made.

Template EU CQ1 - Credit quality of forborne exposures

		a	b	c	d	e	f	g	h
		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		
				of which defaulted	of which impaired				Of which: collateral and financial guarantees received on non-performing exposures with forbearance measures
005	Cash balances at central banks and other demand deposits	-	-	-	-	-	-	-	-
010	Loans and advances	1,743,391	1,715,568	1,715,568	1,457,885	(65,457)	(665,962)	2,158,502	753,400
020	*Central banks*	-	-	-	-	-	-	-	-
030	*General governments*	2,656	-	-	-	(51)	-	1,647	-
040	*Credit institutions*	-	-	-	-	-	-	-	-
050	*Other financial companies*	13,430	14,945	14,945	14,945	(456)	(9,962)	17,556	4,682
060	*Non-financial corporations*	1,263,692	1,372,399	1,372,399	1,116,987	(45,289)	(562,866)	1,481,084	519,520
070	*Households*	463,613	328,224	328,224	325,953	(19,661)	(93,134)	658,215	229,198
080	Debt securities	-	-	-	-	-	-	-	-
090	Loan commitments given	32,793	70,428	70,428	70,428	(146)	(2,583)	7,046	2,301
100	**Total as at 31/12/2023**	**1,776,184**	**1,785,996**	**1,785,996**	**1,528,313**	**(65,603)**	**(668,545)**	**2,165,548**	**755,701**

Template EU CQ3: credit quality of performing and non-performing exposures by past due days

		a	b	c	d	e	f	g	h	i	j	k	l
		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years <= 5 years	Past due > 5 years <= 7 years	Past due > 7 years	Of which defaulted
005	Cash balances at central banks and other demand deposits	18,660,112	18,660,000	112	-	-	-	-	-	-	-	-	-
010	Loans and advances	106,292,601	106,115,042	177,559	4,047,004	1,441,546	317,078	497,726	531,538	889,837	197,326	171,953	4,047,004
020	Central banks	2,547	2,547	-	-	-	-	-	-	-	-	-	-
030	General governments	1,696,961	1,696,957	4	1,356	564	-	705	-	87	-	-	1,356
040	Credit institutions	3,209,304	3,209,304	-	-	-	-	-	-	-	-	-	-
050	Other financial companies	13,663,483	13,635,371	28,112	118,060	23,875	78,169	425	13,480	532	138	1,441	118,060
060	Non-financial corporations	54,667,089	54,588,444	78,645	3,048,257	1,118,103	155,077	395,326	413,448	708,584	134,425	123,294	3,048,257
070	Of which SMEs	31,365,278	31,294,683	70,595	2,590,903	865,532	115,792	306,336	377,300	704,015	98,651	123,277	2,590,903
080	Households	33,053,217	32,982,419	70,798	879,331	299,004	83,832	101,270	104,610	180,634	62,763	47,218	879,331
090	Debt securities	37,516,905	37,516,905	-	27,194	19,435	-	-	-	7,759	-	-	27,194
100	Central banks	-	-	-	-	-	-	-	-	-	-	-	-
110	General governments	30,317,229	30,317,229	-	-	-	-	-	-	-	-	-	-
120	Credit institutions	2,770,808	2,770,808	-	15,294	15,294	-	-	-	-	-	-	15,294
130	Other financial companies	3,416,263	3,416,263	-	2,499	-	-	-	-	2,499	-	-	2,499
140	Non-financial corporations	1,012,605	1,012,605	-	9,401	4,141	-	-	-	5,260	-	-	9,401
150	Off-balance sheet exposures	61,666,320			699,673								699,673
160	Central banks	-			-								-
170	General governments	2,161,785			1,792								1,792
180	Credit institutions	2,306,164			-								-
190	Other financial companies	5,063,417			4,327								4,327
200	Non-financial corporations	47,828,342			684,538								684,538
210	Households	4,306,612			9,016								9,016
220	**Total as at 31/12/2023**	**224,135,938**	**162,291,947**	**177,671**	**4,773,871**	**1,460,981**	**317,078**	**497,726**	**531,538**	**897,596**	**197,326**	**171,953**	**4,773,871**

Template EU CQ4: quality of non-performing exposures by geography

	a	b	c	d	e	f	g
	Gross carrying amount/nominal amount				Accumulated impairment	Provisions for off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		Of which non-performing		Of which subject to impairment			
			Of which defaulted				
On-balance sheet exposures	**147,883,703**	**4,074,198**	**4,074,198**	**147,321,233**	**(2,364,221)**		**(35,096)**
Italy	120,867,209	4,040,091	4,040,091	120,339,147	(2,335,157)		(31,955)
Rest of the world	27,016,494	34,107	34,107	26,982,086	(29,064)		(3,141)
Off-balance sheet exposures	**62,365,993**	**699,673**	**699,673**			**133,810**	
Italy	58,871,576	699,543	699,543			133,284	
Rest of the world	3,494,417	130	130			526	
Total	**210,249,696**	**4,773,871**	**4,773,871**	**147,321,233**	**(2,364,221)**	**133,810**	**(35,096)**

Template EU CQ5: credit quality of loans and advances to non-financial corporations by industry

		a	b	c	d	e	f
		Gross carrying amount				Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which loans and advances subject to impairment		
				Of which defaulted			
010	Agriculture, forestry and fishing	1,687,881	70,877	70,877	1,687,881	(45,885)	-
020	Mining and quarrying	231,170	6,027	6,027	231,170	(5,145)	-
030	Manufacturing	20,580,460	815,191	815,191	20,549,906	(449,938)	(5,818)
040	Electricity, gas, steam and air conditioning supply	1,469,405	27,578	27,578	1,469,405	(23,853)	-
050	Water supply	769,674	12,046	12,046	769,419	(9,562)	-
060	Construction	5,268,885	404,106	404,106	5,262,338	(298,745)	(388)
070	Wholesale and retail trade	8,898,684	397,930	397,930	8,898,684	(246,115)	-
080	Transport and storage	2,168,634	90,498	90,498	2,168,165	(67,265)	-
090	Accommodation and food services	2,301,248	220,686	220,686	2,292,948	(126,030)	(1,258)
100	Information and communication	1,488,355	46,727	46,727	1,488,145	(29,787)	-
110	Financial and insurance activities	480,859	10,428	10,428	480,859	(11,076)	-
120	Real estate activities	5,179,745	740,241	740,241	4,905,879	(373,134)	(2,888)
130	Professional, scientific and technical activities	3,390,240	72,274	72,274	3,390,240	(53,105)	-
140	Administrative and support service activities	1,400,918	73,716	73,716	1,400,918	(45,647)	-
150	Public administration and defence, compulsory social security	65,552	-	-	65,552	(136)	-
160	Education	136,871	3,429	3,429	136,871	(1,905)	-
170	Health services and social work activities	897,870	21,111	21,111	897,870	(12,522)	-
180	Arts, entertainment and recreation	299,753	12,427	12,427	299,753	(6,555)	-
190	Other services	999,142	22,965	22,965	980,696	(16,145)	-
200	**Total as at 31/12/2023**	**57,715,346**	**3,048,257**	**3,048,257**	**57,376,699**	**(1,822,550)**	**(10,352)**

Template EU CQ7: collateral obtained by taking possession and execution processes

		31/12/2023	
		a	b
		Collateral obtained by taking possession	
		Value at initial recognition	Accumulated negative changes
010	Property, plant and equipment (PP&E)	62,697	(42,990)
020	Other than PP&E	1,046,896	(519,280)
030	*Residential property*	68,995	(30,164)
040	*Non-residential property*	962,347	(482,413)
050	*Movable property (auto, shipping, etc.)*	-	-
060	*Equity and debt instruments*	15,554	(6,703)
070	*Other collaterals*	-	-
080	**Total**	**1,109,593**	**(562,270)**

Template EU CR1-A: maturity of exposures

		a	b	c	d	e	f
		Net exposure value					
		On request	≤ 1 year	> 1 year ≤ 5 years	> 5 years	No stated maturity	Total
1	Loans and advances	13,596,819	13,440,644	35,505,634	45,437,045	0	107,980,142
2	Debt securities	0	3,445,480	14,772,899	19,285,866	0	37,504,245
3	**Total as at 31/12/2023**	**13,596,819**	**16,886,124**	**50,278,533**	**64,722,911**	**0**	**145,484,387**

Template EU CR1: performing and non-performing exposures and related provisions (1 of 2)

		a	b	c	d	e	f	g	h	i
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
		Performing exposures			Non-performing exposures			Performing exposures - Accumulated impairment and provisions		
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2
005	Cash balances at central banks and other demand deposits	18,660,112	18,660,112	-	-	-	-	-	-	-
010	Loans and advances	106,292,601	93,766,641	12,194,961	4,047,004	-	3,715,982	(425,603)	(104,813)	(316,729)
020	*Central banks*	2,547	2,547	-	-	-	-	-	-	-
030	*General governments*	1,696,961	1,689,911	3,872	1,356	-	1,356	(5,012)	(4,939)	(64)
040	*Credit institutions*	3,209,304	3,120,005	89,299	-	-	-	(1,038)	(971)	(67)
050	*Other financial companies*	13,663,483	12,887,994	664,671	118,060	-	117,489	(32,107)	(17,094)	(15,013)
060	*Non-financial corporations*	54,667,089	45,505,240	8,991,563	3,048,257	-	2,732,967	(266,728)	(68,553)	(194,868)
070	*Of which SMEs*	31,365,278	25,743,325	5,590,502	2,590,903	-	2,307,334	(202,612)	(44,808)	(156,617)
080	*Households*	33,053,217	30,560,944	2,445,556	879,331	-	864,170	(120,718)	(13,256)	(106,717)
090	Debt securities	37,516,905	37,261,989	201,056	27,194	-	2,499	(13,660)	(12,233)	(1,427)
100	*Central banks*	-	-	-	-	-	-	-	-	-
110	*General governments*	30,317,229	30,299,839	17,390	-	-	-	(1,769)	(1,737)	(32)
120	*Credit institutions*	2,770,808	2,654,407	93,995	15,294	-	-	(3,280)	(2,782)	(498)
130	*Other financial companies*	3,416,263	3,348,119	36,690	2,499	-	2,499	(7,145)	(7,066)	(79)
140	*Non-financial corporations*	1,012,605	959,624	52,981	9,401	-	-	(1,466)	(648)	(818)
150	Off-balance sheet exposures	61,666,320	47,710,913	2,054,373	699,673	-	349,102	(34,833)	(13,210)	(10,190)
160	*Central banks*	-	-	-	-	-	-	-	-	-
170	*General governments*	2,161,785	2,136,344	3,666	1,792	-	1,775	(581)	(569)	(4)
180	*Credit institutions*	2,306,164	1,874,202	111,668	-	-	-	(370)	(156)	(97)
190	*Other financial companies*	5,063,417	3,127,262	168,543	4,327	-	3,380	(3,617)	(1,624)	(1,554)
200	*Non-financial corporations*	47,828,342	38,286,790	1,680,099	684,538	-	338,286	(26,810)	(9,540)	(6,679)
210	*Households*	4,306,612	2,286,315	90,397	9,016	-	5,661	(3,455)	(1,321)	(1,856)
220	**Total as at 31/12/2023**	**224,135,938**	**197,399,655**	**14,450,390**	**4,773,871**	**-**	**4,067,583**	**(474,096)**	**(130,256)**	**(328,346)**

Template EU CR1: performing and non-performing exposures and related provisions (2 of 2)

		j	k	l	m	n	o
		Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			Accumulated partial write-offs	Real and financial guarantees received	
		Non-performing exposures - accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On performing exposures
			Of which stage 2	Of which stage 3			
005	Cash balances at central banks and other demand deposits	-	-	-		-	-
010	Loans and advances	(1,933,860)	-	(1,890,306)	(112,838)	67,927,282	1,679,205
020	*Central banks*	-	-	-	-	-	-
030	*General governments*	(873)	-	(873)	-	141,238	-
040	*Credit institutions*	-	-	-	-	796,001	-
050	*Other financial companies*	(61,570)	-	(61,168)	-	6,728,386	55,453
060	*Non-financial corporations*	(1,566,174)	-	(1,528,527)	(111,782)	29,439,210	1,086,317
070	*Of which SMEs*	(1,343,955)	-	(1,311,724)	(111,782)	21,546,153	918,182
080	*Households*	(305,243)	-	(299,738)	(1,056)	30,822,447	537,435
090	Debt securities	(26,194)	-	(2,499)	-	1,382,576	-
100	*Central banks*	-	-	-	-	-	-
110	*General governments*	-	-	-	-	-	-
120	*Credit institutions*	(15,294)	-	-	-	-	-
130	*Other financial companies*	(2,499)	-	(2,499)	-	1,358,532	-
140	*Non-financial corporations*	(8,401)	-	-	-	24,044	-
150	Off-balance sheet exposures	(98,977)	-	(18,030)		3,289,312	17,940
160	*Central banks*	-	-	-		-	-
170	*General governments*	(117)	-	(114)		-	-
180	*Credit institutions*	-	-	-		117,197	-
190	*Other financial companies*	(372)	-	(35)		1,366,082	557
200	*Non-financial corporations*	(97,392)	-	(17,240)		1,342,884	16,338
210	*Households*	(1,096)	-	(641)		463,149	1,045
220	**Total as at 31/12/2023**	**(2,059,031)**	**-**	**(1,910,835)**	**(112,838)**	**72,599,170**	**1,697,145**

Template EU CR2: changes in the stock of non-performing loans and advances

		31/12/2023
		A
		Gross carrying amount
010	**Initial stock of non-performing loans and advances**	**5,122,389**
020	Inflows to impaired portfolios	1,244,477
030	Outflows from non-performing portfolios	-2,319,862
040	Outflows due to write-offs	-891,776
050	Outflow due to other situations	-1,428,086
060	**Final stock of non-performing loans and advances**	**4,047,004**

Credit risk - standardised approach

Process of assessing creditworthiness

Credit risk – Standardised Approach

List of ECAIs (External Credit Assessment Institutions) and ECAs (Export Credit Agencies) used in the standardised approach and of the portfolios in which their ratings are applied.

List of ECAIs used in the standardised approach and of the portfolios in which their ratings are applied

Portfolios	ECA/ECAI	Rating Characteristics (Solicited/Unsolicited)
Exposures to Central Governments and Central Banks	Moody's	Solicited
	Standard & Poor's	
	Fitch	
Exposures to international organisations	Moody's	Solicited
	Standard & Poor's	
	Fitch	
Exposures to multilateral development banks	Moody's	Solicited
	Standard & Poor's	
	Fitch	
Exposures to corporates and others	Moody's	Solicited
	Standard & Poor's	
	Fitch	
	Cerved	Unsolicited
Exposures to undertakings for collective investment in transferable securities (UCITS)	Moody's	Solicited
	Standard & Poor's	
	Fitch	

Securitisations

Portfolios	ECA/ECAI
Securitisation exposures	Moody's
	Standard & Poor's
	Fitch
	Scope
	DBRS
	AM Best Rating Services

The process for assessing the creditworthiness of the issuer/issue requires transposing the available information supplied by external providers for counterparties/securities, irrespective of the presence and type of business of the banking book (e.g., exposures in banking book securities, mortgage loans, etc.) and the nature of the security.

In the case of common customers, this information is subsequently disseminated to all of the Group's legal entities, in order to standardise the assessment of creditworthiness and subsequent weighting.

If there are assessments from more than one ECAI, the capital requirements calculation software (B3PRO) determines the creditworthiness assessment to be used for reporting purposes in compliance with the regulatory indications envisaged in Regulation (EU) no. 575/2013. Specifically, as required by article 138, if there are two assessments, the rating relative to the highest weighting factor is assigned. If there are more than two assessments, the ratings corresponding to the lowest weighting factors are selected, and of these, if different, the highest weighting factor applies.

With reference to the association of the external rating of each ECAI or export credit agency chosen to the creditworthiness classes, the mapping used is provided by Implementing Regulation (EU) 2016/1799 of the European Commission.

Template EU CR4 – Standardised approach: credit risk exposure and CRM effects

	Exposure class	Exposures before CCF and before CRM		Exposure post-CCF and post-CRM		RWAs and RWA density	
		On-balance sheet exposures	Off-balance sheet exposures	On-balance sheet exposures	Off-balance sheet exposures	RWAs	RWA density (%)
		a	b	c	d	e	f
1	Central governments or central banks	56,510,503	322,977	73,907,584	782,188	3,775,307	5.05%
2	Regional government or local authorities	188,802	360,017	222,804	71,074	59,598	20.28%
3	Public sector entities	437,016	1,267,961	328,890	217,795	329,904	60.35%
4	Multilateral development banks	121	-	56,594	1,150	-	-
5	International organisations	17,667	210,601	17,667	161	-	-
6	Institutions	9,171,754	3,477,718	9,164,267	456,712	4,049,026	42.09%
7	Corporates	6,750,078	4,782,384	5,974,802	1,537,488	6,950,549	92.52%
8	Retail	801,945	2,695,891	692,475	16,463	514,048	72.51%
9	Secured by mortgages on property	539,349	19,501	539,049	9,694	240,912	43.90%
10	Exposures in default	189,828	14,817	182,615	4,965	193,586	103.20%
11	Exposures associated with particularly high risk	670,407	489,957	664,056	135,225	1,198,922	150.00%
12	Covered bonds	492,247	-	492,247	-	49,225	10.00%
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
14	Collective investment undertakings	2,251,183	518,859	2,248,907	332,309	2,520,017	97.63%
15	Equity instruments	2,000,387	9,995	2,000,387	4,997	3,074,921	153.33%
16	Other items	4,458,156	-	4,458,156	-	3,537,772	79.36%
17	**TOTAL AS AT 31/12/2023**	**84,479,446**	**14,170,679**	**100,950,502**	**3,570,222**	**26,493,787**	**25.35%**

Template EU CR5: standardised approach (1 of 3)

	Exposure class	Risk weight					
		0%	2%	4%	10%	20%	35%
		a	b	c	d	e	f
1	Central governments or central banks	71,606,695	-	-	-	150,165	-
2	Regional government or local authorities	-	-	-	-	290,749	-
3	Public sector entities	-	-	-	-	208,320	-
4	Multilateral development banks	57,744	-	-	-	-	-
5	International organisations	17,829	-	-	-	-	-
6	Institutions	176	1,424,644	-	-	2,609,880	-
7	Corporates	-	-	-	-	153,754	-
8	Retail exposures	-	-	-	-	-	-
9	Secured by mortgages of immovable properties	-	-	-	-	-	97,356
10	Exposures in default	-	-	-	-	-	-
11	Exposures associated with particularly high risk	-	-	-	-	-	-
12	Covered bonds	-	-	-	492,247	-	-
13	Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
14	Units or shares in collective investments undertakings	326,340	-	-	-	57,375	-
15	Equity instrument exposures	-	-	-	-	-	-
16	Other items	919,178	-	-	-	1,507	-
17	**TOTAL AS AT 31/12/2023**	**72,927,962**	**1,424,644**	**-**	**492,247**	**3,471,751**	**97,356**

It should be specified that the estimate of risk-weighted assets inferable from analysis of the data shown in this table is different from the actual final amount of RWAs published in Table CR4 because it does not consider the SME supporting factor provided for in Article 501 CRR in the relevant cases and with the applicable limits.

Template EU CR5: standardised approach (2 of 3)

	Exposure class	Risk weight					
		50%	70%	75%	100%	150%	250%
		g	h	i	j	k	l
1	Central governments or central banks	408,613	-	-	1,846,512	-	677,787
2	Regional government or local authorities	3,129	-	-	-	-	-
3	Public sector entities	100,251	-	-	238,115	-	
4	Multilateral development banks	-	-	-	-	-	-
5	International organisations	-	-	-	-	-	-
6	Institutions	4,172,162	-	-	1,414,117	-	-
7	Corporates	1,024,739	-	-	5,428,539	905,257	-
8	Retail exposures	-	-	708,938	-	-	-
9	Secured by mortgages of immovable properties	451,388	-	-	-	-	-
10	Exposures in default	-	-	-	175,569	12,011	-
11	Exposures associated with particularly high risk	-	-	-	-	799,281	-
12	Covered bonds	-	-	-	-	-	-
13	Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
14	Units or shares in collective investments undertakings	56,000	-	-	1,845,207	54,644	-
15	Equity instrument exposures	-	-	-	1,292,360	-	713,024
16	Other items	-	-	-	3,537,471	-	-
17	**TOTAL AS AT 31/12/2023**	**6,216,281**	**-**	**708,938**	**15,777,891**	**1,771,192**	**1,390,811**

It should be specified that the estimate of risk-weighted assets inferable from analysis of the data shown in this table is different from the actual final amount of RWAs published in Table CR4 because it does not consider the SME supporting factor provided for in Article 501 CRR in the relevant cases and with the applicable limits.

Template EU CR5: standardised approach (3 of 3)

	Exposure class	Risk weight			Total	Of which unrated
		370%	1,250%	Other		
		m	n	o	p	q
1	Central governments or central banks	-	-	-	74,689,772	21,387,322
2	Regional government or local authorities	-	-	-	293,878	285,485
3	Public sector entities	-	-	-	546,686	206,776
4	Multilateral development banks	-	-	-	57,744	57,744
5	International organisations	-	-	-	17,829	17,829
6	Institutions	-	-	-	9,620,979	3,086,783
7	Corporates	-	-	-	7,512,290	3,644,570
8	Retail exposures	-	-	-	708,938	699,459
9	Secured by mortgages of immovable properties	-	-	-	548,744	548,744
10	Exposures in default	-	-	-	187,580	187,288
11	Exposures associated with particularly high risk	-	-	-	799,281	799,281
12	Covered bonds	-	-	-	492,247	-
13	Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-
14	Units or shares in collective investments undertakings	-	10,438	231,212	2,581,216	2,162,720
15	Equity instrument exposures	-	-	-	2,005,384	2,005,384
16	Other items	-	-	-	4,458,156	4,325,300
17	**TOTAL AS AT 31/12/2023**	**-**	**10,438**	**231,212**	**104,520,724**	**39,414,683**

It should be specified that the estimate of risk-weighted assets inferable from analysis of the data shown in this table is different from the actual final amount of RWAs published in Table CR4 because it does not consider the SME supporting factor provided for in Article 501 CRR in the relevant cases and with the applicable limits.

Credit risk - IRB approach

Authorisation by the Supervisory Authority and scope of application

Following the merger between the former Banco Popolare Group and the former BPM Group, the European Supervisory Authority agreed to the use of internal models according to the A-IRB (Advanced Internal Rating Based model) methodology, validated at the time on the former Banco Popolare perimeter, on the same basis for the new Banco BPM Group to calculate the capital requirements up to 31/12/2017.

Following the ECB inspection process, on 16-02-2018, the Group received authorisation to adopt its internal risk management systems with extension to BPM S.p.A.

The validation perimeter consists of the assets attributable to the regulatory classes "credit exposures to corporates" and "retail credit exposures" (acceptance and monitoring models) of the Parent Company Banco BPM. As at 31 December 2023, Banco BPM group is authorised to use:

- five rating models, used to estimate the Probability of Default (PD), respectively for the counterparties segmented using the Large Corporate, Mid Corporate Plus, Mid Corporate, Small Business and Private rating models
- three LGD models (LGD performing, ELBE and Defaulted Asset) for estimating the loss rate in the event of default of Corporate and Private counterparties, respectively
- an EAD model in relation to the Private portfolio and a model relating to the Corporate scope.

During 2019, the Group developed a number of significant changes to the PD, LGD and EAD risk parameters, aimed above all at resolving IMI and TRIM obligations deriving from the last two inspections of its ratings models, which led to the application of specific add-ons when calculating capital requirements.

The changes made are incorporated in the regulatory context of Model Change and received approval from the ECB.

In addition to resolving the IMI and TRIM findings (respectively deriving from the authorisation letters of 16/02/2018 and of 25/04/2019), these Model Changes will allow for the removal of the corresponding add-ons after approval, as well as (i) address certain significant regulatory dictates regarding new EBA guidelines for estimating PD, LGD and Downturn; (ii) make it possible to calculate EAD through internal CCF for the corporate area, also envisaged in the Group's roll-out plan.

May 2021 saw the conclusion of inspection IMI-4738, with receipt of the Final Decision from the Regulator.

The application included the update of the IT systems, internal procedures and processes and risk parameters via technical calibration to the new definition of default in view of the entry into force of the relevant EBA guidelines (EBA/GL/2016/07). At the beginning of 2022, BBPM submitted a model change application (IMI-180439) envisaging alignment of the current models to the regulatory provisions deriving from the EBA guidelines[10].

The application was formalised with the receipt of the Final Decision on 15 December 2023, with the authorisation to use the new framework of internal models.

In addition, in May 2023, the Bank started the formal authorisation request process for the use of the Slotting Criteria on Specialised Lending exposures (as per the provision of Article 147-8 of Regulation (EU) No. 575/2013) originated and managed by structured finance.

At the same time, authorisation was requested to extend standardised A-IRB models to Specialised Lending exposures originated and managed by the commercial network.

The inspection process ended in the fourth quarter of 2023; the Final Decision should be received by the second quarter of 2024.

During 2023, the Bank launched a project to redevelop the A-IRB EAD model, with the aim of adapting it to the current regulations deriving from Basel III finalised and the ECB guidelines (ECB guide to internal models).

This initiative will lead to an A-IRB model change application being sent to the Regulator in the first quarter of 2024.

A-IRB and standard exposures for Banco BPM Group

As at 31 December 2023, the EAD of Banco BPM Group amounted to 197.8 billion euro, of which 108.5 billion euro treated with the standardised approach, 81.8 billion euro with the A-IRB approach and 7.5 billion euro resulting from operations treated according to the revised securitisation framework referred to in Regulations (EU) 2017/2401 and 2017/2402.

Three subsystems can be identified within the standardised area:

- "Roll-Out", exposures subject to the progressive extension of the A-IRB approach;
- "PPU" (Permanent Partial Use), i.e., the exposure classes for which the Group can use the standardised approach
- "Other", i.e., exposures in other assets, Deferred Tax Assets (DTA), significant equity investments in entities in the financial sector.

Below are EAD amounts[11] at the reporting date:

Perimeter	EAD billion euro	%
A-IRB	**81.8**	**41.4%**
Standard	**108.5**	**54.9%**
Roll-Out	5.2	2.6%
PPU	95.7	48.4%
Other	7.7	3.9%
Securitisations	**7.5**	**3.8%**
Total	**197.8**	**100.0%**

[10] EBA Guidelines on the development of PD and LGD models (EBA/GL/2017/16), estimation of downturn (EBA/GL/2019/03, but also EBA/RTS/2018/04) and Credit Risk Mitigation techniques (EBA/GL/2020/05).

[11] Value of the exposure as per Corep (sheets C07 column 200, C08.01 column 110, C13 column 200)

Details of Roll-Out perimeter

The perimeter classified as Roll-Out includes the following types:

- portfolio relating to exposures to Foreign Counterparties, for which the extension of the treatment to advanced internal models was requested in the Application Package IMI-0180439 (1.8 billion euro);[12]
- specialised Real Estate loans managed by Structured Finance (2 billion euro);
- specialised Project Finance loans (1 billion euro);
- specialised Real Estate loans managed by the Network (364 million euro);
- specialised Object Finance loans (4 million euro).

[12] This perimeter will pass to the A-IRB approach with the launch of the IMI-0180439 framework on the first quarterly report of 2024.

Template EU CR6A - scope of use of IRB and SA approaches

		Value of the exposure as defined in Article 166 of the CRR for exposures subject to the IRB approach	Value of the overall exposure for exposures subject to the standardised approach and the IRB approach	Percentage value of the overall exposure subject to the permanent partial use of the SA approach (%)	Percentage value of the overall exposure subject to the IRB approach (%)	Percentage value of the overall exposure subject to an introduction plan (roll-out) (%)
		a	b	c	d	e
1	Central governments or central banks	58,242,033	58,250,128	100.00%	-	-
1.1	*of which Regional governments or local authorities*		-	-	-	-
1.2	*of which Public sector entities*		-	-	-	-
2	Institutions	12,720,997	12,913,769	100.00%	-	-
3	Corporates	59,383,205	55,907,602	13.41%	6.12%	80.47%
3.1	*of which companies - specialised loans, excluding the allocation approach*		3,425,752	0.00%	100.00%	-
3.2	*of which companies - specialised loans, based on the allocation approach*		-	-	-	-
4	Retail	51,253,369	46,287,668	3.14%	-	96.87%
4.1	*of which Retail – SMEs, collateralised by property*		3,426,209	3.25%	-	96.75%
4.2	*of which Retail – non-SMEs, collateralised by property*		26,261,893	0.25%	-	99.75%
4.3	*of which retail - Qualifying revolving*		451,892	45.67%	-	54.33%
4.4	*of which Retail - SMEs, other*		14,212,116	1.68%	-	98.32%
4.5	*of which Retail - non-SMEs, other*		1,935,557	42.87%	-	57.13%
5	Equity instruments	2,378,744	2,378,405	100.00%	-	-
6	Other non-credit obligation assets	4,584,904	4,583,203	100.00%	-	-
7	**Total as at 31/12/23**	**188,563,252**	**180,320,775**	**49.13%**	**1.87%**	**49.00%**

Illustration of the structure, use, management processes and control mechanisms of the internal rating systems

Structure of internal rating systems (PD)

The rating models involved in the validation are intended to respond to a precise rationale, that of obtaining, for both reporting and management purposes, risk measures:

- capable of incorporating the fundamental drivers underlying creditworthiness of parties in relation to which the Group has or intends to assume loan exposures;
- relatively stable over time, so as to reflect, in each customer segment, the long-term expected riskiness of the Group's current and potential loan exposures;
- capable of preventing phenomena of uncontrolled growth of risk in positive cycle periods and, vice versa, of indiscriminate restriction of loans in negative cycle periods (countercyclicity).

In light of these objectives, advanced statistical techniques were used in the various stages of the estimation process (e.g., identification of the explanatory/predictive default variables, integration of scores, etc.) as well as calibration of the internal ratings.

The rating models were developed internally under the responsibility of the Risk Models & Methodologies unit. The various stages of development of the models were structured to provide for the active involvement — in order to facilitate consistency of the models with management practices — of all internal stakeholders, namely the Group's Credit Function, the Organisation Function, the Retail and Corporate Commercial Function, the Administration and Financial Statements Function and the Information Technology (IT) Function.

In the process of developing the models, statistical techniques were used to support the methodological choices with solid empirical evidence. In particular, the interpretability and economic-financial value of the indicators used in the context of the rating models were the subject of verification by the Risk Function during the estimation activity (i.e., economic as well as statistical significance of the indicators) and discussions in the context of the planning Workgroup (e.g., Credit, Internal Validation, Internal Audit functions).

The statistical significance of the information was ascertained through appropriate analyses, which led to successive selections of the most significant indicators. This approach enabled the identification of the most significant information, avoiding the inclusion of redundant or superfluous information which would have increased its complexity, with no effective added value in terms of accuracy of the estimates produced.

The set of information used to estimate the rating models was defined with the objective of making the best use of the whole available database and was developed on the basis of the experience gained on the rating models previously estimated and of consistency with loan management practices, verified through the active collaboration of the competent corporate functions.

In particular, the historical series used in the estimation stage feature the greatest time depth available, and the development samples were selected to ensure the highest representativeness with respect to the Group's loan portfolio.

Structure of internal rating systems (LGD)

The internal models for calculating the Loss Given Default (LGD) were developed with the aim of favouring consistency with the Group lending processes, when identifying the explanatory drivers of estimates.

The existing models are differentiated by exposure bands, type of technical macro-form, presence/absence of guarantee, administrative status of the counterparty (performing, past due, unlikely to pay and bad loans) and vintage for defaults.

These were estimated by analysing the losses suffered by the Group on historic defaults (LGD workout), with a definition of default consistent with that applied to PD estimation models.

In order to include the impacts deriving from recessive short-term periods in the LGD calculation structure, the downturn component is estimated on the basis of the type of portfolio being analysed.

As required by the EBA guidelines, an MoC (Margin of Conservatism) component was estimated to take into account additional conservatism margins.

Additionally, the model includes the estimate of indirect costs, i.e. administrative costs which are not directly attributable to the single procedure.

The new LGD defaulted asset models also make it possible to identify unexpected values of losses (or LGD DA), the difference of which from the best estimate of LGD (or LGD ELBE) makes it possible to calculate (by using a specific regulatory formula) the Risk Weighted Assets on defaults.

Use of the rating system for management purposes

The main characteristics of the rating system used in the process of granting, monitoring and managing loans, in pricing, in capital adequacy (Pillar II) and in reporting are described briefly below.

Granting Loans

The rating plays a central role in assessing creditworthiness at the time of granting and revising/modifying credit.

The rating is used:

- for the purpose of identifying the decision-making powers, for which:
  - the assessment of creditworthiness - expressed by the rating determined by the models developed for the various regulatory segments of customers - is attributed operationally to "Classes of decision-making competence";
  - the riskiness of the operations is measured using mitigation classes defined based on the LGD associated with each credit line;
- at the moment of closing the proposal and the related decision, when the proponent and the decision maker must express an opinion on the overall consistency between the fiduciary arrangement being proposed/decided on (type

of credit lines and ancillary guarantees) and the assessment of creditworthiness expressed by the rating.

The Parent Company's Credit Function defines the credit policy guidelines, taking into account the economic and geo-sectoral information acquired from external sources in relation to the default probability and the expected losses of the various economic sectors.

The distribution of the growth of lending volumes is divided into the various sectors based on the values of the above metrics, providing for power reservations for counterparties with higher rating levels.

Loan Monitoring and Management

Positions that show the first symptoms of negativity are automatically placed in a monitoring and management process. These positions are identified automatically once a month based on a series of indicators, including the rating.

The positions of each segment that present the worst ratings classes are detected and placed into the process. In addition, for each position included in the process, the Manager must analyse the consistency of the rating with the management class proposed and assess, case by case, any need to activate the process to change (override) the rating.

Pricing

The Group has a pricing determination corrected for credit risk; this tool is capable of quantifying the minimum spread with respect to the internal rate of transfer of the funds which the company must carry out to ensure coverage of the expected credit loss, of the cost of capital and of all the components which enable value generation.

Capital Adequacy: Pillar II

The system of internal models is used as input to the portfolio model for the estimate of economic capital against the credit risk of both performing and default exposures, in the context of updating the risk propensity and of monitoring the risk limits (using Pillar II economic capital metrics), both on a final-figure basis and on a prospective basis.

Reporting

The rating and the LGD are the foundation of the management and operational reporting on the risks of the loan portfolio. As regards the management reporting, the Risk Function periodically prepares the Integrated Risk Report, which provides an overview of the Group's risk position with reference to the set of all risk factors, according to a framework compliant with Basel III (Pillar I and Pillar II).

Direct reporting is produced every quarter by the Risk Models & Methodologies unit, addressed to the Performance Session Credit Committee of Banco BPM Group containing a series of analyses of which an example list is provided below:

- Performance of average PDs and rating class for each internal model

- Change in EAD and RWA by administrative status and rating model (incoming/outgoing from performing/transitions between Default/continuing performing statuses). RWA, Expected Loss and EAD data by administrative status and portfolio.
- Opening of overall portfolio by reporting treatment (IRB, Standard), with details of the Roll-Out plan and exposures subject to PPU. Calculation of triggers relating to monitoring of the PPU perimeter. Calculation of coverage for the A-IRB portfolio
- A comparison between the PD and default rates observed over 12 months by rating class and model
- Summary overviews of the Impacts of the CCF/K (IMI 4738) models with updated historical series and comparison with STANDARD EAD
- Application of stress to PD and LGD, to static balance sheet, for quantification of impacts in terms of RWA, PA, shortfall and CET1 ratio at one year with baseline and adverse scenarios.
- Final and performance overviews of the risk parameters and economic capital (Second Pillar Credit Risk), distinction between Default Risk and Recovery Risk, with details between the portfolio model and regulatory residual model.
- Analysis of geo-sector and single name concentration on the A-IRB performing portfolio with a focus on the Real Estate sector.
- Quantification of the impacts deriving from regulatory add-ons in terms of LGD RWA and expected losses.
- Performance of regulatory expected losses and value adjustments - shortfall/excess - by administrative status and rating model.
- Analysis of guarantees in the reporting domain (Pillar I) with performance overviews of EAD on ratios, portion covered, fair value of guarantees and reasons for rejection.
- Quantification of overrides present on counterparties rated with corporate and retail models.
- Quantification of the impacts in terms of RWA and PA deriving from each component of the rating model (starting from the score).
- Positioning of the risk parameters (PD and LGD) of Banco BPM with respect to Italian peers.
- Estimate of the floor in terms of RWA required by Basel III Finalised.
- Evidence of the portfolio's exposure to ESG risks (transition, physical and environmental risks) with overviews by EAD, number of counterparties and property as collateral, including trends, focus on sectors, geographical areas and main borrower companies.

Calculation of value adjustments on performing exposures

Since 1 January 2018, Banco BPM Group has used the IFRS 9 accounting standard to calculate value adjustments on performing exposures. For further details on the impairment model used, please refer to the notes contained in the Consolidated Annual Financial Report.

With regard to the inclusion of forward-looking information, proprietary sector satellite models developed in-house by the Bank are used.

Regarding the AIRB parameters, on which the performing loan measurement model for financial statements purposes is based, note that from March 2021, the Regulator authorised the Bank to use a more updated IRB framework with the introduction into the various areas of application (regulatory and operational) of new PD, LGD and EAD parameters for retail and corporate customers. The effects of these new parameters, which moreover incorporate the new regulatory definition of default (EBA/GL/2016/07) and anticipate a range of aspects regarding the EBA guidelines on the estimation of PD, LGD and downturn (respectively EBA/GL/2017/16 and EBA/GL/2019/03), are therefore also considered in the expected non-performing exposure loss calculation framework for financial statements purposes.

Also note that, when preparing the financial statements as at 31 December 2023, it was deemed appropriate to apply a number of "post model adjustments/management overlays" with respect to the process for calculating value adjustments to performing exposures where it was considered that the estimation models in use were not able to adequately capture certain risk factors relevant for the expected loss calculation. These post model adjustment/management overlays, which in fact almost completely eliminate the positive economic impacts that would have otherwise been recognised, strengthen the Group's ability to absorb any negative macroeconomic effects considering the significant factors of uncertainty existing at the reporting date as at 31 December 2023.

The transitional nature of the "post-model adjustment/management overlays" remains valid, in addition to the consideration that the results deriving from the expected credit loss calculation models are influenced by macroeconomic scenarios that are largely dependent on phenomena that are not fully consolidated and, in any case, still subject to extreme variability and uncertainty.

For an illustration of the new macroeconomic scenarios incorporated into the calculation of value adjustments to non-performing exposures for financial statements purposes and for the sensitivity analyses produced, reference should be made to the Consolidated Interim Financial Report, paragraph "Methods for measuring IFRS 9 expected losses for financial reporting purposes" contained in "Part E – Information on risks and related hedging policies" of the Notes.

Calculation of collective value adjustments on non-performing exposures

Again, while further details on the impairment model used can be found in the notes contained in the Financial Report, note that the collective approach is applied to:

- Bad Loans and Unlikely to Pay (UtP) of a nominal amount of less than 1 million euro;
- Defaulted past due exposures irrespective of the nominal amount.

The measurement of non-performing exposures other than those mentioned above is instead analytical.

Following the application of accounting standard IFRS 9, from 1 January 2018, the calculation of value adjustments for financial statements purposes includes forward-looking elements. This is done through the introduction of specific sales scenarios in which the Group's non-performing loan management strategy sets forth that the recovery of the aforementioned exposures may also occur through disposal on the market, with the aim of pursuing a derisking strategy to decrease the NPE ratio, i.e., the percentage impact of non-performing exposures with respect to total exposures.

In line with the disposal objectives as defined from time to time by the Board of Directors, the Group's exposures classified under the non-performing loan status are measured by configuring two different estimates of expected cash flows:

- the first is determined by assuming a reference scenario in which the credit collection derives from activities developed directly by the bank and/or through the associated company Gardant Liberty Servicing (work out scenario);
- the second is determined by assuming a reference scenario involving credit collection through its disposal (sales scenario).

Estimates of recoverable amounts are therefore equal to the weighted average of the probabilities assigned to the two scenarios used to estimate cash flows the Group expects to receive from the scenarios.

Process for managing and recognising credit risk mitigation

Banco BPM Group places attention on the acquisition of loan collateral and securities, i.e. the use of tools and techniques that facilitate the mitigation of credit risk. On this point, the Group Banks, when performing lending activities, acquire guarantees typical of the banking business; these are mainly collateral on property or financial instruments and guarantees given by private, corporate and institutional customers, etc.

Within the Basel Project, and in particular in the CRM project area - which involved the transversal contribution of resources from the Risks, Organisation and Information Systems functions - all methodological, organisational and procedural interventions were carried out in order to enable the use of risk mitigation techniques based on internal probability of default (PD) and loss given default (LGD) models, in line with the legislative requirements.

With particular reference to the management of the various types of collateral and personal guarantees, there are:

- IT procedures that cover all the aspects related to management of the aforementioned guarantees;
- internal rules (Circulars, Instructions, Regulations, Process Standards) to be used by all Organisational Structures involved (Network and Central Structures), which provide

instructions of both a "Legislative" and a technical-operational nature.

The compliance of these interventions with legislative requirements was verified by the internal validation and audit functions.

Role of the functions involved in the creation, calibration, approval and subsequent changes of rating systems

The Group governs credit risk by assigning specific responsibilities to the Bodies, functions and Committees of the Parent Company and its Subsidiaries, in line with its Internal Control System and on the basis of an organisational model that provides for the centralised control within the Parent Company to convey a consistent policy and governance when managing the risks.

To measure the different aspects and components of credit risk, the Group adopts models and metrics developed in accordance with supervisory regulations, with a view to guaranteeing the sound and prudent management of the risk positions assumed and to comply with regulatory requirements, also assessing the effect of changes in the scenario to which the credit portfolio is exposed.

The internal models adopted are based on a development and updating process comprising a series of activities and procedures, the aim of which is to define, initially or when later updated, the rating models applicable to credit exposures, namely statistical or empirical models to support the credit assessments performed by the Companies of the Banking Group and to enable the capital requirements of the same against the risk of unexpected losses to be calculated. The periodic calibration of risk parameters is also part of the development process.

These models are subject to periodic backtesting and stress testing in order to guarantee that they are statistically robust and prudential. They are validated by an operational unit independent from the function responsible for their development, and are audited at least annually by the Audit function.

On an annual basis, analyses and activities are carried out with a view to calibrating the rating models in order to incorporate the most recent evidence relating to the default and loss rates observed for the credit counterparties.

The initial commissioning proposals, extensions, modifications and any disposals of the internal models used for regulatory purposes and, where substantial, the internal models used for management purposes for measuring credit risks are approved by the Board of Directors.

The Risk Function is the structure responsible for managing the rating models development and updating process. It is also responsible for keeping the models used for credit risk measurement updated over time, ensuring they are adequate and guaranteeing, through functional analyses, the consistency and respect of the reference regulations and of the Group's business model.

The Internal Validation function is responsible, at the phase of initial commissioning and continuously, for validating the models and metrics used to measure credit risks, assessing the adequacy of the MoCs identified by the Risks function and evaluating the substantial or non-substantial modifications that exceed the materiality criteria established by Supervisory Regulations and require express prior authorisation from the Supervisory Authority.

Rating systems control and review

A prerequisite for the adoption of internal risk measurement systems to calculate capital requirements is the presence of a process of validation and internal auditing of the rating systems, both at the stage of setting up these systems, with a view to obtaining authorisation from the Supervisory Authorities, and at the stage of continual management/maintenance of the same once authorisation has been obtained.

Banco BPM Group has an Internal Validation Function (part of the staff of the Risk Function) responsible for the validation processes of Banco BPM Group's risk measurement and management systems. These activities are carried out, at least on a yearly basis and independently, by the Functions tasked with risk measurement and management and by the Function responsible for Internal Audit. The structure is responsible for continual and iterative validation activity related to the risk measurement and management systems, in order to assess their adequacy with respect to the legislative requirements, the corporate operating needs and those of the market of reference. The results of its evaluations are presented to the Corporate Bodies in a specific report.

The Internal Audit activity provided for in the Supervisory Regulations is carried out by Banco BPM's Audit Function. With specific regard to credit risks, the structure audits the entire process of adoption and management of the internal measurement systems according to methods and areas of responsibility defined by the corporate regulations and on the basis of a specific work plan.

The structure is tasked with assessing the functionality of the overall arrangement of the process of measuring, managing and controlling the Group's exposure to credit risks, including through periodic audits of the process of internal validation of the related models prepared under the terms of the prudential Supervisory Regulations.

At least on an annual basis, the Audit Function presents the results of its assessments in a specific report to the Corporate Bodies. The latter also includes a general risk assessment in line with the regulatory requirements, which constitutes the prerequisite for defining the periodic audit plan.

Description of the internal rating models for the regulatory Corporate and Private segments

Aspects common to the various models

Calibration of the model is based on a long-term central tendency. The calibration function was created to define a correspondence between integrated scores and the long-term default probabilities (PDs).

The calibration philosophy adopted by the former Banco is based on a "through-the-cycle" (TTC) approach, which neutralises the possible impacts deriving from an economic cycle in the phase of expansion or recession.

The PD models return valuations divided into 11 performing rating classes, with average class PDs differentiated for each rating model.

Additionally, the Group has defined a methodological approach, on the basis of which the counterparty's rating undergoes notching to consider whether the counterparty belongs to an Economic Group (only legal links between parent company and subsidiary are considered).

The following table shows the main exposure classes to which each internal model is applied.

Internal Model Segment	Type of exposure classes
Large Corporate	Corporate - Other
Mid Corporate Plus	Corporate - Other
Mid Corporate	Corporate SME & Retail SME Other Exposure
Small Business	Retail SME: Mortgage & Other Exposure
Private	Retail Non-SME

Large Corporate model

The Large Corporate rating model was defined taking into account the classification of customers provided by the Credit Department experts (expert rank ordering). The objective of this decision was to obtain an assessment of the counterparty, which, on one hand, would be based on statistical principles and, on the other, would incorporate the specialised experience of the Credit Function on this customer segment.

This model is made up of two modules: economic-financial and qualitative.

The score obtained by the quantitative model is achieved through notching (positive, negative or neutral) of the rating class arising from the economic-financial score.

The counterparty's rating can subsequently be changed for companies belonging to an economic group.

Lastly, the Rating Desk attributes the final rating by reviewing the rating assigned by the model on the basis of warning signals or other performance-related information available but not directly captured by the model.

Business models

The models related to Small Business, Mid Corporate and Mid Corporate Plus segmented counterparties are developed starting from four information sources processed in specific modules that contribute, through statistical scores, to determining the final probability of default (PD) for each individual counterparty, through the adoption of integration functions differentiated by segment and by seniority of customers (acceptance portfolio and monitoring portfolio). The elementary modules on which these models are based, corresponding to the four information sources, are the following:

- **Internal Performance module**: its purpose is to detect the trend of creditworthiness of trusted counterparties over time and is based on data concerning relations of the said counterparties with the banks in the Group;

- **Central Credit Register module**: its purpose is to detect the evolution over time of the counterparty's relationship (if reported) with the other banks of the system, based on the reporting data of the Central Credit Register;
- **Economic-Financial module**: its purpose is to assess the creditworthiness of customers based on economic-financial information, with particular reference to counterparties that prepare financial statements according to the provisions of the Italian Civil Code (or ordinary accounting);
- **Qualitative module**: based on information coming from qualitative questionnaires, divided into the counterparties' business activity segments.

Starting from the single scores of the modules, an integrated score is statistically calculated (integration function) to summarise in a single risk indicator the results coming from the elementary modules (Internal Performance, Central Credit Register and Economic-Financial for the monitoring model; Central Credit Register, Economic-Financial and Qualitative for the acceptance model).

The score produced by the integration function is subsequently associated with a default probability (PD) through the definition and application of a specific calibration function; this probability of default is, finally, mapped on the rating classes.

The calibration functions, which are differentiated for each rating segment, aim to "anchor" the Probability of Default to the long-term Central Tendency.

Then, after the calibration phase, the qualitative questionnaire on the monitoring model is used for notching the rating class, starting from specific ranges (cut-offs) of the qualitative scores (in particular, each cut-off corresponds to a certain number of notches above or below the rating class). Finally, in the case of a Large Corporate, Mid Corporate Plus, Mid Corporate or Small Business segmented counterparty belonging to a Group with a consolidating Parent Company which is Large Corporate or Mid Corporate Plus (with consolidated financial statements), the rules on notching (upgrading/downgrading of the counterparty's rating) defined by the Group are applied.

Private model

The default probability is calculated and attributed by counterparty. For customers shared with several banks in the Group, the principle of data accumulation is adopted in order to calculate a single rating for these counterparties.

The development sample is made up of all Private counterparties, i.e., counterparties whose legal status is "Natural Persons or Joint Accounts of natural persons", with an exposure recorded in relation to the Group banks, with no connection to a sole trader, or joint accounts of natural persons. Each module is based on a different information source and provides an intermediate score, which contributes to the various integration functions that assign the final PD to the counterparty. The model is made up of four elementary modules which contribute to determining the final counterparty PD through four integration functions, divided by seniority of relationship between customer and bank and by presence/absence of a new product.

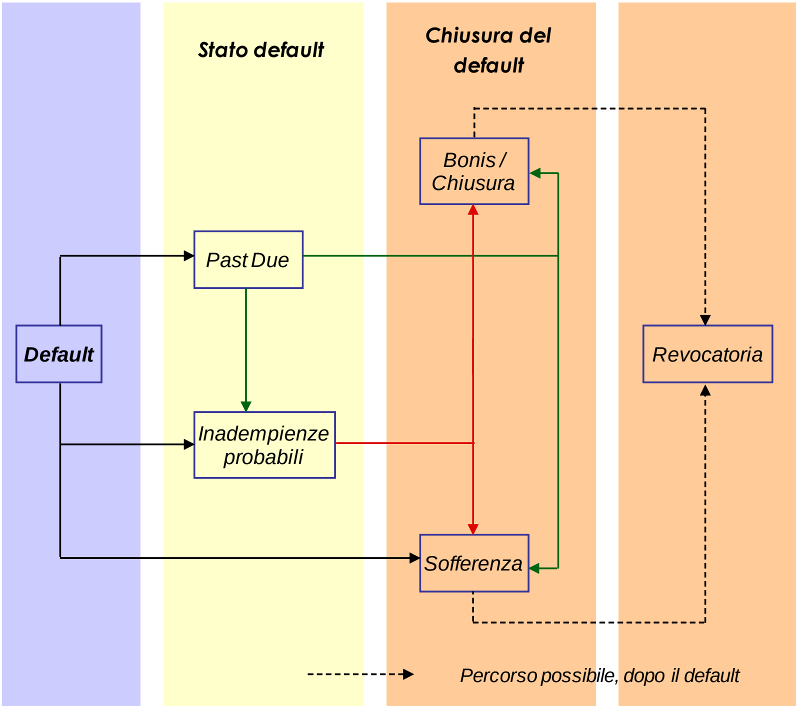
Description of the Corporate and Private LGD models

These models are differentiated by exposure bands, type of technical macro-form, presence/absence of guarantee and status of the counterparty (performing, past due, unlikely to pay and bad loans).

These were estimated by analysing the losses suffered by the Group on historic defaults (LGD workout), with a definition of default consistent with that applied to PD estimation models. Conditioned upon entry into default status, a resolution case for their cycle may be associated with each counterparty, irrespective of the progress made in the intermediate stages of default. These cases may be:

- **return to performing**: the case of a counterparty in default that returns to being part of the performing portfolio. This can happen regardless of whether the Bank incurs a loss;
- **closure of the position**: when a counterparty in default does not transfer to Bad Loans and closes the commercial relationships with the Bank during the status of Past Due or Unlikely to Pay. This can happen regardless of whether the Bank incurs a loss;
- **transfer to bad loans**: the most serious default status, from which it is not possible to return either to a previous default status or to performing. When a counterparty is transferred to Bad Loans, all relationships with the Bank are closed, and the process begins of recovering the amount for which the counterparty is exposed.

All the possible routes that a counterparty in default may follow, and which were considered in the LGD models, are shown in the figure below:



The default statuses related to Past Due and Unlikely to Pay can occur as initial entry statuses or, only in cases of Unlikely to Pay, also later.

Lastly, an additional possibility for resolution of the default is activation of the Revocation procedure (or action), which can occur after transfer to Bad Loans following a closure or return to performing.

The LGD models consist of five versions, according to the administrative status of the counterparty. In order to include the impacts deriving from recessive short-term periods in the LGD calculation structure, the downturn component is estimated on the basis of the type of portfolio being analysed. The addition of this effect to the LGD estimate is determined through the application of a specific correction factor (add-on).

This approach consists of estimating the main components of the model in downturn periods identified along the historical series taken as a reference and verifying the impact with respect to the result obtained from the LGD estimate performed on the entire observation period.

The models also include the estimate of indirect costs (administrative costs that are not directly attributable to the individual file), which is obtained through the following steps: identification of the average cost per year for a bad loan file, allocation - based on the duration of the default file - of the annual average cost and, finally, prudential allocation of the same amount also for pre-bad loan statuses.

The new LGD defaulted asset models also make it possible, to comply with the relevant legislative requirements, to identify unexpected values of losses (LGD DA), the difference of which from the best estimate of LGD (LGD ELBE) makes it possible to calculate (by using a specific regulatory formula) the Risk Weighted Assets on defaults.

Relation between internal and external ratings

The connection between internal and external rating models is reported below, specifically with reference to Standard & Poor's rating.

S&P Rating	Large Corporate model	Mid Corporate Plus model	Mid Corporate model	Small Business model	Private model
AAA	-	-	-	-	-
AA	1	1	-	-	-
A	2	2	1	-	1
BBB	3	3	2-3	1-2	2-4
BB	4-5	4-5	4-5	3-5	5-7
B	6-9	6-7	6-8	6-7	8-9
CCC	10-11	8-9	9	8-9	10
CC		10	10	10	11
C		11	11	11	

Template EU CR6 – A-IRB approach: credit risk exposures by exposure class and PD range

A-IRB	PD range	On-balance sheet exposures	Off-balance sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post-CCF and post-CRM	Exposure weighted average PD (%)	Number of debtors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Amount of the risk-weighted exposure after the application of support factors	Density of risk weighted exposure amounts	Expected loss amount	Value adjustments and provisions
	a	b	c	d	e	f	g	h	i	j	k	l	m
Exposures to or guaranteed by businesses - SMEs	0.00 to < 0.15	1,573,205	2,211,529	25.40%	2,316,832	0.09%	2,745	31.66%	2	252,113	10.88%	641	(437)
	0.00 to < 0.10	407,495	1,013,511	25.61%	736,956	0.04%	917	34.67%	1	54,150	7.35%	112	(93)
	0.10 to < 0.15	1,165,710	1,198,018	25.22%	1,579,876	0.11%	1,828	30.25%	2	197,963	12.53%	529	(344)
	0.15 to < 0.25	1,610,158	1,260,312	23.77%	2,072,763	0.21%	2,183	29.73%	2	379,890	18.33%	1,310	(1,390)
	0.25 to < 0.50	1,773,103	1,100,630	19.31%	2,165,735	0.39%	2,512	29.60%	2	562,679	25.98%	2,498	(3,882)
	0.50 to < 0.75	400,044	88,183	29.89%	454,126	0.62%	1,079	23.42%	3	124,734	27.47%	664	(2,437)
	0.75 to < 2.50	3,053,252	2,020,605	14.74%	3,666,672	1.20%	4,560	28.66%	2	1,534,786	41.86%	12,410	(23,367)
	0.75 to < 1.75	2,574,174	1,907,428	13.38%	3,115,696	1.11%	3,408	29.36%	2	1,299,901	41.72%	10,017	(16,212)
	1.75 to < 2.50	479,078	113,177	37.78%	550,976	1.76%	1,152	24.70%	3	234,885	42.63%	2,394	(7,156)
	2.50 to < 10.00	2,553,335	512,318	20.88%	2,822,977	4.38%	2,676	25.36%	3	1,658,197	58.74%	30,697	(50,171)
	2.5 to < 5	1,495,215	364,893	20.82%	1,669,352	2.92%	1,553	25.89%	3	917,502	54.96%	12,607	(20,479)
	5 to < 10	1,058,119	147,425	21.02%	1,153,625	6.49%	1,123	24.58%	3	740,695	64.21%	18,089	(29,692)
	10.00 to < 100.00	546,441	79,137	22.41%	592,054	28.11%	953	25.23%	3	572,815	96.75%	44,127	(44,739)
	10 to < 20	322,370	44,884	25.94%	348,796	15.73%	485	23.89%	3	320,419	91.86%	13,185	(18,447)
	20 to < 30	38,372	2,994	15.48%	40,701	27.74%	93	23.72%	3	37,707	92.64%	2,678	(3,715)
	30.00 to < 100.00	185,699	31,259	18.01%	202,557	49.52%	375	27.84%	3	214,689	105.99%	28,264	(22,577)
	100.00 (default)	1,178,373	279,986	53.51%	1,389,053	100.00%	1,580	45.42%	3	333,256	23.99%	604,187	(636,425)
Total as at 31/12/2023		**12,687,911**	**7,552,699**	**22.15%**	**15,480,210**	**11.25%**	**18,288**	**30.00%**	**2**	**5,418,470**	**35.00%**	**696,535**	**(762,849)**
Total (all exposure classes)		**64,982,678**	**46,592,113**	**23.11%**	**81,588,093**		**649,207**		**2**	**20,657,505**	**25.32%**	**1,641,646**	**(1,712,995)**

A-IRB	PD range	On-balance sheet exposures	Off-balance sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post-CCF and post-CRM	Exposure weighted average PD (%)	Number of debtors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Amount of the risk-weighted exposure after the application of support factors	Density of risk weighted exposure amounts	Expected loss amount	Value adjustments and provisions
	a	b	c	d	e	f	g	h	i	j	k	l	m
Exposures to or guaranteed by businesses - Other businesses	0.00 to < 0.15	1,718,139	5,436,651	21.97%	3,207,054	0.05%	1,277	29.26%	1	279,836	8.73%	460	(301)
	0.00 to < 0.10	1,697,869	5,410,557	21.98%	3,179,297	0.05%	1,245	29.27%	1	275,760	8.67%	451	(296)
	0.10 to < 0.15	20,270	26,094	20.70%	27,756	0.11%	32	28.32%	1	4,076	14.69%	9	(5)
	0.15 to < 0.25	3,288,962	7,343,744	19.21%	5,173,376	0.15%	970	25.79%	2	928,191	17.94%	2,048	(1,178)
	0.25 to < 0.50	3,856,883	7,476,497	20.55%	6,108,170	0.38%	966	25.69%	2	1,894,879	31.02%	5,884	(6,124)
	0.50 to < 0.75	10,793	2,924	21.39%	12,015	0.63%	15	25.75%	2	4,922	40.96%	19	(8)
	0.75 to < 2.50	4,822,524	5,594,656	20.20%	6,552,599	1.17%	1,134	24.81%	2	3,279,773	50.05%	19,092	(17,371)
	0.75 to < 1.75	4,819,592	5,593,783	20.20%	6,549,198	1.17%	1,124	24.81%	2	3,277,609	50.05%	19,075	(17,363)
	1.75 to < 2.50	2,932	873	24.39%	3,401	1.76%	10	28.15%	2	2,164	63.63%	17	(8)
	2.50 to < 10.00	1,441,371	1,230,511	16.24%	1,769,049	3.84%	451	25.33%	2	1,324,603	74.88%	17,296	(18,806)
	2.5 to < 5	1,009,416	928,158	13.29%	1,225,758	2.98%	283	24.85%	2	831,461	67.83%	9,073	(8,148)
	5 to < 10	431,955	302,354	25.27%	543,291	5.76%	168	26.40%	2	493,142	90.77%	8,224	(10,658)
	10.00 to < 100.00	350,832	86,124	12.80%	389,467	19.23%	103	24.74%	2	464,822	119.35%	18,820	(12,096)
	10 to < 20	303,563	82,568	12.19%	333,988	14.09%	86	24.52%	2	397,322	118.96%	11,557	(6,629)
	20 to < 30	-	-	-	-	-	-	-	-	-	-	-	-
	30.00 to < 100.00	47,269	3,556	26.86%	55,479	50.18%	17	26.04%	2	67,500	121.67%	7,263	(5,467)
	100.00 (default)	323,980	327,428	21.13%	433,735	100.00%	75	35.11%	2	117,048	26.99%	142,918	(202,531)
Total as at 31/12/2023		**15,813,484**	**27,498,536**	**20.19%**	**23,645,464**	**2.90%**	**4,992**	**26.08%**	**2**	**8,294,073**	**35.08%**	**206,537**	**(258,415)**
Total (all exposure classes)		**64,982,678**	**46,592,113**	**23.11%**	**81,588,093**		**649,207**		**2**	**20,657,505**	**25.32%**	**1,641,646**	**(1,712,995)**

A-IRB	PD range	On-balance sheet exposures	Off-balance sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post-CCF and post-CRM	Exposure weighted average PD (%)	Number of debtors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Amount of the risk-weighted exposure after the application of support factors	Density of risk weighted exposure amounts	Expected loss amount	Value adjustments and provisions
	a	b	c	d	e	f	g	h	i	j	k	l	m
Exposures in detail - Exposures guaranteed by property: SMEs	0.00 to < 0.15	380,975	20,011	15.74%	387,939	0.10%	2,898	19.00%	-	14,182	3.66%	75	(44)
	0.00 to < 0.10	118,807	6,150	14.52%	120,723	0.07%	1,062	17.83%	-	3,155	2.61%	15	(9)
	0.10 to < 0.15	262,169	13,861	16.28%	267,216	0.11%	1,836	19.53%	-	11,027	4.13%	59	(35)
	0.15 to < 0.25	311,839	4,887	15.72%	315,869	0.20%	2,427	19.48%	-	20,259	6.41%	125	(203)
	0.25 to < 0.50	485,461	5,414	22.55%	491,490	0.35%	4,328	18.78%	-	45,322	9.22%	324	(517)
	0.50 to < 0.75	375,675	2,959	10.83%	380,113	0.62%	3,165	18.53%	-	51,647	13.59%	437	(1,278)
	0.75 to < 2.50	747,726	8,406	15.10%	757,569	1.40%	5,700	19.09%	-	180,746	23.86%	2,022	(7,755)
	0.75 to < 1.75	407,788	4,705	15.42%	413,158	1.09%	2,989	19.10%	-	84,434	20.44%	857	(2,969)
	1.75 to < 2.50	339,939	3,701	14.70%	344,411	1.77%	2,711	19.08%	-	96,312	27.96%	1,165	(4,786)
	2.50 to < 10.00	519,634	4,244	13.37%	526,299	4.68%	3,731	19.41%	-	257,635	48.95%	4,783	(16,236)
	2.5 to < 5	279,986	1,905	14.10%	283,508	3.26%	2,163	19.35%	-	115,626	40.78%	1,781	(6,247)
	5 to < 10	239,648	2,339	12.77%	242,791	6.34%	1,568	19.48%	-	142,009	58.49%	3,002	(9,989)
	10.00 to < 100.00	319,337	741	13.57%	323,101	28.37%	2,791	19.35%	-	263,954	81.69%	17,759	(29,141)
	10 to < 20	146,037	367	13.47%	147,790	13.58%	1,153	19.42%	-	118,064	79.89%	3,904	(9,465)
	20 to < 30	66,410	263	12.90%	67,234	27.74%	612	19.47%	-	61,894	92.06%	3,631	(6,599)
	30.00 to < 100.00	106,890	111	15.46%	108,077	48.98%	1,026	19.17%	-	83,996	77.72%	10,225	(13,077)
	100.00 (default)	264,290	977	20.98%	266,962	100.00%	2,038	33.01%	-	20,568	7.70%	86,490	(80,540)
Total as at 31/12/2023		**3,404,936**	**47,638**	**15.96%**	**3,449,341**	**11.57%**	**27,078**	**20.16%**	**-**	**854,312**	**24.77%**	**112,016**	**(135,714)**
Total (all exposure classes)		**64,982,678**	**46,592,113**	**23.11%**	**81,588,093**		**649,207**		**2**	**20,657,505**	**25.32%**	**1,641,646**	**(1,712,995)**

A-IRB	PD range	On-balance sheet exposures	Off-balance sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post-CCF and post-CRM	Exposure weighted average PD (%)	Number of debtors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Amount of the risk-weighted exposure after the application of support factors	Density of risk weighted exposure amounts	Expected loss amount	Value adjustments and provisions
	a	b	c	d	e	f	g	h	i	j	k	l	m
Exposures in detail - Exposures guaranteed by property: other	0.00 to < 0.15	8,732,670	4,670	1.60%	8,803,304	0.10%	83,609	18.50%	-	395,417	4.49%	1,571	(1,026)
	0.00 to < 0.10	5,810,686	1,939	2.61%	5,857,659	0.08%	54,473	18.54%	-	229,777	3.92%	873	(549)
	0.10 to < 0.15	2,921,984	2,731	0.88%	2,945,645	0.13%	29,136	18.43%	-	165,640	5.62%	698	(477)
	0.15 to < 0.25	3,412,665	5,687	1.87%	3,440,668	0.19%	38,726	18.67%	-	266,897	7.76%	1,245	(1,240)
	0.25 to < 0.50	7,450,961	4,801	1.97%	7,511,462	0.34%	82,858	18.69%	-	874,863	11.65%	4,726	(4,673)
	0.50 to < 0.75	2,901,979	1,854	0.90%	2,925,919	0.61%	36,712	18.53%	-	513,131	17.54%	3,292	(6,380)
	0.75 to < 2.50	1,447,868	2,323	1.10%	1,459,724	1.44%	16,560	18.27%	-	442,405	30.31%	3,832	(9,941)
	0.75 to < 1.75	872,257	1,365	1.19%	879,381	1.07%	9,880	18.42%	-	225,581	25.65%	1,739	(5,331)
	1.75 to < 2.50	575,611	958	0.96%	580,343	2.00%	6,680	18.05%	-	216,824	37.36%	2,092	(4,610)
	2.50 to < 10.00	211,587	2,798	1.39%	213,393	4.39%	2,538	18.40%	-	128,093	60.03%	1,725	(3,417)
	2.5 to < 5	211,587	2,798	1.39%	213,393	4.39%	2,538	18.40%	-	128,093	60.03%	1,725	(3,417)
	5 to < 10	-	-	-	-	-	-	-	-	-	-	-	-
	10.00 to < 100.00	448,886	1,496	0.76%	452,551	27.72%	4,451	18.66%	-	481,861	106.48%	23,453	(26,877)
	10 to < 20	164,251	1,229	0.55%	165,592	11.73%	1,719	18.54%	-	157,147	94.90%	3,601	(5,872)
	20 to < 30	-	-	-	-	-	-	-	-	-	-	-	-
	30.00 to < 100.00	284,635	267	1.75%	286,959	36.94%	2,732	18.73%	-	324,715	113.16%	19,852	(21,005)
	100.00 (default)	485,032	288	0.04%	488,024	100.00%	5,790	32.33%	-	18,774	3.85%	156,281	(112,967)
Total as at 31/12/2023		**25,091,647**	**23,918**	**1.54%**	**25,295,045**	**2.78%**	**271,244**	**18.84%**	**-**	**3,121,442**	**12.34%**	**196,126**	**(166,521)**
Total (all exposure classes)		**64,982,678**	**46,592,113**	**23.11%**	**81,588,093**		**649,207**		**2**	**20,657,505**	**25.32%**	**1,641,646**	**(1,712,995)**

A-IRB	PD range	On-balance sheet exposures	Off-balance sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post-CCF and post-CRM	Exposure weighted average PD (%)	Number of debtors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Amount of the risk-weighted exposure after the application of support factors	Density of risk weighted exposure amounts	Expected loss amount	Value adjustments and provisions
	a	b	c	d	e	f	g	h	i	j	k	l	m
Exposures in detail - Exposures retail revolving exposures	0.00 to < 0.15	9,599	182,844	76.01%	236,308	0.09%	28,949	35.42%	-	4,977	2.11%	78	(9)
	0.00 to < 0.10	5,518	108,935	73.94%	136,544	0.07%	15,443	33.75%	-	2,020	1.48%	30	(4)
	0.10 to < 0.15	4,081	73,909	79.07%	99,763	0.13%	13,506	37.69%	-	2,957	2.96%	48	(5)
	0.15 to < 0.25	8,177	60,509	78.66%	88,726	0.19%	11,918	35.82%	-	3,503	3.95%	62	(10)
	0.25 to < 0.50	18,299	97,071	77.43%	148,075	0.34%	18,828	36.30%	-	9,271	6.26%	181	(25)
	0.50 to < 0.75	24,821	87,334	77.07%	145,140	0.61%	18,744	36.92%	-	14,774	10.18%	325	(41)
	0.75 to < 2.50	69,340	125,216	81.04%	268,422	1.44%	39,201	39.02%	-	55,102	20.53%	1,499	(260)
	0.75 to < 1.75	33,262	81,114	84.44%	160,949	1.07%	25,131	39.88%	-	27,499	17.09%	689	(76)
	1.75 to < 2.5	36,078	44,102	74.79%	107,474	2.00%	14,070	37.73%	-	27,603	25.68%	810	(185)
	2.50 to < 10.00	32,151	27,204	67.00%	77,783	4.39%	8,997	36.44%	-	33,545	43.13%	1,245	(335)
	2.5 to < 5	32,151	27,204	67.00%	77,783	4.39%		36.44%	-	33,545	43.13%	1,245	(335)
	5 to < 10	-	-	-	-	-	-	-	-	-	-	-	-
	10.00 to < 100.00	24,557	10,254	59.06%	47,542	18.14%	5,294	35.61%	-	41,260	86.79%	3,083	(1,211)
	10 to < 20	17,735	9,071	57.40%	35,442	11.72%	3,817	35.46%	-	27,112	76.50%	1,473	(553)
	20 to < 30	-	-	-	-	-	-	-	-	-	-	-	-
	30.00 to < 100.00	6,821	1,183	71.73%	12,099	36.92%	1,477	36.04%	-	14,148	116.93%	1,610	(658)
	100.00 (default)	2,610	492	90.92%	4,702	100.00%	694	36.45%	-	645	13.72%	1,662	(1,550)
Total as at 31/12/2023		**189,553**	**590,923**	**77.04%**	**1,016,697**	**2.20%**	**132,625**	**36.84%**	**-**	**163,077**	**16.04%**	**8,136**	**(3,442)**
Total (all exposure classes)		**64,982,678**	**46,592,113**	**23.11%**	**81,588,093**		**649,207**		**2**	**20,657,505**	**25.32%**	**1,641,646**	**(1,712,995)**

A-IRB	PD range	On-balance sheet exposures	Off-balance sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post-CCF and post-CRM	Exposure weighted average PD (%)	Number of debtors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Amount of the risk-weighted exposure after the application of support factors	Density of risk weighted exposure amounts	Expected loss amount	Value adjustments and provisions
	a	b	c	d	e	f	g	h	i	j	k	l	m
Exposures in detail - Other exposures in detail: SMEs	0.00 to < 0.15	1,153,871	4,752,923	25.42%	2,691,920	0.09%	18,636	35.43%	-	171,376	6.37%	834	(444)
	0.00 to < 0.10	233,397	2,212,985	23.30%	862,274	0.04%	3,879	35.61%	-	33,521	3.89%	135	(117)
	0.10 to < 0.15	920,474	2,539,938	27.27%	1,829,646	0.11%	14,757	35.34%	-	137,856	7.53%	699	(327)
	0.15 to < 0.25	979,560	1,814,401	26.52%	1,667,458	0.21%	14,754	35.08%	-	198,904	11.93%	1,231	(617)
	0.25 to < 0.50	937,162	1,377,004	27.80%	1,530,837	0.37%	17,238	34.98%	-	263,671	17.22%	2,006	(1,490)
	0.50 to < 0.75	576,602	595,977	36.84%	949,859	0.62%	18,214	34.12%	-	212,928	22.42%	2,022	(1,300)
	0.75 to < 2.50	1,480,290	1,366,411	33.52%	2,317,472	1.31%	42,096	34.46%	-	716,535	30.92%	10,410	(7,472)
	0.75 to < 1.75	1,011,879	1,020,022	29.55%	1,553,075	1.08%	22,323	34.62%	-	453,273	29.19%	5,801	(4,391)
	1.75 to < 2.50	468,412	346,389	45.20%	764,398	1.77%	19,773	34.15%	-	263,262	34.44%	4,609	(3,081)
	2.50 to < 10.00	882,944	501,173	34.78%	1,279,613	4.44%	28,397	34.09%	-	512,951	40.09%	19,374	(16,457)
	2.5 to < 5	510,766	322,359	36.69%	762,578	3.15%	17,019	33.90%	-	294,214	38.58%	8,119	(6,079)
	5 to < 10	372,178	178,814	31.34%	517,035	6.34%	11,378	34.38%	-	218,738	42.31%	11,255	(10,379)
	10.00 to < 100.00	303,378	106,408	37.85%	418,068	24.48%	18,311	34.30%	-	249,849	59.76%	35,018	(23,975)
	10 to < 20	181,725	66,743	36.92%	251,835	14.06%	9,380	34.45%	-	134,387	53.36%	12,216	(8,705)
	20 to < 30	59,030	16,661	36.57%	79,176	27.73%	3,193	34.19%	-	54,786	69.20%	7,507	(4,807)
	30.00 to < 100.00	62,623	23,004	41.47%	87,057	51.64%	5,738	33.96%	-	60,676	69.70%	15,295	(10,463)
	100.00 (default)	405,366	80,569	40.66%	482,375	100.00%	14,842	65.69%	-	128,755	26.69%	306,565	(294,844)
Total as at 31/12/2023		**6,719,173**	**10,594,865**	**28.29%**	**11,337,604**	**6.08%**	**172,488**	**36.10%**	**-**	**2,454,970**	**21.65%**	**377,460**	**(346,598)**
Total (all exposure classes)		**64,982,678**	**46,592,113**	**23.11%**	**81,588,093**		**649,207**		**2**	**20,657,505**	**25.32%**	**1,641,646**	**(1,712,995)**

A-IRB	PD range	On-balance sheet exposures	Off-balance sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post-CCF and post-CRM	Exposure weighted average PD (%)	Number of debtors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Amount of the risk-weighted exposure after the application of support factors	Density of risk weighted exposure amounts	Expected loss amount	Value adjustments and provisions
	a	b	c	d	e	f	g	h	i	j	k	l	m
Exposures in detail - Other exposures in detail: other	0.00 to < 0.15	154,926	45,133	28.94%	177,891	0.10%	7,878	25.00%	-	11,111	6.25%	42	(19)
	0.00 to < 0.10	98,757	25,376	28.95%	110,964	0.08%	5,171	25.27%	-	5,925	5.34%	21	(8)
	0.10 to < 0.15	56,169	19,757	28.92%	66,927	0.13%	2,707	24.56%	-	5,186	7.75%	21	(11)
	0.15 to < 0.25	77,549	30,848	37.84%	97,898	0.19%	4,799	25.18%	-	10,360	10.58%	48	(95)
	0.25 to < 0.50	190,838	38,362	26.67%	223,001	0.34%	9,557	24.01%	-	32,271	14.47%	180	(150)
	0.50 to < 0.75	121,517	50,337	36.23%	163,914	0.61%	8,343	24.51%	-	34,063	20.78%	244	(275)
	0.75 to < 2.50	208,257	65,460	26.90%	275,320	1.50%	15,506	24.95%	-	84,352	30.64%	1,029	(856)
	0.75 to < 1.75	113,454	33,793	30.77%	148,432	1.07%	9,614	25.06%	-	41,347	27.86%	400	(243)
	1.75 to < 2.5	94,803	31,667	22.77%	126,888	2.00%	5,892	24.82%	-	43,005	33.89%	629	(614)
	2.50 to < 10.00	172,520	30,211	23.94%	226,443	4.39%	5,494	23.46%	-	82,102	36.26%	2,333	(2,058)
	2.5 to < 5	172,520	30,211	23.94%	226,443	4.39%	5,494	23.46%	-	82,102	36.26%	2,333	(2,058)
	5 to < 10	-	-	-	-	-	-	-	-	-	-	-	-
	10.00 to < 100.00	104,228	22,661	23.06%	146,751	18.93%	22,441	28.03%	-	90,306	61.54%	8,251	(4,437)
	10 to < 20	75,130	20,596	23.12%	104,410	11.72%	7,826	25.94%	-	50,987	48.83%	3,171	(2,025)
	20 to < 30	-	-	-	-	-	-	-	-	-	-	-	-
	30.00 to < 100.00	29,098	2,065	22.41%	42,341	36.72%	14,615	33.19%	-	39,319	92.86%	5,080	(2,412)
	100.00 (default)	46,140	520	64.20%	52,513	100.00%	11,371	63.29%	-	6,596	12.56%	32,709	(31,567)
Total as at 31/12/2023		**1,075,975**	**283,533**	**29.48%**	**1,363,733**	**7.08%**	**85,389**	**26.33%**	**-**	**351,161**	**25.75%**	**44,837**	**(39,456)**
Total (all exposure classes)		**64,982,678**	**46,592,113**	**23.11%**	**81,588,093**		**649,207**		**2**	**20,657,505**	**25.32%**	**1,641,646**	**(1,712,995)**

It should be noted that the balance sheet exposures are constructed by considering the substitution effects of guarantees and therefore net of the guaranteed part of the IRB exposures which has flowed out to other classes, primarily to Standard, in accordance with the Corep compilation instructions to which the EBA mapping of the EU CR6 table refers.

Template EU CR7 – IRB approach: effect on the RWEAs of credit derivatives used as CRM techniques

		31/12/2023	
		Pre-credit derivatives risk weighted exposure amount	Actual risk weighted exposure amount
		a	b
1	**Exposures under F-IRB**	**-**	**-**
2	Central governments and central banks	-	-
3	Institutions	-	-
4	Corporates	-	-
4.1	*of which corporates - SMEs*	-	-
4.2	*of which corporates - Specialised lending*	-	-
5	**Exposures under A-IRB**	**20,657,505**	**20,657,505**
6	Central governments and central banks	-	-
7	Institutions	-	-
8	Corporates	13,712,543	13,712,543
8.1	*of which corporates - SMEs*	5,418,470	5,418,470
8.2	*of which corporates - Specialised lending*	-	-
9	Retail	6,944,962	6,944,962
9.1	*of which Retail – SMEs, collateralised by property*	854,312	854,312
9.2	*of which Retail – non-SMEs, collateralised by property*	3,121,442	3,121,442
9.3	*of which retail - Qualifying revolving*	163,077	163,077
9.4	*of which Retail - SMEs, other*	2,454,970	2,454,970
9.5	*of which Retail - non-SMEs, other*	351,161	351,161
10	**TOTAL (including F-IRB exposures and A-IRB exposures)**	**20,657,505**	**20,657,505**

Exposures to counterparty credit risk (CCR), exposures to securitisations, assets other than loans and equity instrument exposures are excluded from this model.

Template EU CR7-A – IRB approach: disclosure of the extent of the use of CRM techniques

A-IRB		Total exposures	Credit risk mitigation techniques											Credit risk mitigation methods in the calculation of RWEAs	
			Funded credit protection (FCP)									Unfunded credit protection (UFCP)			
			Part of exposures covered by financial collaterals (%)	Part of exposures covered by other eligible collaterals (%)				Part of exposures covered by other funded credit protection (%)	Part of exposures covered by other funded credit protection (%)			Part of exposures covered by personal guarantees (%)	Part of exposures covered by credit derivatives (%)	RWEAs without substitution effects (reduction effects only)	RWEAs with substitution effects (both reduction and substitution effects)
					Part of exposures covered by property collaterals (%)	Part of exposures covered by receivables (%)	Part of exposures covered by other physical collateral (%)		Part of exposures covered by cash on deposit (%)	Part of exposures covered by life insurance policies (%)	Part of exposures covered by instruments held by a third party (%)				
		a	b	c	d	e	f	g	h	i	j	k	l	m	n
1	Central governments and central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2	Institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	Corporates	39,125,674	1.22%	14.78%	14.78%	-	-	-	-	-	-	2.85%	-	13,712,543	13,712,543
3.1	*of which corporates - SMEs*	15,480,210	1.09%	26.77%	26.77%	-	-	-	-	-	-	4.63%	-	5,418,470	5,418,470
3.2	*of which corporates - Specialised lending*	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3.3	*of which corporates - other*	23,645,464	1.30%	6.92%	6.92%	-	-	-	-	-	-	1.68%	-	8,294,073	8,294,073
4	Retail	42,462,419	0.80%	67.06%	67.06%	-	-	-	-	-	-	1.80%	-	6,944,961	6,944,961
4.1	*of which Retail – SMEs, collateralised by property*	3,449,341	0.09%	99.28%	99.28%	-	-	-	-	-	-	0.00%	-	854,312	854,312
4.2	*of which Retail – non-SMEs, collateralised by property*	25,295,045	0.02%	99.04%	99.04%	-	-	-	-	-	-	-	-	3,121,442	3,121,442
4.3	*of which retail - Qualifying revolving*	1,016,697	-	-	-	-	-	-	-	-	-	-	-	163,077	163,077
4.4	*of which Retail - SMEs, other*	11,337,604	2.09%	-	-	-	-	-	-	-	-	6.54%	-	2,454,970	2,454,970
4.5	*of which Retail - non-SMEs, other*	1,363,733	6.95%	-	-	-	-	-	-	-	-	1.67%	-	351,161	351,161
5	**Total as at 31/12/2023**	**81,588,093**	**1.00%**	**41.99%**	**41.99%**	**-**	**-**	**-**	**-**	**-**	**-**	**2.30%**	**-**	**20,657,504**	**20,657,504**

Comparison between estimates and actual results

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, LGD and EAD for Business and Private customer portfolios.

The comparison between estimates and empirical data is made separately for PD, LGD and EAD, 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 (Jeffrey's Test for individual and overall rating classes) to compare the decay rates (DRs) recorded over an annual time horizon with the estimated PD values.

The last backtesting shows adequate results for the Corporate and Private segments, both in terms of discriminating power and calibration. The discriminating capacity, assessed at the level of individual modules and for the final integrated score, obtains comparable values to those obtained during the development phase. The calibration tests showed positive results for all rating segments.

With reference to the LGD parameter, tests were carried out based on the metrics envisaged by internal policy on both the performing and default component, adopting the LGD one step approach. Internal Validation did not reveal any relevant problems with regard to the estimates produced for performing Corporate models. The performing Private and ELBE models showed some areas for improvement, which have already been addressed in a new version of the models, produced from February 2024, following the final approval of the ECB.

Testing was conducted in accordance with internal policy also in relation to the Business and Private EAD models, without identifying any particular areas of concern. The activities conducted highlighted the prudential nature of the estimates used by the Bank.

Internal Validation validated the new models, approved by the ECB and produced from February 2024, with a view to incorporating the main regulatory changes (new EBA guidelines).

Comparison between PD and default (DR) data by exposure class

In this paragraph Internal Validation compares default rates with estimated PDs, dividing the IRB regulatory book by exposure class. The latter are further broken down by PD range. The reference database is the reporting environment, with the regulatory definition of default.

The IRB internal models, included in the IRB regulatory exposure classes, are:

- Large Corporate, turnover/assets ≥ 500 million euro
- Mid Corporate Plus, turnover/assets between 50 million euro and 500 million euro
- Mid Corporate, turnover/assets between 5 million euro and 50 million euro
- Small Business, turnover/assets < 5 million euro
- Private

Unlike the Private Customer segment, the first four models are included in the Business macro-category.

With reference to the reporting of 31 December 2022, the breakdown in terms of RWAs of the internal models for IRB regulatory exposure classes is as follows:

Internal Models	% RWAs
Large Corporate	17.77%
Mid Corporate Plus	21.62%
Mid Corporate	22.59%
Small Business	19.48%
Private	18.53%

For the figures contained in the table below, note that:

- the equivalent external rating is not shown because shadow rating models are not used in determining the PD estimate;
- starting from the monthly of March 2021, a new version of the models was applied until December 2023;
- the average annual historical default rate is calculated over 5 years: 2019-2023 with PD threshold relative to the models in force each year;
- counterparties with short-term contracts are 132,571, and the exposure class "Exposures to or guaranteed by businesses - Other businesses" has the highest number of counterparties with short-term contracts;
- the average long-term interest rates are not calculated using the "overlapping window" approach.

Template CR9 – IRB Method: retrospective PD tests by exposure class (fixed PD range)

A-IRB - businesses – SMEs

Exposure class	PD range	Number of debtors at the end of the previous year		Average default rate observed (%)	Exposure weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)
			of which number of debtors in default during the year				
a	b	c	d	e	f	g	h
A-IRB - businesses – SMEs	0.00 to < 0.15	3,191	4	0.13%	0.09%	0.09%	0.08%
	0.00 to < 0.10	1,012	-	-	0.04%	0.05%	0.04%
	0.10 to < 0.15	2,179	4	0.18%	0.11%	0.11%	0.09%
	0.15 to < 0.25	2,539	4	0.16%	0.21%	0.21%	0.06%
	0.25 to < 0.50	2,676	15	0.56%	0.39%	0.38%	0.26%
	0.50 to < 0.75	1,246	6	0.48%	0.62%	0.62%	0.44%
	0.75 to < 2.50	5,001	54	1.08%	1.20%	1.27%	0.80%
	0.75 to < 1.75	3,667	32	0.87%	1.11%	1.10%	0.61%
	1.75 to < 2.5	1,334	22	1.65%	1.76%	1.77%	1.16%
	2.50 to < 10.00	2,960	91	3.07%	4.38%	4.45%	2.55%
	2.5 to < 5	1,691	41	2.42%	2.92%	3.05%	2.00%
	5 to < 10	1,269	50	3.94%	6.49%	6.39%	3.36%
	10.00 to < 100.00	1,114	122	10.95%	28.11%	32.07%	12.77%
	10 to < 20	564	38	6.74%	15.73%	14.16%	10.31%
	20 to < 30	117	13	11.11%	27.74%	27.74%	11.49%
	30.00 to < 100.00	433	71	16.40%	49.52%	55.82%	16.80%
	100.00 (default)	2,278	-	-	100.00%	100.00%	-

A-IRB - Businesses - Other

Exposure class	PD range	Number of debtors at the end of the previous year		Average default rate observed (%)	Exposure weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)
			of which number of debtors in default during the year				
a	b	c	d	e	f	g	h
A-IRB - Businesses - Other	0.00 to < 0.15	991	-	-	0.05%	0.05%	0.01%
	0.00 to < 0.10	965	-	-	0.05%	0.05%	0.02%
	0.10 to < 0.15	26	-	-	0.11%	0.11%	-
	0.15 to < 0.25	895	1	0.11%	0.15%	0.16%	0.17%
	0.25 to < 0.50	889	-	-	0.38%	0.38%	0.21%
	0.50 to < 0.75	8	-	-	0.63%	0.62%	-
	0.75 to < 2.50	1,027	11	1.07%	1.17%	1.13%	1.17%
	0.75 to < 1.75	1,001	11	1.10%	1.17%	1.12%	1.24%
	1.75 to < 2.5	26	-	-	1.76%	1.76%	0.86%
	2.50 to < 10.00	445	11	2.47%	3.84%	4.04%	3.60%
	2.5 to < 5	284	4	1.41%	2.98%	3.06%	1.86%
	5 to < 10	161	7	4.35%	5.76%	5.92%	6.30%
	10.00 to < 100.00	81	7	8.64%	19.23%	19.98%	12.66%
	10 to < 20	65	5	7.69%	14.09%	13.73%	11.02%
	20 to < 30	-	-	-	-	-	-
	30.00 to < 100.00	16	2	12.50%	50.18%	49.72%	18.11%
	100.00 (default)	71	-	-	100.00%	100.00%	-

A-IRB - Retail - Real estate collateral SMEs

Exposure class	PD range	Number of debtors at the end of the previous year		Average default rate observed (%)	Exposure weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)
			of which number of debtors in default during the year				
a	b	c	d	e	f	g	h
A-IRB - Retail - Real estate collateral SMEs	0.00 to < 0.15	2,962	1	0.03%	0.10%	0.10%	0.08%
	0.00 to < 0.10	1,057	1	0.09%	0.07%	0.08%	0.02%
	0.10 to < 0.15	1,905	-	-	0.11%	0.12%	0.11%
	0.15 to < 0.25	2,587	4	0.15%	0.20%	0.20%	0.15%
	0.25 to < 0.50	4,499	6	0.13%	0.35%	0.35%	0.34%
	0.50 to < 0.75	3,305	16	0.48%	0.62%	0.62%	0.49%
	0.75 to < 2.50	6,023	31	0.51%	1.40%	1.42%	0.68%
	0.75 to < 1.75	3,164	13	0.41%	1.09%	1.08%	0.56%
	1.75 to < 2.5	2,859	18	0.63%	1.77%	1.79%	0.86%
	2.50 to < 10.00	3,959	59	1.49%	4.68%	4.55%	1.81%
	2.5 to < 5	2,272	30	1.32%	3.26%	3.29%	1.55%
	5 to < 10	1,687	29	1.72%	6.34%	6.27%	2.16%
	10.00 to < 100.00	3,021	232	7.68%	28.37%	30.10%	9.34%
	10 to < 20	1,256	56	4.46%	13.58%	13.41%	4.97%
	20 to < 30	618	49	7.93%	27.74%	27.74%	7.56%
	30.00 to < 100.00	1,147	127	11.07%	48.98%	49.51%	13.58%
	100.00 (default)	2,289	-	-	100.00%	100.00%	-

A-IRB - Retail - Real estate collateral non-SMEs

Exposure class	PD range	Number of debtors at the end of the previous year		Average default rate observed (%)	Exposure weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)
			of which number of debtors in default during the year				
a	b	c	d	e	f	g	h
A-IRB - Retail - Real estate collateral non-SMEs	0.00 to < 0.15	83,369	56	0.07%	0.10%	0.10%	0.06%
	0.00 to < 0.10	54,217	30	0.06%	0.08%	0.08%	0.05%
	0.10 to < 0.15	29,152	26	0.09%	0.13%	0.13%	0.07%
	0.15 to < 0.25	39,070	45	0.12%	0.19%	0.19%	0.14%
	0.25 to < 0.50	82,133	127	0.15%	0.34%	0.34%	0.19%
	0.50 to < 0.75	36,598	119	0.33%	0.61%	0.61%	0.35%
	0.75 to < 2.50	17,428	183	1.05%	1.44%	1.45%	0.92%
	0.75 to < 1.75	10,481	116	1.11%	1.07%	1.07%	0.83%
	1.75 to < 2.5	6,947	67	0.96%	2.00%	2.00%	1.06%
	2.50 to < 10.00	2,457	70	2.85%	4.39%	4.39%	3.23%
	2.5 to < 5	2,457	70	2.85%	4.39%	4.39%	3.23%
	5 to < 10	-	-	-	-	-	-
	10.00 to < 100.00	4,581	475	10.37%	27.72%	27.60%	12.26%
	10 to < 20	1,678	101	6.02%	11.73%	11.73%	6.82%
	20 to < 30	1	-	-	-	-	-
	30.00 to < 100.00	2,902	374	12.89%	36.94%	36.95%	15.31%
	100.00 (default)	6,256	-	-	100.00%	100.00%	-

A-IRB - Retail - Qualified revolving

Exposure class	PD range	Number of debtors at the end of the previous year	of which number of debtors in default during the year	Average default rate observed (%)	Exposure weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)
a	b	c	d	e	f	g	h
A-IRB - Retail - Qualified revolving	0.00 to < 0.15	29,870	16	0.05%	0.09%	0.09%	0.03%
	0.00 to < 0.10	15,739	9	0.06%	0.07%	0.06%	0.03%
	0.10 to < 0.15	14,131	7	0.05%	0.13%	0.13%	0.03%
	0.15 to < 0.25	12,917	5	0.04%	0.19%	0.19%	0.06%
	0.25 to < 0.50	19,154	22	0.11%	0.34%	0.34%	0.10%
	0.50 to < 0.75	19,480	23	0.12%	0.61%	0.61%	0.14%
	0.75 to < 2.50	40,972	112	0.27%	1.44%	1.41%	0.39%
	0.75 to < 1.75	26,197	46	0.18%	1.07%	1.07%	0.21%
	1.75 to < 2.5	14,775	66	0.45%	2.00%	2.00%	0.69%
	2.50 to < 10.00	9,661	96	0.99%	4.39%	4.39%	1.81%
	2.5 to < 5	9,661	96	0.99%	4.39%	4.39%	1.81%
	5 to < 10	-	-	-	-	-	-
	10.00 to < 100.00	6,133	353	5.76%	18.14%	19.02%	8.08%
	10 to < 20	4,462	129	2.89%	11.72%	11.72%	4.28%
	20 to < 30	-	-	-	-	-	-
	30.00 to < 100.00	1,671	224	13.41%	36.92%	36.93%	16.80%
	100.00 (default)	885	-	-	100.00%	100.00%	-

A-IRB - Retail - Other SMEs

Exposure class	PD range	Number of debtors at the end of the previous year	of which number of debtors in default during the year	Average default rate observed (%)	Exposure weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)
a	b	c	d	e	f	g	h
A-IRB - Retail - Other SMEs	0.00 to < 0.15	18,110	13	0.07%	0.09%	0.10%	0.06%
	0.00 to < 0.10	3,465	2	0.06%	0.04%	0.05%	0.04%
	0.10 to < 0.15	14,645	11	0.08%	0.11%	0.11%	0.08%
	0.15 to < 0.25	15,556	32	0.21%	0.21%	0.21%	0.11%
	0.25 to < 0.50	18,496	47	0.25%	0.37%	0.36%	0.23%
	0.50 to < 0.75	19,224	86	0.45%	0.62%	0.62%	0.33%
	0.75 to < 2.50	43,953	381	0.87%	1.31%	1.41%	0.76%
	0.75 to < 1.75	23,384	160	0.68%	1.08%	1.08%	0.58%
	1.75 to < 2.5	20,569	221	1.07%	1.77%	1.78%	1.04%
	2.50 to < 10.00	29,613	866	2.92%	4.44%	4.48%	2.73%
	2.5 to < 5	17,577	368	2.09%	3.15%	3.28%	2.02%
	5 to < 10	12,036	498	4.14%	6.34%	6.28%	3.80%
	10.00 to < 100.00	18,818	3,020	16.05%	24.48%	29.30%	16.21%
	10 to < 20	9,619	976	10.15%	14.06%	13.43%	11.10%
	20 to < 30	3,488	564	16.17%	27.73%	27.62%	13.14%
	30.00 to < 100.00	5,711	1,480	25.91%	51.64%	52.16%	25.94%
	100.00 (default)	19,359	-	-	100.00%	100.00%	-

A-IRB - Retail - Other non-SMEs

Exposure class	PD range	Number of debtors at the end of the previous year		Average default rate observed (%)	Exposure weighted average PD (%)	Average PD (%)	Average historical annual default rate (%)
			of which number of debtors in default during the year				
a	b	c	d	e	f	g	h
A-IRB - Retail - Other non-SMEs	0.00 to < 0.15	9,600	21	0.22%	0.10%	0.09%	0.11%
	0.00 to < 0.10	6,363	13	0.20%	0.08%	0.07%	0.09%
	0.10 to < 0.15	3,237	8	0.25%	0.13%	0.13%	0.15%
	0.15 to < 0.25	5,623	9	0.16%	0.19%	0.19%	0.18%
	0.25 to < 0.50	10,769	36	0.33%	0.34%	0.34%	0.35%
	0.50 to < 0.75	9,192	39	0.42%	0.61%	0.61%	0.60%
	0.75 to < 2.50	16,690	197	1.18%	1.50%	1.45%	1.40%
	0.75 to < 1.75	10,201	90	0.88%	1.07%	1.11%	0.93%
	1.75 to < 2.5	6,489	107	1.65%	2.00%	2.00%	2.20%
	2.50 to < 10.00	5,933	116	1.96%	4.39%	4.34%	4.50%
	2.5 to < 5	5,933	116	1.96%	4.39%	4.34%	4.50%
	5 to < 10	-	-	-	-	-	-
	10.00 to < 100.00	22,357	3,207	14.34%	18.93%	26.74%	17.82%
	10 to < 20	8,626	365	4.23%	11.72%	11.52%	8.18%
	20 to < 30	-	-	-	-	-	-
	30.00 to < 100.00	13,731	2,842	20.70%	36.72%	34.41%	26.98%
	100.00 (default)	14,757	-	-	100.00%	100.00%	-

Comparison between expected and observed LGD values by risk segment.

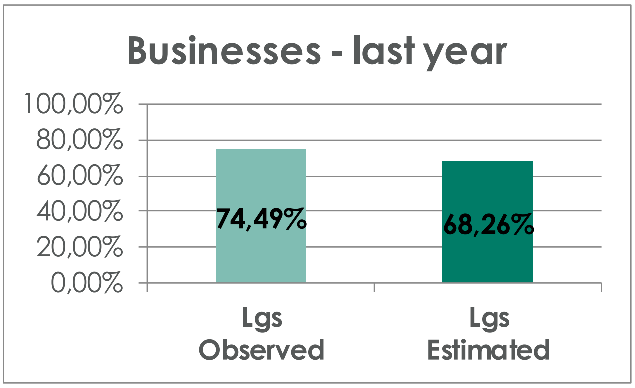
In this paragraph, Internal Validation compares the loss values observed with those estimated for the performing AIRB portfolio, differentiating the results between the Business and Private Customer segments, in line with the current internal model framework.

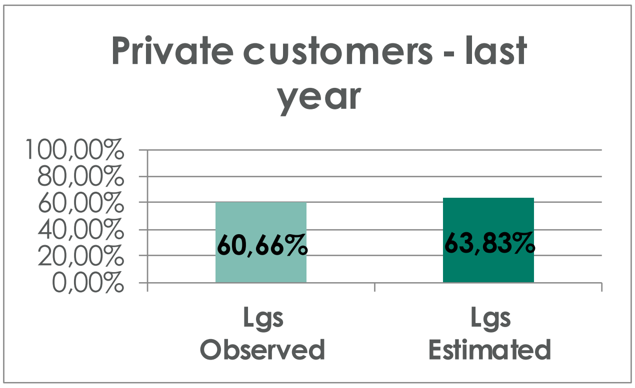
In particular, the estimate of the LGD parameter is modular, the main components of which are the LGS and the Danger Rate[13].

Similar to that reported in the annual validation report completed in 2023, the comparison between the estimates and the empirical values of the LGS component is provided below, both on the most recent cohort of the validation sample (2021), and on the long-term horizon (2009-2021), for positions closed by internal workout, excluding mass transfers from the sample.

[13]LGS: loss in the case of transfer to bad loans status; Danger Rate: likelihood of transfer to bad loans status starting from past due and UTP/UTPF.

Given the modular nature of the LGD parameter, the focus on the LGS component alone enables a comparison to be made between expected and empirical values with reference to the most unfavourable historical workouts.

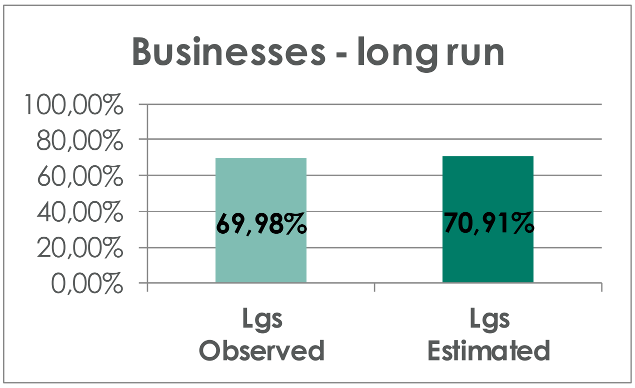


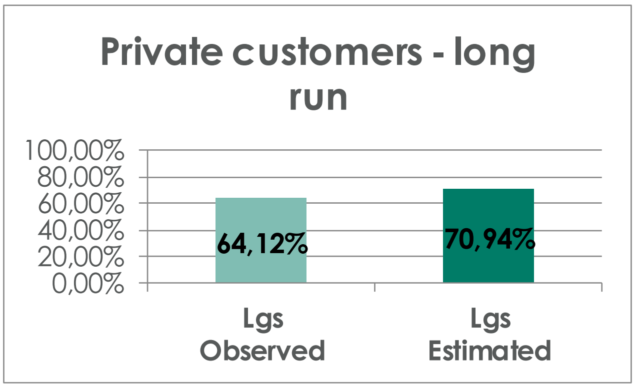


An analysis of the results of the bad loan cycles closed on the last cohort, for which a limited number of positions were closed by internal workout, shows that the expected values are lower than their corresponding empirical values for the business segment only.

Given the anchorage of the estimates over a long-term horizon, the above-mentioned empirical values, if analysed in a single cohort, may differ even further from the expected values.

In the following graphs, therefore, the estimates are compared with the values observed over a longer period of observation.





The analyses of a wider sample show greater alignment between expected and empirical values for the Private Customer and Business segments. For both segments, a substantial increase of the difference between observed and estimated LGS was noted, if compared with the same results of the last cohort, which also reflected derisking activities.

It should be noted that the bank has developed a new LGD framework that was approved by the ECB and implemented from February 2024.

Risk mitigation techniques

Types of guarantees

Techniques used to mitigate credit risk include accessory contracts or other instruments and techniques which Banco BPM Group acquires in its execution of its banking business, aimed at reducing credit risk.

The main types of collateral used by Banco BPM Group can be summarised within the macro-categories indicated below:

- mortgages on properties (residential and commercial);
- pledges on cash, securities and mutual funds deposited with the Bank;
- pledges on insurance policies;
- pledges on goods;
- pledges on cash/securities deposited with third parties;
- mortgages on registered moveable assets.

The first two types of guarantees represent the majority of guarantees acquired and comply with the technical/legal/organisational requirements indicated under the new regulatory provisions for the application of the rules established for credit risk mitigation.

For both of these macro-categories of guarantees, there are:

- IT procedures which cover all aspects associated with management of this guarantees (acquisition, valuation, revaluation, management, repayment/enforcement);
- internal norms for all involved organisational structures (network and central structures), governing the roles and responsibilities and providing both regulatory and technical/operational support indications.

At the time the guarantees are acquired:

- in order to ensure constant and uniform monitoring of the guarantee acquisition and preservation process, the responsibility for finalising the mortgage collateral and pledges is attributed to specialist support structures, which are separate from those granting and managing loans.

  These structures are assigned specific verifications with reference to the accuracy and completeness of the contractual documentation of the guarantees, as well as to the correct entry of the data in the procedure and document archiving.
- The value of collateral consisting of financial instruments is acquired automatically and continuously updated on a daily basis. The value thus acquired is compared to the commitment guaranteed through specific haircuts determined centrally based on the liquidity of the instrument and its volatility.
- For real estate guarantees, the process involves verifications, by means of a specific technical-legal investigation, including with reference to compliance with the types

of properties accepted as guarantee and insurance protection against the risk of damage.

The value for security purposes of real estate guarantees is certified by obtaining appraisals from independent experts accredited in accordance with the reference regulations. The quality of the appraisals is verified by a separate structure with respect to those for granting and managing loans.

To ensure a standardised methodological approach in making estimates, as well as for transparency purposes, the forms for preparing the appraisals and the estimation methods used to determine the value of the properties are compliant with ABI (Italian Banking Association) Guidelines.

With specific reference to the real estate guarantees for the portfolio assessed using the standard approach, in the preliminary phase of granting the loan, it is verified whether the property’s value depends to a significant extent on the debtor’s creditworthiness and, similarly, if the risk of the debtor depends to a significant extent on the performance of the real estate project or underlying properties, rather than on the debtor’s ability to repay the loan from other sources; hence, it is ascertained that the repayment of the debt does not depend to a significant extent on the cash flows generated by the properties used as guarantee.

- In recent years, the use of contractual guarantees has grown, i.e. through Guarantee Entities with state participation, in reference to new loans and advances granted in response to the Covid-19 emergency health crisis (Italian Legislative Decree of 8 April 2020 converted into Italian Law on 5 June 2020 with a public guarantee from the Small and Medium Enterprises Management Fund and/or Sace) and/or to tackle the energy crisis (Italian Legislative Decree of 17 May 2022 converted into Italian Law on 15 July 2022, known as the "Aiuti [Aid] Decree Law") and/or to support the transition to energy sustainability (SACE GREEN NEW DEAL).
- Personal guarantees are considered admissible in the presence of a legal commitment assumed explicitly by a third party to fulfil an obligation towards the Bank in the event of failure by the principal to fulfil it.

  Personal guarantees must be direct, their amount and extent must be clearly defined and incontrovertible and they must not contain any clause whose fulfilment is beyond the direct control of the Bank, or which may allow the guarantor to unilaterally cancel the guarantee granted.
- The texts of guarantees used are legally valid insofar as they are prepared on standard texts by the bank's legal function or prepared ad hoc by the same function (or by designated external attorneys) for transactions that are not standard. Consequently, the contracts give the bank a full and enforceable right in court which allows the liquidation, or preservation, of assets which provide protection in the event of the debtor's insolvency or bankruptcy, or other credit events envisaged in the documentation relative to the individual transaction.

The standard contractual texts are constantly updated over time to ensure their compliance with the governing regulations at the time.

- Once the transaction has been completed, the contracts are archived centrally and the information set relating to the guarantee asset necessary for management, reporting and financial statement purposes is recorded in the specific relevant applications.

Monitoring guarantees

In order to continuously monitor the integrity and capacity of acquired guarantees, as well as to comply with the regulatory requirement of adequate oversight and determine the value of risk mitigation to include when calculating capital requirements, the value of financial and real estate guarantees is updated over time.

In particular, for properties used as guarantee, specific rules for updating values using statistical methods have been established.

Following statistical revaluations, assets which meet conditions for updating the relative appraisal are identified. Additionally, in compliance with the rules established in the EBA Guidelines, periodic reviews of appraisals are also required for properties exceeding pre-established thresholds.

Relative to pledges, the following is required:

- initial acquisition of the value of the pledge when the loan is disbursed, based on its market value adjusted by a prudential haircut (percentage of the value of the security used as guarantee) and differentiated based on the type and risk level of the underlying security;
- daily update of the market value of securities pledged, including the prudential haircut applied as a function of the type and riskiness of the security, with automatic notification of actions to update the guarantee in the case its value falls below the pre-established thresholds for the coverage parameters envisaged.

Credit derivative transactions

Banco BPM Group can carry out transactions to hedge exposures with credit derivatives, with national and international counterparties of excellent standing.

With regards to its activities in derivatives with institutional counterparties and in line with best market practices, Banco BPM Group has ISDA agreements supported by CSAs to mitigate counterparty risk.

Market and credit risk concentrations

Real estate guarantees constitute the largest part of instruments used to attenuate credit risk. The structure of the Group's loan portfolio for the most part consists of loans to private customers and small and medium-sized enterprises. This favours the limitation of concentration, also in the context of risk mitigation tools.

Changes in real estate values are analysed periodically, in order to measure their value retention.

The tables below show the values of exposures covered by personal guarantees, financial collateral and other collateral.

Distribution of exposures covered by collateral, personal guarantees or credit derivatives by regulatory classes of assets

Exposures subject to the standard approach - Exposures covered by guarantees

Regulatory Portfolio	31/12/2023		31/12/2022	
	PERSONAL GUARANTEES	REAL GUARANTEES	PERSONAL GUARANTEES	REAL GUARANTEES
Exposures to or guaranteed by central governments and central banks	-	-	-	-
Exposures to or guaranteed by regional governments or local authorities	-	-	-	-
Exposures to or guaranteed by public sector entities	260,941	-	89,167	-
Exposures to or guaranteed by multilateral development banks	-	-	-	-
Exposures to or guaranteed by international organisations	-	-	-	-
Exposures to or guaranteed by supervised intermediaries	3,246	61,619,892	2,580	40,575,457
Exposures to or guaranteed by corporates	573,797	1,953,967	681,564	1,741,232
Retail exposures	8,499	212,997	6,191	196,271
Exposures secured by property	-	300	65	500
Exposures in default	7,206	6	2,964	18
High-risk exposures	21,477	6,288	5,939	-
Exposures in the form of covered bank bonds	-	-	-	-
Short-term exposures to corporates or supervised intermediaries	-	-	-	-
Exposures to undertakings for collective investment in transferable securities (UCITS)	2,603	558,306	1,866	1,036,930
Equity instrument exposures	-	-	-	-
Other exposures	-	-	-	-
Total	**877,768**	**64,351,757**	**790,335**	**43,550,409**

Exposures subject to the A-IRB approach - Exposures covered by guarantees

Regulatory Portfolio	31/12/2023		31/12/2022*	
	PERSONAL GUARANTEES	REAL GUARANTEES	PERSONAL GUARANTEES	REAL GUARANTEES
Exposures to or guaranteed by corporates	**9,869,516**	**7,375,806**	**9,748,538**	**9,227,015**
Specialised lending	-	-	-	-
SMEs	4,788,222	5,031,866	5,803,727	6,561,445
Other businesses	5,081,293	2,343,940	3,944,811	2,665,569
Retail exposures	**7,612,048**	**29,581,675**	**6,966,594**	**31,438,130**
Exposures secured by residential property: SMEs	23,105	3,427,699	9,900	3,831,872
Exposures secured by residential property: natural persons	1,262,760	25,057,664	9,115	26,430,806
Retail exposures - qualified revolving	-	-	-	-
Retail exposures: Other - SMEs	6,313,257	978,739	6,936,688	1,033,433
Retail exposures: Other - natural persons	12,926	117,572	10,891	142,019
TOTAL	**17,481,564**	**36,957,481**	**16,715,132**	**40,665,145**

(*) Figure amended with respect to that contained in the published Pillar III disclosure as at 31 December 2022, for the reasons illustrated in the introductory notes of this disclosure.

Template EU CR3 – CRM techniques overview: disclosure of the use of credit risk mitigation techniques

		Unsecured carrying amount	Secured carrying amount			
				of which secured by collaterals	of which secured by financial guarantees	
						of which secured by credit derivatives
		a	b	c	d	e
1	Loans and advances	57,033,767	69,606,487	49,774,057	19,832,430	19,133
2	Debt securities	36,121,669	1,382,576	-	1,382,576	
3	**Total as at 31/12/2023**	**93,155,436**	**70,989,063**	**49,774,057**	**21,215,006**	**19,133**
4	*of which non-performing exposures*	434,939	1,679,205	1,090,854	588,351	181
EU-5	*of which defaulted*	434,939	1,679,205			

"Loans and advances" also includes "Cash balances at central banks and other demand deposits", in line with the provisions of the EBA mapping of 23/05/2022.

Counterparty Risk

Approach and policies

Counterparty risk is a type of credit risk, defined as the risk that the counterparty in a transaction enters default prior to the definitive settlement of the cash flows relative to the transaction (Article 272 Reg. EU 575/2013)

The risk is bilateral (the value of the transaction may be positive or negative for both counterparties), the development of which depends both upon changes in market parameters that condition the exposure, and on the riskiness of the counterparty (PD and LGD).

Policies relative to guarantees and measurements of counterparty risk depend on the type of financial instruments traded which, in line with the regulatory scope, may fall into one of the following categories:

- derivatives (according to the provisions of Annex II of Reg. (EU) 575/2013).
- Securities Financing Transactions (SFT): typically associated with repurchase agreements receivable or payable regarding securities or goods, transactions to buy/sell of loan securities or goods and loans with margins, medium/long-term loans.
- Transactions with long-term settlement: transactions with a settlement or delivery date after that used in general market practice or with respect to five business days following the date the transaction is stipulated by the entity, if prior.

Capital requirements relative to counterparty risk relate to both positions in the trading book and those in the banking book.

In quantifying the exposure to risk, Banco BPM Group uses, from June 2021, for reporting purposes, the standardised SA-CCR method (Regulation (EU) 2019/876) for transactions in derivative instruments; the above-mentioned approach is more sensitive, with respect to previous methodologies, to the risks connected with transactions in entities' derivative instruments.

In calculating the exposure, account is also taken of the unfavourable correlation factor set at 1.4% as envisaged in regulations.

For SFT type transactions (repurchase agreements and securities lending), the line-by-line method is adopted with application of supervisory adjustments (Articles 223 and 224 Reg. (EU) 575/2013) in order to take account of the associated volatility.

Risk is quantified through the application to the exposure to credit parameters (Probability of Default and Loss Given Default) used in the credit risk domain.

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 reciprocal financial guarantees.

As at 31 December 2023, 84% of the overall exposure in derivative instruments is mitigated by the effects of contractual offsetting (ISDA) and 66% also by contractual guarantees (CSA).

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.

Forward exchanges may be included under CSAs and hence subject to margining, as occurs for OTC derivatives.

In the context of the contractual negotiation of the CSA, a threshold is determined, mainly set at zero, which when exceeded gives a party the right to request the establishment of a collateral.

The guarantees are updated based on the frequency indicated in the contract (generally daily), either increasing or decreasing in relation to changes in market value equal to, or exceeding, a minimum amount established in the contract for each counterparty (MTA - Minimum Transfer Amount).

Negotiation of guarantee agreements (Credit Support Annexes) mainly occurs in the absence of clauses with impacts on the amount of guarantees to be provided in the case the Group's credit standing is downgraded.

On the basis of the valuations of contracts negotiated as at 31 December 2023, the collateral is represented primarily by cash (not subject to "haircuts"); for one counterparty, the guarantee consists of government securities to which the established haircuts have already been applied.

In accordance with the Basel III Framework, 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. 575/13 for banks that are not authorised to use the Internal Model Method (IMM) for counterparty risk;

- exposures relative to transactions with Qualified Central Counterparties (QCCP), through the adoption of the methods envisaged under Articles 303 et seq. of Regulation (EU) 876/2019.

With regards to exposures with qualified central counterparties (Qualifying CCP), Group Companies are direct participants with certain sectors of the Cassa di Compensazione e Garanzia and the bond segment of Eurex Clearing AG and LCH SA.

For the purposes of compliance with Regulation (EU) no. 648/2012 (“EMIR Regulation”) indirect participation in LCH Clearnet Limited and Eurex Clearing AG is active, for transactions in OTC derivatives.

As regards transactions in credit derivatives, the Group works with the Central Counterparties ICE Clear Europe Limited and LCH SA; transactions carried out with leading banks are also present.

As at 31.12.2023, a total of 11 purchase contracts are in place for a notional total of € 99 million euro. More specifically:

- 1 contract for a notional 5 million euro, expiry 2025;
- 1 contract for a notional 25 million euro, expiry 2026;
- 9 contracts for a notional total of 69 million euro, expiry 2028, negotiated with LCH Clearnet SA.

All the aforementioned transactions are subject to contractual offsetting and guarantee agreement.

In order to estimate the internal capital, from March 2023, Banco BPM Group has prudentially adopted the same standard methods used for supervisory reporting purposes to calculate the exposure to counterparty risk.

Reporting system

The reporting process includes a periodic managerial reporting system, with aggregate and detailed analysis of the main factors determining counterparty risk.

By way of example, trend data for risk and exposure is provided, broken down by segment (OTC derivatives, SFT transactions, etc.) and by legal entity. The reporting system also includes daily monitoring of usage amounts relative to credit lines for OTC derivative transactions supported by Credit Support Annexes, also highlighting any overdrafts which may occur.

Template EU CCR1: analysis of CCR exposure by approach

		a	b	c	d	e	f	g	h
		Replacement cost (RC)	**Potential future exposure (PFE)**	**Effective EPE**	**Alpha used for computing regulatory exposure value**	**Exposure value pre-CRM**	**Exposure value post-CRM**	**Exposure value**	**RWEAs**
EU-1	EU - Original Exposure Method (for derivatives)	-	-		1.4	-	-	-	-
EU-2	EU - Simplified SA-CCR (for derivatives)	-	-		1.4	-	-	-	-
1	SA-CCR (for derivatives)	203,783	577,644		1.4	1,644,351	1,093,997	1,144,607	657,579
2	IMM (for derivatives and SFTs)			-	-	-	-	-	-
2a	*of which netting assets containing securities financing transactions*			-		-	-	-	-
2b	*of which netting assets containing derivatives and transactions with long-term settlement*			-		-	-	-	-
2c	*of which from netting assets subject to contractual cross-product netting*			-		-	-	-	-
3	Financial collateral simple method (for SFTs)					-	-	-	-
4	Financial collateral comprehensive method (for SFTs)					11,028,052	1,251,637	1,251,658	459,937
5	VaR for SFTs					-	-	-	-
6	**Total as at 31/12/2023**					**12,672,403**	**2,345,635**	**2,396,265**	**1,117,516**

Excluded from this model are the own funds requirements for CVA risk and exposures to a central counterparty, as defined for the purpose of template EU CCR8.

Template EU CCR2: transactions subject to own funds requirements for CVA risk

		31/12/2023	
		a	b
		Exposure value	RWEAs
1	Total transactions subject to the advanced approach	-	-
2	i) VaR component (including the 3× multiplier)		-
3	ii) Stressed VaR component (including the 3× multiplier)		-
4	Transactions subject to the Standardised Approach	700,865	213,768
EU-4	Transactions subject to alternative approach (based on the original exposure approach)	-	-
5	**Total transactions subject to own funds requirements for CVA risk**	**700,865**	**213,768**

Template EU CCR3 – Standardised approach: CCR exposures by regulatory exposure class and risk weights

	Exposure class	Risk weight											
		a	b	c	d	e	f	g	h	i	j	k	l
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Other	Total exposure value
1	Central governments or central banks	-	-	-	-	-	-	-	-	10,007	-	-	10,007
2	Regional government or local authorities	-	-	-	-	799	-	-	-	-	-	-	799
3	Public sector entities	-	-	-	-	329	-	-	-	383	-	-	712
4	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	-	1,514,280	-	-	1,027,350	487,157	-	-	5,950	-	-	3,034,736
7	Corporates	-	-	-	-	-	178,132	-	-	50,867	14,508	-	243,507
8	Retail	-	-	-	-	-	-	-	262	-	-	-	262
9	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-
10	Other items	-	-	-	-	-	-	-	-	389,427	2,947	-	392,374
11	**Value of overall exposure as at 31/12/2023**	**-**	**1,514,280**	**-**	**-**	**1,028,477**	**665,289**	**-**	**262**	**456,634**	**17,454**	**-**	**3,682,396**

This table includes the exposures to CCPs.

Template EU CCR4 - IRB approach: CCR exposures by exposure class and PD range

			a	b	c	d	e	f	g
		PD range	Exposure value	Exposure weighted average PD (%)	Number of debtors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	RWEAs	Density of risk weighted exposure amounts
1	Exposures to or guaranteed by businesses – SMEs	0.00 to < 0.15	9,771	0.10%	502	27.07%	4	1,697	17.37%
2		0.15 to < 0.25	13,324	0.21%	459	24.84%	4	3,566	26.76%
3		0.25 to < 0.50	14,556	0.39%	554	24.52%	4	4,848	33.31%
4		0.50 to < 0.75	2,601	0.63%	166	23.57%	5	919	35.32%
5		0.75 to < 2.50	21,869	1.13%	835	25.89%	4	10.929%,	49.97%
6		2.50 to < 10.00	20,415	3.60%	492	24.04%	4	12,727	62.34%
7		10.00 to < 100.00	485	19.55%	68	26.03%	4	456	94.10%
8		100.00 (default)	287	100.00%	42	38.55%	4	88	30.62%
Sub-total			**83,307**	**1.77%**	**3,118**	**25.14%**	**4**	**35,228**	**42.29%**

			a	b	c	d	e	f	g
		PD range	Exposure value	Exposure weighted average PD (%)	Number of debtors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	RWEAs	Density of risk weighted exposure amounts
1	Exposures to or guaranteed by businesses - Other businesses	0.00 to < 0.15	6,408	0.05%	176	22.80%	4	850	13.27%
2		0.15 to < 0.25	17,459	0.15%	185	21.81%	3	3,865	22.14%
3		0.25 to < 0.50	47,598	0.38%	226	20.19%	4	17,915	37.64%
4		0.50 to < 0.75	-	-	-	-	-	-	-
5		0.75 to < 2.50	37,065	1.28%	262	21.34%	4	21,634	58.37%
6		2.50 to < 10.00	19,163	5.02%	80	20.17%	4	15,323	79.96%
7		10.00 to < 100.00	303	12.54%	20	21.55%	3	324	106.98%
8		100.00 (default)	26	100.00%	12	32.19%	3	7	28.28%
Sub-total			**128,021**	**1.33%**	**961**	**20.88%**	**4**	**59,918**	**46.80%**

			a	b	c	d	e	f	g
		PD range	Exposure value	Exposure weighted average PD (%)	Number of debtors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	RWEAs	Density of risk weighted exposure amounts
1	Retail exposures - Other retail exposures: SMEs	0.00 to < 0.15	3,152	0.08%	783	30.45%	-	165	5.22%
2		0.15 to < 0.25	3,405	0.21%	622	29.22%	-	337	9.90%
3		0.25 to < 0.50	2,461	0.38%	552	29.50%	-	359	14.59%
4		0.50 to < 0.75	1,474	0.63%	350	27.40%	-	265	17.97%
5		0.75 to < 2.50	4,028	1.38%	810	27.63%	-	1,016	25.22%
6		2.50 to < 10.00	1,624	4.42%	403	26.80%	-	516	31.77%
7		10.00 to < 100.00	422	27.76%	140	27.20%	-	203	48.02%
8		100.00 (default)	89	100.00%	83	36.39%	-	23	25.97%
Sub-total			**16,655**	**2.18%**	**3,743**	**28.70%**	**-**	**2,883**	**17.31%**

			a	b	c	d	e	f	g
		PD range	Exposure value	Exposure weighted average PD (%)	Number of debtors	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	RWEAs	Density of risk weighted exposure amounts
1	Retail exposures - Other retail exposures: other	0.00 to < 0.15	-	-	-	-	-	-	-
2		0.15 to < 0.25	-	-	-	-	-	-	-
3		0.25 to < 0.50	-	-	-	-	-	-	-
4		0.50 to < 0.75	114	0.53%	2	2.42%	-	2	1.90%
5		0.75 to < 2.50	-	-	-	-	-	-	-
6		2.50 to < 10.00	15	3.82%	1	4.97%	-	1	7.57%
7		10.00 to < 100.00	0	36.94%	1	19.54%	-	0	55.00%
8		100.00 (default)	35	100.00%	1	21.25%	-	3	8.73%
Sub-total			**164**	**22.04%**	**5**	**6.68%**	**-**	**6**	**3.92%**
Total (all exposure classes relevant to the CCR) as at 31/12/2023			**228,148**	**1.57%**	**7,827**	**23.00%**	**4**	**98,036**	**42.97%**

Template EU CCR5: composition of collateral for CCR exposures

		a	b	c	d	e	f	g	h
		Collaterals used in derivative transactions				Collaterals used in SFTs			
	Type of collaterals	Fair value of collaterals received		Fair value of collaterals posted		Fair value of collaterals received		Fair value of collaterals posted	
		Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated
1	Cash - domestic currency	543,947	426,001	686,526	319,356	-	3,979	-	3,568
2	Cash - other currencies	2,285	-	156,722	38,145	-	-	-	-
3	Domestic sovereign debt	-	2,154	-	-	-	-	-	21,145,215
4	Other sovereign debt	-	-	-	-	-	-	-	-
5	Government agency debt	-	-	-	-	-	-	-	-
6	Corporate bonds	-	-	-	-	-	-	-	1,884,314
7	Equity instruments	-	-	-	-	-	29,559	-	595,523
8	Other collaterals	1,064	-	-	-	-	5,625,141	-	31,803,338
9	**Total as at 31/12/2023**	**547,296**	**428,156**	**843,248**	**357,500**	**-**	**5,658,678**	**-**	**55,431,958**

Template EU CCR6: credit derivatives exposures

		31/12/2023	
		a	b
		Protection purchased	Protection sold
Notional values			
1	Single-name credit default swaps	-	-
2	Index credit default swaps	91,000	8,000
3	Total return swaps	-	-
4	Credit options	-	-
5	Other credit derivatives	-	-
6	**Total notional values**	**91,000**	**8,000**
Fair values			
7	Positive fair value (assets)	78	326
8	Negative fair value (liabilities)	(3,045)	-

Template EU CCR8: exposures to CCPs

		31/12/2023	
		a	b
		Exposure value	RWEAs
1	**Exposures to QCCPs (total)**		**63,981**
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	1,514,280	30,286
3	i) OTC derivatives	230,376	4,608
4	ii) exchange-traded derivatives	16,531	331
5	iii) SFTs	1,267,372	25,347
6	iv) netting assets where cross-product netting has been approved	-	-
7	Segregated initial margin	688,436	
8	Unsegregated initial margin	719,026	14,381
9	Prefunded default fund contributions	317,548	19,315
10	Unfunded default fund contributions	-	-
11	**Exposures to non-QCCPs (total)**		**-**
12	Exposures for trades at QCCPs (excluding initial margin and default fund contributions), of which:	-	-
13	i) OTC derivatives	-	-
14	ii) exchange-traded derivatives	-	-
15	iii) SFTs	-	-
16	iv) netting assets where cross-product netting has been approved	-	-
17	Segregated initial margin	-	
18	Unsegregated initial margin	-	-
19	Prefunded default fund contributions	-	-
20	Unfunded default fund contributions	-	-

Securitisations and covered bond transactions

Summary of objectives and methods

Traditional securitisations acting as originator and Covered Bond issues

The completion of the transactions in question, with underlying assets sold by the Group as originator, seeks mainly to diversify the sources of funding and reduce the cost of funding for the Group, rather than carrying out derisking actions on non-performing credit exposures (bad loans and unlikely to pay).

These transactions provide for the transfer of assets from the Group (originator) to a Special Purpose Vehicle (SPV) which, to finance the purchase, issues securities that are placed on the market and/or subscribed by the originator. Securitisation transactions in which the Group fully subscribes the securities issued by the SPV are defined as "self-securitisations".

The transactions completed in 2023 and those in place are briefly illustrated below.

Securitisation transactions of performing loans for funding purposes

As at 31 December 2023, Banco BPM Group had carried out the following securitisations:

- BPL Mortgages S.r.l. Series V (December 2012 - self-securitisation): securitisation of performing residential mortgages originated by Banco Popolare Soc. Coop. and Credito Bergamasco S.p.A. and by Banca Popolare di Milano S.p.A., now Banco BPM;
- BPL Mortgages S.r.l. Series VIII (April 2022 - self-securitisation): securitisation of loans deriving from mortgages, landed, agricultural and other loans disbursed by Banco BPM to small and medium-sized enterprises;
- Profamily SPV S.r.l. (February 2021 - self-securitisation): securitisation of portfolio of performing consumer loans originated by ProFamily S.p.A., now Banco BPM.

The loans underlying these transactions have not been derecognised from the financial statements of the originator bank but continue to be recorded among "Loans to customers".

Covered Bond issues

The Group has three Covered Bond ("CB") issues destined for institutional investors or for repurchase by the issuer for use in retained financing transactions: a structured programme issued by the former Banco Popolare ("BP CB1") guaranteed by the special purpose vehicle BP Covered Bond S.r.l. and two programmes issued by the former BPM S.c.a.r.l. ("BPM CB1" and "BPM CB2") guaranteed respectively by the SPVs BPM Covered Bond S.r.l. and BPM Covered Bond 2 S.r.l. In all the programmes cited above, Banco BPM acts as the issuer bank for the CBs, as the bank selling the assets (pursuant to Article 7-bis of Italian Law 130 of 30 April 1999) and as the lending bank. The securities issued are placed with institutional investors or subscribed by Banco BPM which uses them for refinancing transactions with the European Central Bank or other institutional counterparties.

For further details, please see the contents of paragraph "D.4 Prudential consolidation - covered bond transactions" contained in the credit risk section of "Part E - Information on risks and related hedging policies" of the Notes to the Group's Annual Financial Report as at 31 December 2023.

New transactions of the period

On 31 March 2023, the Bank of Italy published the amendments referring to Part Three, Chapter 3, of Circular no. 285 of 17 December 2013 "Supervisory provisions for banks", containing the provisions on Covered Bonds. These amendments, in line with the provisions of Title I(a) of Italian Law 130/1999 introduced by Legislative Decree no. 190 of 5 November 2021, implement the changes introduced by Directive (EU) 2019/2162 (Covered Bond Directive - CBD) and Regulation (EU) 2019/2160 (Covered Bond Regulation - CBR) into Italian law, which have defined a harmonised framework applicable to Covered Bonds issued by European banks.

The new regulatory framework defines the requirements to be able to market the new issues of covered bonds under the "European Covered Bond (Premium)" label and guarantee the preferential prudential treatment envisaged by Article 129 of the CRR.

Among other things, the new CB regulations envisage that the Bank of Italy authorise the launch of new issue programmes. In derogation from this provision, the programmes in place on the date of entry into force of the new provisions do not need to be authorised. However, banks must ensure that the issues made after the entry into force of the implementing provisions, albeit as part of pre-existing programmes, comply with the new regulatory framework (Title I(a) of Italian Law 130/1999 and relative implementing provisions of the Bank of Italy), also in order to be marketed under one of the new European labels envisaged by Article 7(u) of Italian Law 130/1999.

On 27 June 2023, Banco BPM issued the "«Eighth Series» of CBs under the BPM CB" programme, for a nominal value of 750 million euro, listed on the Luxembourg Stock Exchange and placed with institutional investors. This is the first issue of European Covered Bonds (Premium) issued by Banco BPM in compliance with Directive (EU) 2019/2162 endorsed on 31 March 2023 and Regulation (EU) 2019/2160.

There has been considerable interest in the Group from Italian and foreign investors: the issue has collected orders for 1.3 billion euro placed with the following geographical breakdown: Italy (47%), Germany-Austria-Switzerland (20%), Nordic countries (14%), Benelux (11%) and the United Kingdom (6%).

On 18 September 2023, Banco BPM issued the Ninth Series (first tranche) under the same BPM CB2 programme for a nominal value of 500 million euro, listed on the Luxembourg Stock Exchange and placed with institutional investors. The interest in Banco BPM Group was confirmed as high as for the previous Series issued. Orders were collected for over 900 million euro, allocated with the following geographical breakdown: Italy 23%, Germany 24%, Nordic countries 23%, United Kingdom and Ireland 20%, France 4% and Spain 2%, other countries 4%. The investors that participated in the transaction are mostly asset managers

(60%) and banks (26%). On 29 September, a second tranche was issued on the same Series of the programme for a nominal value of 250 million euro, maturity 18 September 2026.

On 21 December 2023, Banco BPM issued the retained "Twelfth Series" of CBs under the BPM CB1 program for a nominal value of 600 million euro, listed on the Luxembourg Stock Exchange, fully subscribed by Banco BPM , maturity 21 December 2027.

Traditional NPE securitisations not fully derecognised from the financial statements

The only securitisation of non-performing loans (UTP portfolio) not subject to full derecognition from the financial statements is represented by "Lilium SPV" ("Wolf Project"). In this transaction, the underlying loans were not fully derecognised from the financial statements but were classified as assets sold and not derecognised.

The following table shows the details of the notes issued by Lilium SPV:

- Banco BPM Group subscribed and maintained over 80% of the mezzanine and junior notes (fully paid) in classes B, C, D and E.
- The Class A notes (AS, AJ and AX) as at 31 December 2023 are partly paid as they were partially subscribed by third party investors. Banco BPM did not subscribe the Class A notes.

Class	Nominal issue value of the Notes	Nominal issue value of the Notes subscribed by BBPM	Nominal issue value of the Notes subscribed by BBPM and sold to third parties	Nominal issue value of the Notes subscribed by third parties as at 31 December 2023
SENIOR CLASS AS (*)	142,500			15,599
MEZZANINE CLASSE AJ (*)	7,125			780
MEZZANINE AX CLASS (*)	375			41
MEZZANINE CLASS B1	17,680	17,680		
MEZZANINE CLASS B2	3,120	3,120	3,120	
MEZZANINE CLASS C1	31,790	31,790		
MEZZANINE CLASS C2	5,610	5,610	5,610	
MEZZANINE CLASS D1	24,735	24,735		
MEZZANINE CLASS D2	4,365	4,365	4,365	
JUNIOR CLASS E1	326,804	326,804		
JUNIOR CLASS E2	81,701	81,701	81,701	
TOTAL	**645,805**	**495,805**	**94,796**	**16,420**

(*) partly paid notes

Securitisation transactions fully derecognised from the financial statements

The securitisation transactions of non-performing loans, which are fully derecognised from the financial statements, are represented by the following transactions of (i) only bad loans such as "Red Sea SPV" ("Exodus Project"- June 2018), "Leviticus SPV" ("Ace Project" - February 2019), "Titan SPV" ("Titan Project" - December 2020), and "Aurelia SPV" ("Rocket Project" – June 2021) (ii) mixed portfolios of Bad Loans and UTP such as "Tiberina SPV" ("Django Project"- December 2020) and "Tevere SPV" ("ARGO Project"), for which Banco BPM Group substantially transferred the risks and rewards of the assets sold to the SPVs, as it sold 95% of the junior and mezzanine tranches on the market.

With regard to transactions relating to the disposal of a portfolio of bad loans, Red Sea SPV, Leviticus SPV, Titan SPV and Aurelia SPV, the senior securities were secured by government guarantees pursuant to Italian Decree Law 18/2016 (GACS), issued by the Ministry of Economy and Finance.

Traditional securitisations – transactions in which Banco BPM acts 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 Article 6, paragraph 3(a) of Regulation (EU) no. 2017/2402, and/or as senior investor.

Securitisation in the wholesale of electronic components sector - Sun SPV - lot 4

The securitisation programme concerns performing trade receivables for a maximum revolving amount of approximately 20 million euro originated by a Group customer, deriving from the wholesale trade of electronic telecommunications equipment and other electronic components.

The Group acts as senior noteholder, sponsor and account bank.

The revolving purchase by SUN SPV S.r.l. was financed through the issue of three tranches of unrated ABS (Senior, Mezzanine and Junior classes).

Banco BPM subscribed 100% of the Senior security, and 5% of the Mezzanine and Junior securities, for a total value of 16.7 million euro. The securitisation is currently in the revolving phase, and the investment as at 31 December 2023 is equal to 16.6 million euro.

Figures in thousands of euro

Class – Type	Nominal issue value	BANCO BPM		
		Nominal value subscribed by Banco BPM on the issue date	Nominal value of Banco BPM as at 31/12/2023	Drawn down as at 31/12/2023
Senior security	16,535	16,535	16,535	16,376
Mezzanine security	2,864	144	144	143
Junior security	736	37	37	37
Total	**20,135**	**16,716**	**16,716**	**16,556**

Securitisation in the energy sector - Sun SPV - lot 1

The securitisation programme regards performing trade receivables for a maximum revolving amount of around 50 million euro, subsequently increased to a total of 80 million euro, originated by a Group customer, operating in the energy distribution sector, and resulting from the provision of natural gas and electricity.

The Group acts as senior noteholder, sponsor and account bank.

The revolving purchase by SUN SPV S.r.l. was financed through the issue of three tranches of unrated ABS (Senior, Mezzanine and Junior classes).

Banco BPM subscribed 100% of the Senior security and 5% of the Mezzanine and Junior securities, for a total initial value of 43.0 million euro, which was then increased to 67.0 million euro.

The securitisation is currently in the revolving phase, and the investment as at 31 December 2023 is equal to 29.2 million.

Figures in thousands of euro

Class – Type	Nominal issue value	BANCO BPM		
		Nominal value subscribed by Banco BPM on the issue date	Nominal value of Banco BPM as at 31/12/2023	Drawn down as at 31/12/2023
Senior security	66,304	66,304	66,304	28,844
Mezzanine security	10,860	545	545	237
Junior security	2,400	120	120	120
Total	**79,564**	**66,969**	**66,969**	**29,201**

Traditional securitisations – transactions in which Banco BPM acts as investor

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 2023, Senior securities of six new securitisation transactions were also subscribed.

The transactions envisaged the issue of different classes of ABS (Asset-Backed Securities) by several SPVs established pursuant to Italian Law 130/99. Banco BPM intervened by purchasing all or part of the Senior tranche alone.

Alba 13 SPV S.r.l.

The transaction concerns a portfolio of performing loans originated by Alba Leasing S.p.A. (39.19% owned by Banco BPM 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 euro.

The transaction is static in nature (i.e., there is no ramp-up period), so Banco BPM's investment as at 31 December 2023 amounted to 36.0 million.

Figures in thousands of euro

Class – Type	Nominal issue value	BANCO BPM		
		Nominal value subscribed by Banco BPM on the issue date	Nominal value of Banco BPM as at 31/12/2023	Drawn down as at 31/12/2023
Senior Class A1 - A2	785,700	50,000	50,000	35,994
Mezzanine Class	267,600	-	-	-
Junior Class	196,407	-	-	-
Total	**1,249,707**	**50,000**	**50,000**	**35,994**

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 Euro 50 million.

The transaction includes a 12-month ramp-up, and Banco BPM's investment as at 31 December 2023 amounted to 20.9 million euro.

Figures in thousands of euro

Class – Type	Nominal issue value	BANCO BPM		
		Nominal value subscribed by Banco BPM on the issue date	Nominal value of Banco BPM as at 31/12/2023	Drawn down as at 31/12/2023
Senior Security – Class A1	130,000	-	-	-
Senior Security – Class A2	50,000	50,000	50,000	20,872
Mezzanine security	45,000	-	-	-
Junior security	65,000	-	-	-
Total	**290,000**	**50,000**	**50,000**	**20,872**

Pontormo SME 2023 S.r.l.

The transaction concerns a portfolio of loans originated by Banca Cambiano 1884 S.p.A. and granted to SMEs, secured by a guarantee of the Central Guarantee Fund for SMEs, as envisaged by the provisions of the law issued following the Covid-19 emergency.

The purchase price was financed with the issue of two tranches of securities: a senior class and a junior class.

Banco BPM subscribed 100% of the Senior class for a total value of 100 million euro.

The transaction does not envisage a ramp-up, and Banco BPM's investment as at 31 December 2023 amounted to 100 million euro.

Figures in thousands of euro

Class – Type	Nominal issue value	BANCO BPM		
		Nominal value subscribed by Banco BPM on the issue date	Nominal value of Banco BPM as at 31/12/2023	Drawn down as at 31/12/2023
Senior security	100,000	100,000	100,000	100,000
Junior security	25,000	-	-	-
Total	**125,000**	**100,000**	**100,000**	**100,000**

San Felice Finance S.r.l.

The transaction relates to a portfolio of loans deriving from residential mortgage loans granted to natural persons by Banca San Felice 1893 S.C.p.A.

The purchase price was financed with the issue of two tranches of securities: a senior class and a junior class.

Banco BPM subscribed 100% of the Senior class for a total value of 66.1 million euro.

The transaction does not envisage a ramp-up, and Banco BPM's investment as at 31 December 2023 amounted to 66.1 million euro.

Figures in thousands of euro

Class – Type	Nominal issue value	BANCO BPM		
		Nominal value subscribed by Banco BPM on the issue date	Nominal value of Banco BPM as at 31/12/2023	Drawn down as at 31/12/2023
Senior security	66,120	66,120	66,120	66,120
Junior security	29,681	-	-	-
Total	**100,000**	**66,120**	**66,120**	**66,120**

Golem SPV S.r.l.

The transaction relates to a portfolio of loans deriving from residential mortgage loans granted to natural persons by Banca Valsabbina S.C.p.A.

The purchase price was financed with the issue of two tranches of securities: a senior class and a junior class.

Banco BPM subscribed 100% of the Senior class for a total value of 100 million euro.

The transaction does not envisage a ramp-up, and Banco BPM's investment as at 31 December 2023 amounted to 100 million euro.

Figures in thousands of euro

Class – Type	Nominal issue value	BANCO BPM		
		Nominal value subscribed by Banco BPM on the issue date	Nominal value of Banco BPM as at 31/12/2023	Drawn down as at 31/12/2023
Senior security	100,000	100,000	100,000	100,000
Junior security	27,257	-	-	-
Total	**127,257**	**100,000**	**100,000**	**100,000**

Securitisation in the energy sector - Sun SPV – lot 5

The securitisation programme regards trade receivables for a maximum revolving amount of 24.2 million euro, originated by Group customers, operating in the energy sector, and resulting from the provision of natural gas and electricity to consumers, small businesses and e-businesses.

The Group acts as senior noteholder and account bank.

The revolving purchase by SUN SPV S.r.l. was financed through the issue of the tranche of the unrated Senior ABS.

Banco BPM subscribed 100% of the Senior security for a total value of 24.2 million euro. The securities were issued on 22 December 2023 and Banco BPM's investment as at 31 December 2023 amounted to 0.3 million euro. The securitisation is currently in the revolving phase.

The first loss risk tranche takes the form of a deferred purchase price borne by the originators.

Figures in thousands of euro

Class – Type Euro/000	Nominal issue value	BANCO BPM		
		Nominal value subscribed by Banco BPM on the issue date	Nominal value of Banco BPM as at 31/12/2023	Drawn down as at 31/12/2023
Senior security	24,193	24,193	24,193	283
Total	**24,193**	**24,193**	**24,193**	**283**

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.

Banco BPM acts as senior noteholder together with a pool of banks.

The General SPV transaction envisages the issue of three different tranches of ABS securities based on the degree of subordination in absorbing losses: Senior securities classified as variable funding, Mezzanine securities and Junior securities, both of which classified as partly paid.

In December 2022, Banco BPM subscribed 100% of the class of newly issued Senior A3 Securities for a maximum amount of 50 million euro (corresponding to the maximum credit line commitment) for a class with a nominal value of 100 million euro, following an amendment to the original transaction aimed at increasing its global dimension.

The securitisation is currently in the revolving phase, and the investment as at 31 December 2023 is equal to 36.3 million euro.

Figures in thousands of euro

Class – Type Euro/000	Nominal issue value	BANCO BPM		
		Nominal value subscribed by Banco BPM on the issue date	Nominal value of Banco BPM as at 31/12/2023	Drawn down as at 31/12/2023
Senior Security – Class A1, A2	400,000	-	-	-
Senior Security – Class A3	100,000	50,000	50,000	36,323
Mezzanine Security – Class B1, B2, B3	53,000	-	-	-
Junior security	37,000	-	-	-
Total	**590,000**	**50,000**	**50,000**	**36,323**

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 transaction is currently being amortised and the Senior security held by Banco BPM has been partially repaid.

Banco BPM originally subscribed a nominal amount of 15.7 million euro of the Senior tranche. The securitisation is currently in the security repayment phase and the residual investment as at 31 December 2023 amounts to 3.6 million euro.

Figures in thousands of euro

Class – Type	Nominal issue value	BANCO BPM		
		Nominal value subscribed by Banco BPM on the issue date	Nominal value of Banco BPM as at 31/12/2023	Drawn down as at 31/12/2023
Senior security	16,500	15,675	15,675	3,589
Junior security	9,068	-	-	-
Total	**25,568**	**15,675**	**15,675**	**3,589**

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.

In 2022, the amount issued was increased for all classes of securities.

This is an ABS classified as partly paid and envisages the payment by the investor of the amount subscribed in different tranches, on the request of the issuer. Banco BPM invested exclusively in Class A - Senior, which concluded the progressive investment phase in 2022 (the ramp-up phase). As at 31 December 2023, the transaction is in its amortisation phase, and the residual investment of Banco BPM amounts to 42.7 million euro.

Figures in thousands of euro

Class – Type	Nominal issue value	BANCO BPM		
		Nominal value subscribed by Banco BPM on the issue date	Nominal value of Banco BPM as at 31/12/2023	Drawn down as at 31/12/2023
Class A - Senior	285,000	51,600	51,204	42,701
Class B - Mezzanine	28,000	-	-	-
Class C - Junior	35,000	-	-	-
Total	**348,000**	**51,600**	**51,204**	**42,701**

Igloo SPV S.r.l.

The transaction regards a portfolio of loans granted to SMEs and mid-caps, secured by a guarantee of the Central Guarantee Fund for SMEs or by SACE, as envisaged by the provisions of the law issued following the Covid-19 emergency.

Banco BPM subscribed a nominal amount of 35 million euro of the Senior tranche. The ramp-up phase continued in 2022 and in the first six months of 2023. The investment as at 31 December 2023 amounted to 22.8 million euro.

Figures in thousands of euro

Class – Type	Nominal issue value	BANCO BPM		
		Nominal value subscribed by Banco BPM on the issue date	Nominal value of Banco BPM as at 31/12/2023	Drawn down as at 31/12/2023
Class A1, A2 – Senior	134,700	35,000	35,000	22,768
Class B – Upper Mezzanine	23,300	-	-	-
Class Y – Lower Mezzanine	7,800	-	-	-
Class J – Junior	4,200	-	-	-
Total	**170,000**	**35,000**	**35,000**	**22,768**

Securitisation in the energy sector - Sun Spv - lot 3

The securitisation programme concerns trade receivables for a maximum revolving amount of 25 million euro, originated by a customer of the Group, operating in the energy market for the sale of electricity and gas to consumer end users (residential users), condominiums and small businesses and in the telecommunications sector.

The Group acts as senior noteholder and account bank.

Regulatory retention is fulfilled by the Originator through the junior class (horizontal retention). The revolving purchase by SUN SPV S.r.l. was financed through the issue of two tranches of unrated ABS (Senior and Junior classes).

Banco BPM subscribed 100% of the Senior security for a total value of 21.3 million euro, while the Junior security was fully subscribed by the Originator. The securities were issued on 7 March 2023 and Banco BPM's investment as at 31 December 2023 amounted to 21.2 million euro. The securitisation is currently in the revolving phase.

The Junior class was subscribed by the originator.

Figures in thousands of euro

Class – Type Euro/000	Nominal issue value	BANCO BPM		
		Nominal value subscribed by Banco BPM on the issue date	Nominal value of Banco BPM as at 31/12/2023	Drawn down as at 31/12/2023
Senior security	21,250	21,250	21,250	21,202
Junior security	3,850	-	-	-
Total	**25,100**	**21,250**	**21,250**	**21,202**

<u>Risk management in securitisation and covered bond transactions</u>

The main risks relating to the securitisation transactions, with the exception of those fully derecognised from financial statements, and the CBs can be summarised as follows: (i) interest rate risk, linked to possible fixed-rate/floating-rate tranches/series on an underlying portfolio of mortgages with different types of rates; (ii) credit risk, attributable to the quality of the loans transferred to the special-purpose vehicle and, therefore, to their performance; (iii) counterparty risk, consisting in the possibility that the creditworthiness of third party counterparties involved in transactions (swap counterparties, cash managers, account banks, etc.) could deteriorate to such an extent as to create a liquidity problem with a consequent negative impact on the ratings of individual tranches/series issued; (iv) reputational risk, consisting of the possibility that a specific event negatively influences the credibility and the image of the Group on the reference market (failure to observe the regulatory tests envisaged in the CB programmes, delay in the reporting sent out for external purposes); also the lack of actions by Banco BPM so as to support the operations if it is envisaged may negatively influence the Group's credibility on the market; (v) liquidity risk, linked to the performance of the collateral book: a deterioration in the portfolio securitised or transferred as part of a CB programme may create a shortfall in the transaction's financial structure and, as a result, the inability of the entity to reimburse the securities issued or to pay the interest on the securities in the case of default by the issuer (for CBs), or cause the failure of the regulatory or contractual tests envisaged in the CB programmes.

There is an additional type of risk in the self-securitisations structured by the Group, and the series of CBs repurchased by the Originator and used in monetary policy transactions with the ECB, also linked to the quality of the underlying portfolio.

A deterioration in the transferred loans could result in a reduction in the price of the senior tranche by the supervisory authorities in refinancing transactions, as well as a reduction in the rating of the securities also below the minimum threshold for ECB eligibility, with a resulting impact on the value of the portfolio of securities which can be lodged and are eligible and, therefore, on the bank's liquidity.

In the securitisation transactions carried out (with the exception of those relative to derisking projects), Banco BPM serves as the Originator (lending bank) and Servicer (monitoring and management) of the portfolios sold and sometimes as the Subordinated Lender.

The role of Originator involves the transfer of loan books to special purpose vehicles incorporated under the form of "società per la cartolarizzazione di crediti" (loan securitisation companies) pursuant to Italian Law 130/1999, which finance the purchase of books through the issue of ABS securities.

Furthermore, Banco BPM performs certain specific activities within the securitisation transactions, including the role of "Administrative Servicer", meaning the party in charge of performing certain accounting and administration services on behalf of the SPV, and, as Interim Account Bank (custodian bank of the SPV's accounts) with the obligation of transferring the funds credited to current accounts held by the SPV to the Account Bank.

In the securitisation transaction BPL Mortgages S.r.l. Series V, BPL Mortgages S.r.l. Series VIII and with regard to the three CB programmes (BP CB1, BPM CB1 and BPM CB2), Banco BPM also acts as Custodian Bank, holding several accounts in the names of the relative SPVs.

Banco BPM Group has arranged a set of periodic assessments to monitor the changes in risks relating to the securitisations and CB programmes.

In the area of securitisation transactions, the following are periodically monitored: (i) the performance of the portfolio in terms of levels of default, delinquency and prepayment, and (ii) the levels of ratings of senior and mezzanine tranches.

In the area of Covered Bonds, in addition to periodically monitoring the performance of the portfolio in terms of levels of default, delinquency and prepayment, regulatory tests are conducted as well as those required by the rating agencies, at a greater frequency than set forth in the programme's contractual documentation: the official tests are carried out on a quarterly basis as envisaged by the contracts, but the same tests for management purposes are carried out monthly, in order to be able to promptly act to support the transaction, thus avoiding failure of the tests and the related consequences.

For risks relating to securitisations and Covered Bond programmes, Banco BPM has adopted a series of useful mitigation mechanisms.

Specifically, to mitigate counterparty risk in the transactions, counterparties with high ratings are involved, and contractual provisions are entered which state that in the event of downgrading of said counterparties, certain guarantees may be given, or they may be replaced.

Reputational risk, instead, is mitigated by means of effective relations with the market and with institutional investors.

The selection of a high quality loan portfolio, as well as the monitoring and management of transferred loans, along with the level of credit enhancement/overcollateralisation significantly reduce liquidity risk.

Lastly, with regard to interest rate risk, recourse to the signing of derivative contracts, if necessary, protects the SPV from unexpected movements in the interest rate curve, shielding it from interest rate risk.

To calculate risk-weighted exposures for securitisation risks, Banco BPM Group applies two different approaches, ordered hierarchically:

- if the loan exposures included in the securitised book are subject to the application of the standardised approach, the same approach is likewise applied to the exposure towards the securitisation;
- if the loan exposures included in the securitised book are subject to the application of the advanced approaches based on internal models, the same approach is likewise applied to the exposure towards the securitisation.

The securities issued as part of a securitisation transaction, or a CB programme may be:

(i) placed on the market through parties assigned for such purposes in advance (dealer/lead manager, book-runner, etc.); or

(ii) fully subscribed by the originator of the transferred assets or by the issuer in the case of CB, which will then use the securities in refinancing transactions with market counterparties or in monetary policy transactions with the Eurosystem.

Synthetic securitisations

In June 2023, Banco BPM concluded a synthetic securitisation with specialist investors, called Grace, on a portfolio composed of performing loans disbursed to Corporate customers for approximately 3.3 billion euro (net retention of around 2.5 billion euro)[14].

As at 31 December 2023, the portfolio involved in the transaction, including retention, amounted to Euro 2.8 billion and the net exposure of Banco BPM was Euro 2.1 billion.

As part of this agreement, the investors guarantee the junior tranche of the portfolio.

In December 2023, Banco BPM concluded a synthetic securitisation with specialist investors, called Marlene, on a portfolio composed of performing loans disbursed to SME and Corporate customers for approximately 2.1 billion euro (net retention of around 1.9 billion euro).

As at 31 December 2023, the portfolio involved in the transaction, including retention, amounted to Euro 1.9 billion and the net exposure of Banco BPM was Euro 1.8 billion.

As part of this agreement, the investors guarantee the mezzanine tranche of the portfolio.

During the same month, Banco BPM concluded a synthetic securitisation with the Guarantee Fund for small and medium-sized enterprises ("SMEGF"), called Tranched Cover, on a portfolio composed of new loans disbursed to SME and Corporate customers of approximately 300 million euro (net retention of around 240 million euro).

As at 31 December 2023, the portfolio involved in the transaction, including retention, amounted to 282 million euro and the net exposure of Banco BPM was 226 million euro.

The transaction envisages the coverage of the junior tranche through a direct personal guarantee from the SMEGF and a counter-guarantee from the State.

The Group also has four synthetic securitisations in place, arranged between 2021 and 2022:

- SME and Corporate 2021 Transaction - Audrey: transaction that envisages hedging of the junior tranche by the European Investment Fund. As at 31 December 2023, the portfolio involved in the transaction, including retention, amounted to around 775 million euro and the net exposure of the Group was 710 million euro.
- Large Corporate 2021 - Brigitte: transaction that envisages hedging of the junior tranche by a market investor. As at 31 December 2023, the portfolio involved in the transaction, including retention, amounted to around 998 million euro and the net exposure of the Group was 728 million euro.
- Specialised Lending 2022 - Sofia: transaction that envisages hedging of the junior and mezzanine tranche by a number of market investors and an insurance company. As at 31 December 2023, the portfolio involved in the transaction, including retention, amounted to around 1.2 billion euro and the net exposure of the Group was 800 million euro.
- SME and Large Corporate 2022 - Greta: transaction that envisages hedging the mezzanine tranche by a market investor. As at 31 December 2022, the portfolio involved in the transaction, including retention, amounted to around 1.1 billion euro and the net exposure of the Group was 1.0 billion euro.

[14] The Bank maintains a significant net economic interest (retention) of no less than 5% in the securitisation according to Article 6 of Delegated Regulation 2017/2402.

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, the transaction finalised in 2020 was closed, with the Bank exercising the early termination option.

The synthetic securitisation transactions allow the release of regulatory and economic capital as a result of the reduction of the credit risk of the underlying portfolio (Significant Risk Transfer), thus contributing to the creation of value by optimising the use of the capital itself.

For the duration of the transactions, the Significant Risk Transfer (SRT) must be constantly monitored in order to verify that the criteria established by current regulations regarding the effective transfer of credit risk are observed.

The transactions are subject to ongoing monitoring by the relevant structures, including with regard to the economic advantages it has for the Bank.

Summary of accounting policies

In securitisation transactions, the transfer of financial assets to an SPV, even without recourse, involves the derecognition of such assets only if there is a substantial transfer of risks and rewards.

For securitisations originated by the Group, the loans were not derecognised from the financial statements when the transaction was executed, even though they were transferred.

This is because the Group has maintained the credit risk associated with the securitised portfolio and the relative rewards, by subscribing the tranche of junior securities, i.e., the securities that bear the risk of the initial losses, or the assumption of similar exposures.

As a result, the loans continue to be recognised in the originator bank's separate financial statements as "Assets disposed of and not derecognised"; the consideration received from the transfer is recognised as a balancing entry to the recognition of a payable to the SPV, net of the securities subscribed by the bank.

In the consolidated financial statements, the primary effect of the consolidation of the SPV and the relative securitisation assets, if the control requirements established by IFRS 10 are respected, is that the securities issued by the SPV and subscribed by entities not belonging to the Group are included in the statement of financial position.

The following securitisation transactions are an exception to the general rule described above: Red Sea SPV S.r.l ("Exodus Project"), Leviticus SPV S.r.l. ("Ace Project") and Titan SPV S.r.l. ("Titan Project"), Tiberina SPV S.r.l ("Django Project"), Tevere SPV S.r.l ("Argo Project") and Aurelia SPV S.r.l. ("Rocket Project") fully derecognised from the financial statements.

Note that the disposals finalised by the Group did not result in any recognition of profits or losses at the transfer date, as the value of the loans sold was equal to the book value.

Synthetic securitisations envisage, through the contracting of collateral arrangements, the purchase of protection from the credit risk underlying a portfolio of loans, of which the Originator retains full ownership. Thus, the purpose of those transactions is to transfer the credit risk from the Originator to an external counterparty, without derecognising the assets, which are therefore kept in the Originator's financial statements.

Banco BPM Group securitisation transactions	Rating agencies involved
BPL Mortgages S.r.l (December 2012)	Moody's Investors Service Ltd DBRS Ltd
Red Sea (June 2018)	Moody's Investors Service Ltd Scope
Leviticus SPV (February 2019)	DBRS Ltd Scope
Titan SPV (December 2020)	DBRS Ltd Scope
Profamily SPV (February 2021)	DBRS Ltd Fitch Ratings

Aurelia SPV (June 2021)	DBRS Ltd
	Scope
BPL Mortgages S.r.l. (April 2022)	Moody's Investors Service Ltd
	DBRS Ltd

Banco BPM Group Covered Bond transactions	Rating agencies involved
BP Covered Bond S.r.l. (January 2010)	Moody's Investors Service Ltd
BPM Covered Bond S.r.l. (June 2008)	Moody's Investors Service Ltd
BPM Covered Bond 2 S.r.l. (August 2015)	Moody's Investors Service Ltd

External rating agencies

For the external rating agencies involved in each securitisation transaction, see the table above. For the names of the external rating agencies, see the section "Credit risk - Disclosures for portfolios treated under the standardised approach and specialised lending and equity exposures".

Significant changes occurred from the last reference period

BPL Mortgages S.r.l. Series V (December 2012): on 24 February 2023, the rating agency DBRS upgraded the rating of the Class A1, Class A2 and Class A3 Senior securities from "AA" to "AAA".

Profamily SPV: the rating of the Senior Class A securities was upgraded from "AA" to "AAA" on 20 February 2023 by the rating agency DBRS.

BPL Mortgages S.r.l. Series VIII (April 2022): the rating of the Class A Security was upgraded (i) from "A" to "AH" on 27 April 2023 by the rating agency DBRS and (ii) from "A2" to "Aa3" on 17 February 2023 by the rating agency Moody's Investors Services.

BP Mortgages S.r.l. (June 2007): Banco BPM, as Originator, at the Board of Directors meeting on 11 July 2023, and BP Mortgages S.r.l., as SPV, at the Board of Directors meeting on 1 August 2023, resolved the early redemption of the securities, issued in June 2007 by BP Mortgages 2, through the exercise of the option to buyback the residual loans.

As the percentage needed to exercise the Clean-Up Option had been reached, on 28 September 2023, with the signature of the assignment agreement, Banco BPM repurchased the entire residual portfolio of mortgages underlying the transaction.

The notice of assignment of the loans was published in the Official Gazette of the Italian Republic, Part Two, no. 116 of 3 October 2023.

Leviticus SPV (February 2019): on 12 October 2023, the rating agency Scope downgraded the rating of the Class A securities from "BB+" to "BB-". On 21 April 2023, the rating agency DBRS had downgraded the rating of the Class A securities from "BB" to "BBL".

Red Sea SPV (June 2018): on 30 November 2022, the rating agency Moody's had downgraded the rating of the Class A securities from "Baa1" to "Baa2" and in 2023, no other changes were recorded. In January 2024, the rating agency Scope downgraded the rating of the Class A securities from "BB+" to "BB-".

BPM Covered Bond ("BPM CB1" - June 2008)

In May 2023, Banco BPM sold a new portfolio of eligible assets (Banco BPM Fifth Portfolio, Twelfth assignment to the Company), with a residual debt of approximately 1.6 billion euro, comprised by residential mortgage loans, including disbursements to Group employees, and commercial mortgage loans originated by Banco BPM, to the SPV BPM Covered Bond S.r.l.

This transaction was finalised with the signing of the relative sale contracts on 22 May 2023.

In December, BBPM sold a new portfolio of eligible assets to the Company (Banco BPM Sixth Portfolio, thirteenth assignment to the Company), with a total residual debt of approximately 2.1 billion euro, consisting of residential mortgages, including disbursements to Group employees, and commercial mortgages originated by Banco BPM.

This transaction was finalised with the signing of the relative sale contracts on 21 December 2023

In May 2023, with the signing of the relative contracts, Banco BPM repurchased from the SPV a portfolio of loans in default for an amount of approximately 3.8 million euro and a portion of ineligible loans for an amount of approximately 7.17 million euro.

In August, Banco BPM repurchased a portion of the UTP loans for approximately 682,000 euro.

In December, a transaction similar to that of August was carried out with the repurchase by Banco BPM of approximately 7.7 million euro relating to positions in default and a portfolio of 9.84 million euro relating to ineligible loans.

As at 31 December 2023, there were five Series of CBs, listed on the Luxembourg Stock Exchange, fully repurchased by Banco BPM and used for refinancing operations with the ECB or for repo transactions with market counterparties, for a total of 5.05 billion euro.

BPM Covered Bond 2 ("BPM CB2" - August 2015)

In April 2023, the Registered Covered Bond of 100 million euro, subscribed by German investors, was transferred from the original BP CB Residential issue Programme (BP CB1) implemented by Banco Popolare in 2010, to the BPM Covered Bond 2 Programme (BPM CB2) implemented by Banca Popolare di Milano in 2015.

In May 2023, with the signing the relative contracts, Banco BPM repurchased from the SPV a portfolio of loans in default for an amount of approximately 1.87 million euro and a portfolio of ineligible loans for an amount of approximately 1.1 million euro.

In August, a portfolio of ineligible loans amounting to approximately 1.28 million euro was repurchased.

In December, a transaction similar to that of May was carried out with the repurchase by Banco BPM of a portfolio of approximately 2.45 million euro relating to positions in default and a portion of mortgage loans of approximately 21.7 million euro relating to ineligible loans.

On 8 June 2023, due to natural termination, Banco BPM provided for the full reimbursement of the Third Series of CBs issued, for a nominal value of 750 million euro.

On 27 June 2023, the Eighth Series of CBs was issued for a nominal value of 750 million euro, listed on the Luxembourg Exchange and placed with institutional investors.

On 18 September 2023, the Ninth Series (first tranche) of CBs was issued for a nominal value of 500 million euro, listed on the Luxembourg Exchange and placed with institutional investors, and on 29 September, a second tranche was issued on the same Series for a nominal value of 250 million, maturity 18 September 2026.

On the maturity date of 25 September 2023, due to natural termination, Banco BPM provided for the full reimbursement of the Fifth Series of CBs issued, for a nominal value of 500 million euro.

As at 31 December 2023, there were seven public Series of CBs, listed on the Luxembourg Stock Exchange, for a total of 4.35 billion euro.

BP Covered Bond ("BP CB1" - January 2010)

In March 2023, the maturity of Series 7 retained was extended from 31 March 2023 to 31 March 2024, while Series 6 was fully repaid for a value of 150 million euro.

In April, the Registered Covered Bond was transferred for a notional 100 million euro from the original BP CB Residential issue programme (BP CB1) to the BPM Covered Bond 2 Programme (BPM CB2).

In May, with the signing of the relative contracts, Banco BPM provided for the repurchase, as a pool, of the positions in default for an amount of approximately 4.25 million euro and of a portfolio of ineligible loans for an amount of approximately 7.46 million euro.

In August, Banco BPM repurchased a portfolio of UTP loans for 3.43 million euro.

In December, a transaction similar to that of May was carried out, in which Banco BPM provided for the repurchase, as a pool, of a portfolio of positions in default of approximately 3.01 million euro and of a portfolio of ineligible mortgage loans of approximately 9.46 million euro.

In August, with the signing of the relative contractual documentation, the withdrawal of the DBRS rating from the two outstanding retained CB Series (Seventh and Twelfth) was finalised.

As at 31 December 2021, there were two series of CBs, for a total of 2 billion euro, listed on the Luxembourg Stock Exchange, fully repurchased by Banco BPM or used for refinancing operations with the ECB or for repo transactions with market counterparties.

Template EU SEC1: securitisation exposures in the non-trading book

		A	b	c	D	e	f	g	h	i	j	k	l	m	n	o
		The entity acts as transferor							The entity acts as sponsor				The entity acts as investor			
		Traditional				Synthetic		Sub-total	Traditional		Synthetic	Sub-total	Traditional		Synthetic	Sub-total
		STS		Non-STS					STS	Non-STS			STS	Non-STS		
			of which SRT		of which SRT		of which SRT									
1	**Total exposures**	**-**	**-**	**67,240**	**67,240**	**6,914,198**	**6,914,198**	**6,981,438**	**29,205**	**16,559**	**-**	**45,764**	**224,109**	**232,954**	**-**	**457,063**
2	Retail (total)	-	-	9,880	9,880	-	-	9,880	-	-	-	-	167,268	2,396	-	169,664
3	Residential mortgages	-	-	-	-	-	-	-	-	-	-	-	167,268	-	-	167,268
4	Credit cards	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	Other retail exposures	-	-	9,880	9,880	-	-	9,880	-	-	-	-	-	2,396	-	2,396
6	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Wholesale (total)	-	-	57,360	57,360	6,914,198	6,914,198	6,971,558	29,205	16,559	-	45,764	56,841	230,557	-	287,399
8	Loans to corporates	-	-	57,286	57,286	6,914,198	6,914,198	6,971,484	-	-	-	-	-	172,647	-	172,647
9	Commercial mortgages	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Leases and receivables	-	-	74	74	-	-	74	29,205	16,559	-	45,764	56,841	57,910	-	114,751
11	Other wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Template EU SEC2: securitisation exposures in the trading book

Template SEC2 was not compiled as no trading securitisations are present.

Template EU SEC3 – Securitisation exposures in the non-trading book and associated regulatory capital requirements: entity acting as originator or as sponsor

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	EU-p	EU-q
		Exposure values (by RW bands/deductions)					Exposure values (by regulatory approach)				RWEAs (by regulatory approach)				Capital charge after cap			
		≤ 20% RW	> 20% to 50% RW	> 50% to 100% RW	> 100% to < 1,250% RW	1250% RW/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250% RW/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250% RW	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250% RW
1	**Total exposures**	**6,915,274**	**-**	**55,542**	**29,379**	**27,008**	**6,251,624**	**-**	**748,571**	**27,008**	**937,744**	**-**	**354,294**	**-**	**75,019**	**-**	**18,305**	**-**
2	Traditional transactions	16,522	-	55,542	29,379	11,562	-	-	101,442	11,562	-	-	222,270	-	-	-	7,743	-
3	Securitisations	16,522	-	55,542	29,379	11,562	-	-	101,442	11,562	-	-	222,270	-	-	-	7,743	-
4	Retail	-	-	-	531	9,349	-	-	531	9,349	-	-	4,342	-	-	-	347	-
5	of which STS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Wholesale	16,522	-	55,542	28,848	2,213	-	-	100,911	2,213	-	-	217,928	-	-	-	7,395	-
7	of which STS	-	-	-	28,848	358	-	-	28,848	358	-	-	159,037	-	-	-	2,684	-
8	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Synthetic transactions	6,898,752	-	-	-	15,446	6,251,624	-	647,128	15,446	937,744	-	132,024	-	75,019	-	10,562	-
10	Securitisations	6,898,752	-	-	-	15,446	6,251,624	-	647,128	15,446	937,744	-	132,024	-	75,019	-	10,562	-
11	Retail underlying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Wholesale	6,898,752	-	-	-	15,446	6,251,624	-	647,128	15,446	937,744	-	132,024	-	75,019	-	10,562	-
13	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Template EU SEC4 – Securitisation exposures in the non-trading book and associated regulatory capital requirements: entity acting as investor

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	EU-p	EU-q
		Exposure values (by RW bands/deductions)					Exposure values (by regulatory approach)				RWEAs (by regulatory approach)				Capital charge after cap			
		≤ 20% RW	> 20% to 50% RW	> 50% to 100% RW	> 100% to < 1,250% RW	1250% RW/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250% RW/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250% RW	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250% RW
1	**Total exposures**	**387,748**	**21,234**	**364**	**47,717**	**-**	**-**	**35,977**	**421,086**	**-**	**-**	**3,598**	**162,500**	**-**	**-**	**288**	**5,697**	**-**
2	Traditional securitisation	387,748	21,234	364	47,717	-	-	35,977	421,086	-	-	3,598	162,500	-	-	288	5,697	-
3	Securitisations	387,748	21,234	364	47,717	-	-	35,977	421,086	-	-	3,598	162,500	-	-	288	5,697	-
4	Retail underlying	167,268	-	364	2,032	-	-	-	169,664	-	-	-	21,359	-	-	-	1,363	-
5	of which STS	167,268	-	-	-	-	-	-	167,268	-	-	-	16,727	-	-	-	1,338	-
6	Wholesale	220,480	21,234	-	45,685	-	-	35,977	251,422	-	-	3,598	141,141	-	-	288	4,334	-
7	of which STS	56,841	-	-	-	-	-	35,977	20,864	-	-	3,598	2,086	-	-	288	167	-
8	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Synthetic securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Securitisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Retail underlying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Template EU SEC5 – Exposures securitised by the entity: exposures in default and specific credit risk adjustments

		a	b	c
		Exposures securitised by the entity - The entity acts as originator or as sponsor		
		Total nominal amount outstanding		Total amount of specific credit risk adjustments made during the period
			of which exposures in default	
1	**Total exposures**	**22,126,913**	**11,115,147**	**126,931**
2	Retail (total)	13,551,213	10,034,220	68,942
3	Residential mortgages	2,069,397	86,563	32,543
4	Credit cards	-	-	-
5	Other retail exposures	11,481,816	9,947,657	36,399
6	Re-securitisation	-	-	-
7	Wholesale (total)	8,575,700	1,080,927	57,990
8	Loans to corporates	8,400,650	937,048	57,990
9	Commercial mortgages	-	-	-
10	Leases and receivables	175,049	143,878	-
11	Other wholesale	-	-	-
12	Re-securitisation	-	-	-

Market risk

Characteristics of the internal models and description of the stress tests applied

Internal model Banco BPM, Banca Akros

At the beginning of 2012, Banco BPM Group obtained validation of the internal model for market risks, with effect from 30 June 2012. The internal model is used in association with management risk measures that differ from regulatory measures by virtue of the risk factors considered and some technical elements.

Following the request submitted in 2019 by Banco BPM Group, in the Internal Model Decision document dated 16 November 2020, the Supervisory Authority granted the authorisation to extend the Internal Model for Market Risk to the specific risk of debt securities in the trading book, and following the recent termination of two ECB Obligations, also the exchange risk of the banking book.

The main characteristics of the VaR internal model used to value market risk from a regulatory and management perspective are set forth below:

- Method: historical simulation
- Time horizon: 1 day (re-parameterised to 10 days for regulatory purposes)
- Depth of historical series: 1 year
- Confidence level: 99%
- Decay factor: 0.99 for management purposes and 1 for regulatory purposes (or equal weighting of the historical scenarios of reference)
- Non-linearity of pay-outs: managed through an assessment of the portfolio in full evaluation.

The risk factors considered by the VaR model for regulatory purposes are:

- share prices;
- volatility of share prices;
- interest rates;
- volatility of interest rates;
- exchange rates;
- volatility of exchange rates
- specific risk.

The regulations provide for an additional prudential requirement to the VaR, calculated using market inputs related to periods of financial stress (Stressed VaR). The scope of application of the Stressed VaR includes all the risk factors in the VaR model for regulatory use.

Following extension of the internal model to the specific risk of debt securities, the regulation also envisages calculation of the Incremental Risk Charge, which measures the default and migration risk component of the portfolio with respect to the current value of the bonds. More specifically, the risk in question is measured by means of a model that simulates, using a Monte Carlo simulation, the value of the issuers and, if these surpass specific thresholds, this would result in a migration or a default. For regulatory purposes, the IRC perimeter includes positions in debt securities present in the Trading Book and is calculated considering a liquidity horizon of 1 year and a confidence level of 99.9%.

All positions in the Trading Book and foreign exchange positions in the Banking Book are subject to market risk measurement. The Trading Book is identified as all positions present in the portfolios to which was assigned the attribute of portfolio containing transactions for trading purposes. This attribute is assigned when a new portfolio is entered into the Front Office applications by the applicant operator. To this end, there is a specific process rule "Opening new portfolios in the position-keeping system" which defines the players involved and the activities that each of them must perform for the portfolio to be recorded. At the same time, this process guarantees a precise distinction between the Trading Book portfolios and those of the Banking Book.

In order to estimate the capital requirement using the internal model, it is therefore calculated using the following formula:

$$C_t = m_c(\max[VaR_{t-1};\overline{VaR}] + addon_{RNIME_{VaR}}) + m_s(\max[sVaR_{\tau-1};\overline{sVaR}] + addon_{RNIME_{SVaR}}) + (\max[IRC_{t-1};\overline{IRC}] + addon_{RNIME_{IRC}})$$

- C_t: is the capital requirement at day t;
- VaR_{t-1}: is the value at risk calculated according to the internal model for the book held at day t-1, while $\overline{VaR}$ represents the average of the VaR measures calculated in the last 60 business days;
- $sVaR_\tau$: is the last available value for the "Stressed VaR" while $\overline{sVaR}$ represents the average of the "Stressed VaR" measures calculated in the last 60 business days;
- mc and ms: represent the multiplication factors for the VaR and Stressed VaR, respectively;
- $IRCt{-}1$: represents the most recent IRC and $IR\overline{\overline{\overline{C}}}$ represents the average value of the IRC calculated in the previous 12 weeks;
- $addonRNIME$: measurement representing the impact of risks not in the model engines (RNIME) with respect to single risk measurements (VaR, SVaR and IRC).

The multiplication factor envisaged for Banco BPM and Banca Akros is 3.75 for both VaR and Stressed VaR (add-ons relative to the backtesting process are included in the beta, as in the specific section).

Market risk stress testing

Stress Tests are tests carried out on a portfolio to identify the scenarios, i.e., the changes in a series of risk factors, the occurrence of which would incur a potentially significant loss.

These tests allow identification of the risk factors that contribute more than others to this negative result and consequently allow implementation of loss-limiting strategies when these scenarios occur.

Stress testing is mandatory for the purposes of validating Internal Models for quantifying minimum capital requirements for the market risk, as it provides banks with indication of the level of capital required to deal with any loss arising from long-lasting deterioration of the economic-financial conditions.

It is also a supporting tool for other risk management and measurement techniques, in that it:

- provides a forward-looking view of risks and their economic impact;
- exceeds the limits arising from risk management models based on historical data (Historical VaR with inclusion of the last 250 observations);
- integrates managerial reporting and public disclosure;
- provides input data for capital and liquidity planning processes;
- provides indications on a bank's level of risk tolerance;
- guarantees development of risk mitigation and recovery plans in certain stress situations.

For Banco BPM Group, stress tests are carried out regularly for the entire trading book. In order to establish the value of the portfolio in stress scenarios, the full revaluation approach was chosen to ensure that all instrument pay-off irregularities are fully noted.

Two types of scenarios are applied: historical scenarios (in which the changes in each risk parameter are consistent with the worst historical observations) and hypothetical scenarios in which the changes in the risk parameters are defined through expert valuation.

In order to represent the overall risk associated with a trading book, the link between market risk and liquidity risk, specifically in terms of market liquidity risk, i.e., the risk that a bank - due to a sudden shortage in market liquidity - is unable to close some positions promptly (at a price approaching the theoretical price), is of particular importance. The time required to allow timely closing of the risk positions of a trading book is considered to be 10 business days. This horizon is consistent with supervisory recommendations, traders' opinions and historical quantitative data.

Hence, in Stress Test evaluation, scenarios are identified - when possible - based on 10-day ranges or, for data concerning daily fluctuations in parameters, the VaR data is reparametrized on a 10-day horizon.

Backtesting

The backtesting process entails a comparison between the values of expected losses (VaR) and the values of the portfolio's actual or theoretical losses.

Once these two comparable figures have been obtained, it is possible to statistically analyse the frequency of exceptions, i.e., of those cases in which the VaR measure estimated by the model proves less serious (minor) than the actual loss recorded.

The prudential supervisory regulations establish that the change in value of the book (or individual position) must be as significant as possible for comparison with the VaR (not only is a direct comparison between the VaR calculated on a portfolio and its profit and loss result of little real value, but it may also lead to incorrect conclusions).

To this end, the best measure is the actual net change, that is, the measure obtained by excluding commissions and the contribution for accrued interest from the operating results.

In addition, backtesting is conducted on the basis of the hypothetical change in the portfolio, obtained by revaluing the quantities present in the portfolio on day t-1 with the day t (test date) prices.

Each day, the VaR result is compared with the P&L result, both actual and theoretical, as described above, and a report is provided on how the ratio between the two measures has evolved on a historical basis, that is, over the last 250 observations.

The Group chose to carry out backtesting not only on the banks' entire portfolio, but also to compare at portfolio sub-aggregates level, the P&L backtesting result and the VaR result.

This decision was dictated by the intention to check and monitor the performance and reliability of the VaR model results on various levels of the company's organisational structure, where the result is less influenced by the effects of netting.

The decision is also consistent, in management terms, with the attribution of VaR limits on various levels.

From an operational point of view, this decision means that it is possible to check the extent to which the model in use is valid for the various portfolios, highlighting those areas in which modelling of the changes in P&L on the basis of historical simulation is more efficient and where it is less.

Furthermore, if exceptions should arise, it is possible to precisely identify the individual component that produced the event and therefore to take appropriate action.

Scope of authorisation issued by Bank of Italy to use the internal models

At present, the following risk profiles are included in the internal model: generic and specific risk for debt securities, equity securities and UCITS units; exchange rate risk for the trading book and banking book.

At this stage of the validation process, the internal approach is also adopted for quantifying the risk arising from change in the price of instruments with irregular pay-off (options risk).

The table below provides a graphic illustration of the risk profiles that are measured using proprietary models as at the reference date:

	Position risk						Options	Commodity risk	Settlement risk	Concentration risk	Exchange rate risk
	Equity		Interest rate		UCITS						
	Gen.	Spec.	Gen.	Spec.	Gen.	Spec.					
Banco BPM											
Banca Akros											

Key

Standard reporting

Internal model reporting

Following the request submitted in 2019 by Banco BPM Group, in the Internal Model Decision document dated 16 November 2020, the Supervisory Authority granted the authorisation to extend the Internal Model for Market Risk to the specific risk of debt securities in the trading book; on 17/04/2023, the extension of the internal model was also granted to the foreign exchange risk component of the banking book, following the completion and closure of the outstanding Obligations.

Therefore, from the reporting date of 30/06/2023, Banco BPM Group has used the extended model for the calculation of the capital requirement against Market Risk. This measurement is calculated on the basis of VaR and Stressed VaR metrics – including specific risk on debt securities and foreign exchange risk in the banking book – of the IRC (Incremental Risk Charge) and of the RNIME framework.

On 22 September 2023, the ECB authorised the demerger of Banca Akros Global Markets into Banco BPM. The transaction takes legal effect on 1 January 2024. The target operating model envisages that the capital markets activities, which involve assuming market risk, are centralised within the Parent Company.

FRTB (Fundamental Review of the Trading Book)

In recent years, bank regulations regarding the assessment of market risk underwent a thorough review. The Basel Committee, after an advisory process that started in 2012, concluded the process of reviewing the regulatory framework on Trading Book risks (Fundamental Review of the Trading Book - "FRTB") with the adoption by the Basel Committee on Banking Supervision ("BCBS") of the "Minimum capital requirements for market risk" standards to calculate the minimum capital requirements for market risks (January 2019).

On 7 June 2019, the "Banking Package" was published in the Official Journal of the European Union, represented by the CRR2, CRD5, BRRD2 and SRMR2, which, inter alia, incorporate the initial rules for the implementation of the FRTB defined by the Basel Committee.

The package entered into force on 27 June 2019. On 27 October 2021, the European Commission published a new package of legislation for implementing Basel III Reforms, also known as Basel IV, 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.

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 - Capital Requirements Regulation 2021/0342” and “CRD VI - Capital Requirements Directive 2021/0341”, and an agreement on the wording was reached in December 2023.

With this package, the European Union has set two main objectives: to implement the proposals of the Basel Committee on Banking Supervision (BCBS) with a view to strengthening the financial stability of the system and to supporting the European Union to ensure that banks are able to continue to finance the economy.

To guarantee an adequate level of capitalisation of banks against market risk and to take a structured approach to resolving several shortcomings of current legislation that emerged during the crises, the FRTB Framework has set out the following objectives:

- clear definition of the distinction between the prudential portfolios (trading and banking books) 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 using 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.

In 2020, Banco BPM Group launched a project on the Fundamental Review of the Trading Book (“FRTB”), with the assistance of an external consulting company.

Activities continued in 2021 and 2022 with the aim, first and foremost, of estimating the impact of the new methodologies, as well as on capital absorption measures, also on the organisational and risk management structures of the group.

The project subsequently saw the implementation of the calculations of the new measures following the directives that have emerged over time from the regulations and from the Regulatory and Implementing Technical Standards (RTS and ITS).

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.

With regard to the new Internal Model (FRTB IMA), in order to allow the Regulator to conduct the validation process before the entry into force of the new measures, the banks were requested, by mid-2023 (initially by the end of 2022), to send a formal application request for the use of the new internal models for each bank desk.

Banco BPM Group, given the complexity of calculating the new measures and in view of the organisational reorganisation of the trading book structures (in particular the desire to have the structures dedicated to Global Market trading of Banca Akros transferred to the Holding Company's Group Finance) decided not to apply (reserving the right to request it at a later date).

The start date for the use of the new Basel IV methodologies to calculate Pillar I absorption with FRTB requirements is currently set for 1 January 2025.

From September 2021, the preliminary figure of the requirement calculated according to the new Standard method is sent to the Regulator in a specific report.

In the third quarter of 2023, an Implementation Technical Standard (ITS) was published, which establishes the definitive reporting procedure for capital absorption measures.

In January 2024, the Final Report on the regulatory tables was published on the EBA website, which defines their entry into force as the reporting date of March 2025.

Fair value policy

To ensure increasing clarity, transparency and comparability of data relating to the fair value measurement of financial instruments, for the benefit not only of shareholders but also of all the bank's stakeholders, Banco BPM Group has set in place internal rules and an internal policy that provide transparent and comprehensive governance of the methodological approach and operating model adopted by the Bank for the fair value measurement of financial instruments, in compliance with regulations in force (accounting standards, financial statement regulations).

The fair value policy is applied to all valuations made in financial statements (balance sheet, income statement and notes) of financial instruments represented by debt securities, equity securities and derivatives and concerns the positions of the books owned by Group Banks, excepting third party trading books.

Fair value measurement of financial instruments may occur:

- through use of market prices or values that meet certain requirements ("mark to market");

- through use of market prices or values of similar instruments or transactions that meet certain requirements ("mark to matrix");
- through use of measurement techniques and models based on market parameters ("mark to model"), whether entirely observable or in part deriving from hypotheses and assumptions.

The best evidence of the fair value of a financial instrument is a price listed on an active market. If the market is not active and the listed price does not provide a correct representation of the instrument's fair value, the Bank determines the fair value by adopting a valuation technique.

The valuation technique aims to establish the price at which the transaction would have occurred at the valuation date in normal business conditions.

Valuation techniques take the following into consideration:

- if available, the prices of recent transactions on similar instruments suitably corrected to reflect changes in market conditions and technical differences between the instrument to be valued and the instrument selected as similar ("comparable approach" or "mark to matrix");
- valuation models commonly used by the financial community that have proven over time to produce reliable estimates of prices with regard to current market conditions.

With regard to the latter type (valuation models), the Bank makes maximum use of observable market parameters reducing as far as possible the input from internal assumptions and/or estimates.

In conducting its assessments with a pricing model, the Bank takes into account all the relevant factors for the purpose of determining a price that may be considered representative of a hypothetical market transaction.

The Bank also periodically conducts a calibration exercise on the valuation techniques to test, on an ongoing basis, their validity with regard to actual market transactions or to any other observable value that is representative of fair value.

Fair value measurement also involves the application of valuation adjustments to take into account the risk premiums considered by operators when pricing the instruments.

If not explicitly considered in the valuation model, the valuation adjustments include:

- model adjustments: to consider the weaknesses of the models highlighted during the calibration phases;
- liquidity adjustments: if the model estimates a mid-price, it must be adjusted to take the bid/ask spread into account;
- credit risk adjustments: if the model does not take the counterparty risk or own risk into account, it must be adjusted accordingly;

- other risk adjustments: if the model does not take a risk premium priced on the market into account (e.g., concerning the complexity of valuation or hedging of the instrument), it must be appropriately corrected.

These corrections are permitted only to the extent to which they help to obtain a better estimate.

Accordingly, valuation adjustments are not adopted if they move the valuation farther from the fair value, for example, merely for prudential purposes.

The Fair Value Policy consists of two main documents: a first document describing the procedures and the source of valuation of the securities and a second document that applies to derivatives.

The aim of the first document concerning securities is to define and formalise the Bank's operating decisions for fair value measurement of non-derivative financial instruments. Specifically, within the Mark-to-Market Policy, the document defines:

- the procedures for choosing the markets from which the prices are taken;
- the price configurations adopted;
- the information sources;
- the types of operating controls on availability and quality of prices.

With regard to the Mark-to-Model Policy, the document describes:

- the criteria for finding market parameters using the comparable approach;
- the market parameters to be used in the technical valuations;
- the operating controls on availability and quality of market data.

The aim of the second document concerning derivatives is to define and formalise the Bank's operating decisions for fair value measurement of derivative financial instruments. Specifically, within the Mark-to-Market Policy, the document defines:

- the procedures for choosing the markets from which the prices are taken;
- the price configurations adopted;
- the information sources.

With regard to Mark-to-Model Policy, which includes OTC derivative instruments, the document describes:

- the market parameters to be used in the technical valuations;
- the criteria for finding market parameters using the comparable approach.

Fair Value Policy - Compliance with regulations

Compliance with regulations of the Fair Value Policy — validated by the Internal Validation function at the time of application for the validation of the internal model for market risk — is constantly guaranteed by organisational safeguards in place for its process of maintenance and change.

More specifically, proposals to change the technical annexes of this document are submitted for the approval of the Parent Company Risk Committee on the proposal of/following an investigation by the Risk Function, which also considers aspects of prudence and reliability (established by the regulatory legislation) of the assessment approaches proposed.

Pricing models

OTC derivative instruments are managed on a specific position-keeping application (namely the Risque application of the company Finastra) which allows calculation of the fair value, management of positions and risk (calculation of Greek values of risk, calculation of VaR, management of cash flows, management and accounting profit and loss account) and preparation of all input to the summary systems (accounting, reporting and credit line used).

The fair value is calculated by associating each product with a pricing model which considers the characteristics of the product and specifically the dynamics of the underlying market variables.

For particularly complex products or if the default valuation model of the Risque system is considered insufficient or not appropriate, the pricing models may be integrated with valuation models drawn up by the Financial Engineering function of Banca Akros.

In both cases, the models are validated and regularly reviewed by the Market Risk Function, which is responsible for certifying the correctness of the pricing models for the positions managed within the Risque position-keeping system.

Validation of Models

The activity of validation arises from the need to use a new pricing model dictated by two different types of needs:

- make existing product pricing models more market-compliant;
- value new pay-outs by Traders.

This activity consists of the following points:

- theoretical analysis of the model
- deterministic pay-out testing
- pay-out stress testing
- parameter stress testing
- *repricing*
- consistency of Greeks
- comparative testing with counterparties' prices
- drawing up Product/Model Validation report.

If the outcome of all the tests is positive, the Validation Report is submitted to the Product Innovation Committee.

Review of the models

Models are reviewed in order to check that previously validated models still reflect the changed market conditions, and the review is carried out by repeating the validation tests and adding some consistency tests:

- price replication test using Greeks;
- ongoing comparison with the market.

Template EU MR2-A: market risk under the Internal Model Approach (IMA)

GROUP		31/12/2023	
		a	b
		RWEAs	Own funds requirements
1	**VaR (higher of values a and b)**	**249,437**	**19,955**
a)	Previous day's VaR (VaRt-1)		6,117
b)	Multiplication factor (mc) x average of previous 60 working days (VaRavg)		19,955
2	**sVaR (higher of values a and b)**	**662,381**	**52,990**
a)	Latest available SVaR (SVaRt-1)		14,978
b)	Multiplication factor (ms) x average of previous 60 working days (SVaRavg)		52,990
3	**IRC (higher of values a and b)**	**538,391**	**43,071**
a)	Most recent IRC measure		39,352
b)	12 weeks average IRC measure		43,071
4	Comprehensive risk measure (higher of values a, b and c)	-	-
a)	Most recent measurement of comprehensive risk		-
b)	12 weeks average of comprehensive risk measure		-
c)	Comprehensive risk measure - Floor		-
5	Other		
6	**Total**	**1,450,208**	**116,017**

BANCO BPM		31/12/2023	
		a	b
		RWEAs	Own funds requirements
1	**VaR (higher of values a and b)**	**81,227**	**6,498**
a)	Previous day's VaR (VaRt-1)		1,069
b)	Multiplication factor (mc) x average of previous 60 working days (VaRavg)		6,498
2	**sVaR (higher of values a and b)**	**276,383**	**22,111**
a)	Latest available SVaR (SVaRt-1)		6,053
b)	Multiplication factor (ms) x average of previous 60 working days (SVaRavg)		22,111
3	**IRC (higher of values a and b)**	**13,027**	**1,042**
a)	Most recent IRC measure		992
b)	12 weeks average IRC measure		1,042
4	Comprehensive risk measure (higher of values a, b and c)	-	-
a)	Most recent measurement of comprehensive risk		-
b)	12 weeks average of comprehensive risk measure		-
c)	Comprehensive risk measure - Floor		-
5	Other		
6	**Total**	**370,637**	**29,651**

BANCA AKROS		31/12/2023	
		a	b
		RWEAs	Own funds requirements
1	**VaR (higher of values a and b)**	**168,210**	**13,457**
a)	Previous day's VaR (VaRt-1)		5,048
b)	Multiplication factor (mc) x average of previous 60 working days (VaRavg)		13,457
2	**sVaR (higher of values a and b)**	**385,997**	**30,880**
a)	Latest available SVaR (SVaRt-1)		8,925
b)	Multiplication factor (ms) x average of previous 60 working days (SVaRavg)		30,880
3	**IRC (higher of values a and b)**	**525,363**	**42,029**
a)	Most recent IRC measure		38,360
b)	12 weeks average IRC measure		42,029
4	Comprehensive risk measure (higher of values a, b and c)	-	-
a)	Most recent measurement of comprehensive risk		-
b)	12 weeks average of comprehensive risk measure		-
c)	Comprehensive risk measure - Floor		-
5	Other		
6	**Total**	**1,079,571**	**86,366**

Template EU MR3: IMA values for trading portfolios

BANCO BPM		31/12/2023
		a
VaR (10 days, 99%)		
1	Maximum value	4,731
2	Average value	2,173
3	Minimum value	1,069
4	Period end	1,069
sVaR (10 days, 99%)		
5	Maximum value	9,069
6	Average value	4,828
7	Minimum value	1,279
8	Period end	6,053
IRC (99.9%)		
9	Maximum value	1,702
10	Average value	821
11	Minimum value	20
12	Period end	992

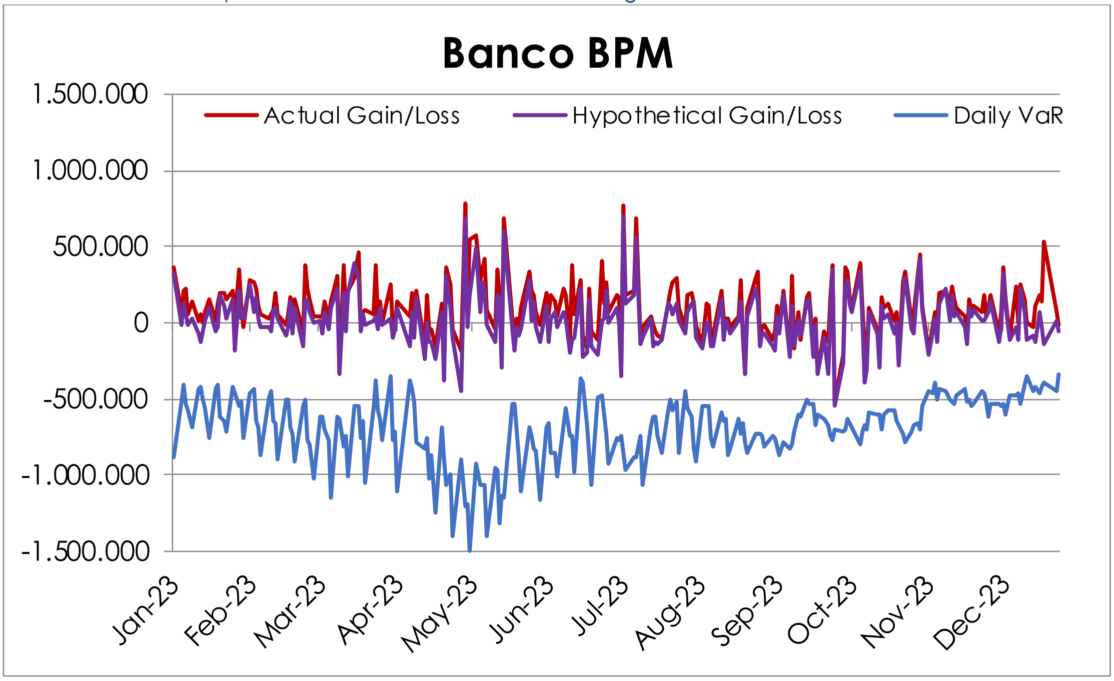
BANCA AKROS		31/12/2023
		a
VaR (10 days, 99%)		
1	Maximum value	6,494
2	Average value	3,672
3	Minimum value	2,163
4	Period end	5,048
sVaR (10 days, 99%)		
5	Maximum value	11,818
6	Average value	6,727
7	Minimum value	3,789
8	Period end	8,925
IRC (99.9%)		
9	Maximum value	52,154
10	Average value	42,947
11	Minimum value	32,728
12	Period end	38,360

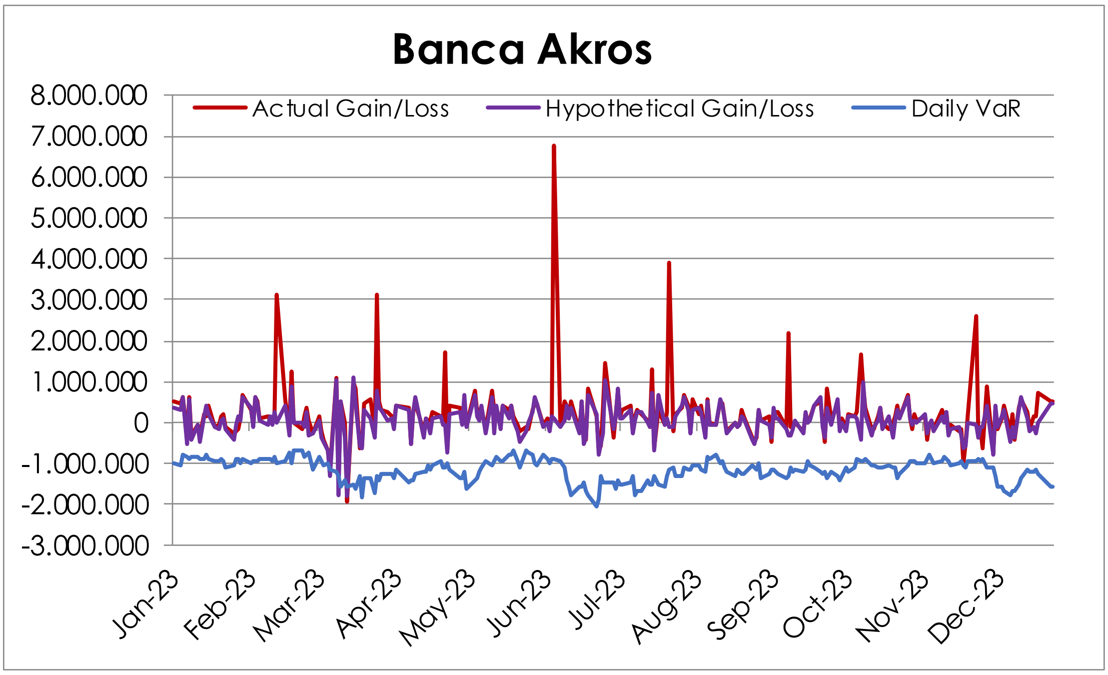
The outcome of backtesting of the VaR estimates, that is, comparison of the ex-ante expected credit loss estimated through VaR with the corresponding actual profit and loss figures regarding performance of the regulatory trading book of Banco BPM, and of Banca Akros in the period January - December 2023.

The components that are not pertinent to the backtesting, such as commissions and interests accrued, have not been included in the daily profit and loss readings.

In the period examined, with regards to Banca Akros and Banco BPM, the number of exceptions (higher losses than the VaR estimate) is consistent with the level of confidence used (an estimate with 99% confidence level means that an exception occurs in 1% of the residual cases: in 250 business days this result is therefore expected in 2-3 business days).

Template EU MR4: comparison of VaR estimates with gains/losses





As of 31 December 2023, the following limits were exceeded:

Banco BPM:

- Effective Backtesting: no limit exceeded
- Hypothetical Backtesting: no limit exceeded

Banca Akros:

- Actual Backtesting: 2
- Hypothetical Backtesting: 3

The exceptions on the Actual and Hypothetical Backtesting of P&L of Banca Akros' regulatory portfolio are mainly attributable to the widening of the credit spread on financial issues, against a short sensitivity position, and to the decline in Euro and USD interest rates, against a long sensitivity position on interest rates.

Equity instrument exposures

Disclosures for positions in the banking book, other than those for trading

With reference to the equity instruments not included in the trading book, their accounting classification depends on the nature of the investment and the purpose for which the investment is held. In particular, the investment may refer to:

- equity investments directly held in:
    - banking, financial, insurance companies;
    - instrumental and real estate companies;
    - other non-financial businesses;
- equity investments held indirectly through third parties.

The purposes for holding the equity instruments in question, classified as "Equity Investments" and "Financial assets at fair value" in the financial statements are illustrated below, as well as the relative recognition and measurement criteria.

A) Objectives pursued for equity instruments not included in the trading book and relative accounting categories

The equity instruments not included in the trading book can be classified as "Equity investments", "Financial assets measured at fair value through profit and loss: c) other financial assets mandatorily measured at fair value" and "Financial assets measured at fair value through other comprehensive income", depending on the purpose and the nature of the investment, as better illustrated below.

A1) Equity investments

This item includes interests in associated companies subject to joint control, held for strategic or institutional purposes or instrumental to the Group's core business and to the development of commercial activity and financial investment.

Associates are companies which are not subsidiaries, on which the Group has a significant influence. The company is assumed to exercise a significant influence in all cases where it holds 20% or more of voting rights in the investee (including "potential" voting rights), and, irrespective of the shareholding percentage, whenever it has the power to participate in business and financial decisions of the investees, by virtue of specific legal relations, such as shareholders' agreements, the purpose of which is to ensure that the members of the agreement are represented in the management bodies and to safeguard a consistent management approach, without, however, controlling the same.

Companies subject to joint control are enterprises where the joint control is based on a contract or other agreement whereby it is necessary to obtain the unanimous consensus of all the parties sharing the control to make strategic financial and operating decisions.

This takes place when the voting rights and control over the economic activity of the investee are shared jointly by Banco BPM and another party. Furthermore, an equity investment is qualified as under joint control when, even though voting rights are not shared jointly, the unanimous consent of all parties sharing control is required to take decisions regarding significant activities.

A2) Financial assets measured at fair value through profit and loss: c) other financial assets mandatorily measured at fair value

Interest holdings that do not qualify as (direct) investments in subsidiaries, associates and entities subject to joint control and not held for trading fall into the category of the financial assets in question, for which the option to classify them as financial assets measured at fair value through comprehensive income has not been exercised.

In addition to directly investing in companies' share capital, Banco BPM Group holds investments in private equity funds and in similar investment vehicles with the objective of investing in equity or similar instruments, through third parties. These are long-term investments, held for the purpose of indirectly investing in business capital, with a view to obtaining an economic return in the medium-long term.

Such investments are classified in the accounting portfolio of financial assets mandatorily measured at fair value, as their characteristics do not allow classification in other IFRS 9 accounting portfolios.

A3) Financial assets measured at fair value through other comprehensive income

The category of the financial assets in question includes equity securities not held for trading and not qualifying as investments in subsidiaries, associates or entities under joint control, for which the option of classifying them among financial assets measured at fair value through other comprehensive income has been exercised.

This option may be exercised on initial recognition of the individual financial instrument and is irrevocable.

B) Recognition and measurement criteria for equity instruments not included in the trading book

The book value of equity instruments is determined at the time of acquisition (settlement date) and periodically updated, at the time of public disclosures in line with the reference international IAS/IFRS accounting standards and internal regulations on the subject.

<u>Initial recognition criteria</u>

Interest holdings classified as "Equity investments" are initially recognised at cost, including any goodwill paid at the time of acquisition, which is therefore not subject to independent and separate recognition.

Interest holdings (direct and indirect) classified as financial assets measured at fair value are recognised at fair value at initial recognition, normally corresponding to the transaction price.

For instruments measured at fair value through comprehensive income, the initial recognition value (fair value) is adjusted to take into account any transaction costs directly attributable to the acquisition of the financial asset.

Otherwise, for financial instruments measured at fair value through profit and loss, transaction costs and proceeds are accounted for in the income statement when the asset is initially recognised.

Measurement criteria

For interest holdings classified as "Equity Investments", the book value is periodically assessed by means of the equity method, in order to reflect the share of the results of the investee made after the acquisition date.

Following the application of the equity method, the recoverable value is estimated only when objective evidence of a decrease in value (impairment) emerges such as to compromise the recoverability of the book value of the equity investment.

The recoverable value is the greater between fair value, net of sales costs, and the value in use. The value in use is calculated by discounting the future cash flows that the investment could generate, including the final disposal value of the investment.

An impairment loss is recognised to the income statement if the book value, including goodwill, is lower than the recoverable value.

If the reasons for an impairment loss are no longer valid due to an event occurring after the impairment was recognised, write-backs are recognised in the income statement, up to the amount of the impairment previously recognised.

Investment holdings classified as financial assets measured at fair value, after initial recognition, are assessed on the basis of the fair value, booked as a balancing entry in the income statement or statement of comprehensive income, depending on the accounting portfolio they are classified in.

In particular, for interest holdings classified as "Financial assets measured at fair value through profit and loss", the gains and losses resulting from the measurement of the fair value are recognised in the income statement, as are the profits and losses resulting from the disposal of the investment.

Assets are not subject to any impairment testing, insofar as any impairments have already been recognised through the measurement of the instrument on the basis of the fair value criterion.

With reference to interests classified as "Financial assets measured at fair value through other comprehensive income", the valuation effects resulting from the fair value measurement are recognised as a balancing entry of a specific equity reserve ("Valuation reserve").

This reserve will never be recycled to the income statement, even if realised through the sale of the asset. In this instance, it will be necessary to reclassify it under another item of shareholders' equity (“Reserves").

Dividends collected are the only component credited to the income statement.

Lastly, note that no write-down is recognised in the income statement for these assets, as they are not subject to any impairment process.

Fair value hierarchy

For financial instruments measured at fair value, the measurement of the fair value is made according to that established by accounting standard IFRS 13, on the basis of a specific hierarchy based on three levels, which attributes the highest priority to listed prices on active markets (level 1), and the lowest priority to the use of inputs not observable on markets (level 3), as these are the result of estimates and assumptions on the part of the evaluator.

Fair value is defined as the price that would be received for the sale of an asset in an orderly market transaction, 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 in the event of forced transactions or sales below cost.

On this basis, the following paragraphs illustrate the three-tiered fair value hierarchy, based on the source and the quality of the inputs used:

- Level 1: input consists of listed prices (not adjusted) on active markets for identical assets and liabilities. A market is considered active when the listed prices express effective and regular market transactions and are readily and regularly available through stock markets, brokers, mediators, companies in the sector, listing services or authorised entities;
- 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 and used in the measurement technique;
- Level 3: the inputs used are not observable on the market.

In line with the above-illustrated regulatory requirements, to measure the fair value of financial instruments, the Group has adopted a “Fair value policy”, which illustrates the hierarchy of the information sources, the valuation techniques and relative input parameters.

In particular, for equity securities listed on markets considered active, the measurement of the fair value is based on market quotations (level 1).

Otherwise, for equity securities not listed on active markets, the measurement of the fair value is made using the market multiples technique, based on a selected sample of comparable companies with respect to the subject of the valuation, or referring to the effective transactions made in a period of time reasonably close to the valuation date (level 2).

Lastly, for illiquid instruments for which no recent or comparable transactions can be observed, usually valued on the basis of capital models, level 3 of the fair value hierarchy is assigned.

The measurement of investments in shares of private equity funds and in similar investment vehicles, is made 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.

Taking into account the nature of these instruments and the liquidity conditions of the same, the relative fair value is classified as level 3 of the fair value hierarchy.

Banking book: equity instrument exposures - accounting book classification

TYPE OF EXPOSURES/VALUES	31/12/2023								
	Book values		Fair Value		Market value	Realised gains/losses and impairment		Unrealised gains/losses, recorded in BS	
	Level 1	Level 2/3	Level 1	Level 2/3	Level 1	Gains	Losses	Gains (+)	Losses (-)
A. Equity investments (*)	0	2,202,290	0	X	0	149,553	-25,447	X	X
B. Financial assets measured at fair value through other comprehensive income	3,884	272,735	3,884	272,735	3,884	X	X	34,436	-49,070
C. Financial assets mandatorily measured at fair value	612,177	918,417	612,177	918,417	612,177	67,340	-43,157	X	X

(*) The fair value refers only to the listed equity investments (level 1)

C) Method of measurement of the credit risk of exposures in equity instruments not included in the trading book

The Group measures the credit risk of exposures in equity instruments not included in the trading book using the standardised method (Article 133 of Regulation (EU) no. 585/2013) under conditions of partial permanent use as the class of the aforementioned exposures is not relevant.

The average aggregate value of the exposures under review in the previous year measured as at 31 December 2022 is actually 10% lower than own funds, the relevant threshold set by Article 150, paragraph 2 of Regulation (EU) no. 575/2013.

Operational risk

Approach used to calculate capital requirements

To calculate capital to cover operational risk, Banco BPM Group adopts the Traditional Standardised Approach (TSA) for the entire Supervised Group.

Under the Traditional Standardised Approach (TSA) capital requirements are calculated by applying ratios differentiated by business line (which varies between 12% and 18%) to the average of the relevant indicator defined by the CRR 2013/575 for the last three years, broken down by business line.

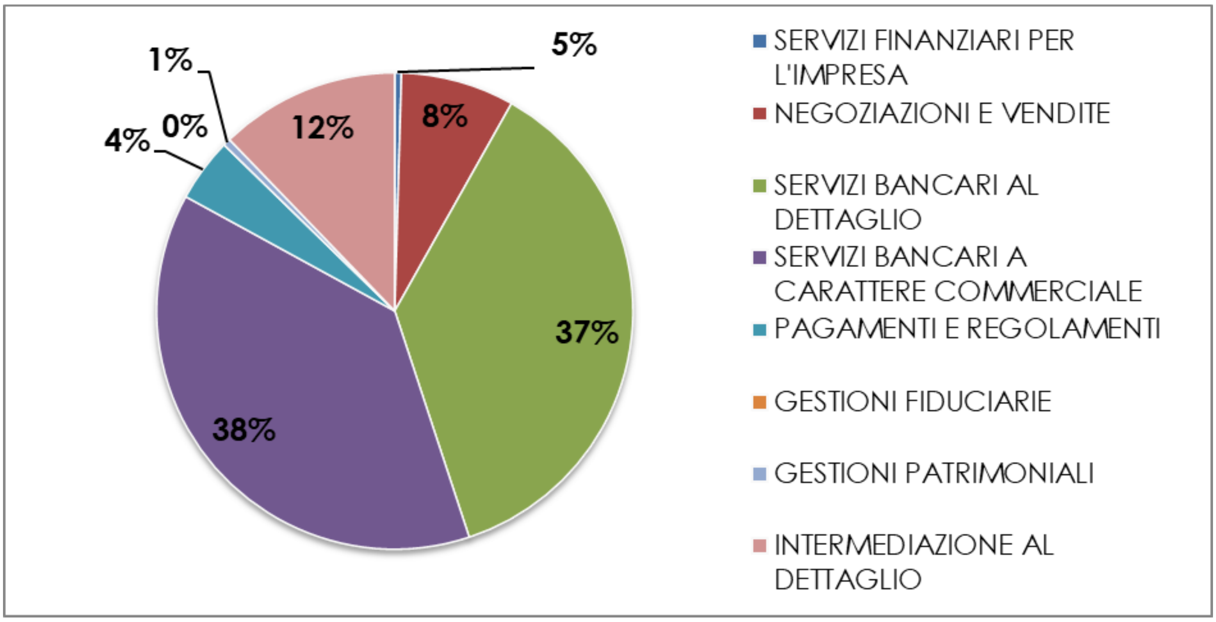
Below is a detailed analysis of the capital requirement by regulatory business line as at 31 December 2023.

Template EU OR1: own fund requirements for operational risk and amounts of risk-weighted exposures

	Banking activities	a	b	c	d	e
		Relevant indicator			Own funds requirements	Risk exposure amount
		Year-3	Year-2	Last year		
1	Banking activities subject to basic approach (BIA)	-	-	-	-	-
2	Banking activities subject to standardised approach (TSA) / to alternative standardised approach (ASA)	4,170,091	4,482,994	5,369,498	635,707	7,946,338
3	<u>*Subject to TSA approach*</u>	4,170,091	4,482,994	5,369,498		
4	<u>*Subject to ASA approach*</u>	-	-	-		
5	Banking activities subject to advanced measurement approaches (AMA)	-	-	-	-	-

Breakdown of capital requirements by business line

	Req. (Euro million)	Percentage of total
CORPORATE FINANCE	2.9	0.5%
TRADING AND SALES	49.0	7.7%
RETAIL BANKING SERVICES	233.8	36.8%
COMMERCIAL BANKING SERVICES	241.7	38.0%
PAYMENTS AND SETTLEMENTS	27.5	4.3%
AGENCY SERVICES	0.0	0.0%
PORTFOLIO MANAGEMENT	3.2	0.5%
RETAIL BROKERAGE	77.6	12.2%
TOTAL	**635.7**	**100.0%**


1%
5%
0%
8%
4%
12%
37%
38%
SERVIZI FINANZIARI PER L'IMPRESA
NEGOZIAZIONI E VENDITE
SERVIZI BANCARI AL DETTAGLIO
SERVIZI BANCARI A CARATTERE COMMERCIALE
PAGAMENTI E REGOLAMENTI
GESTIONI FIDUCIARIE
GESTIONI PATRIMONIALI
INTERMEDIAZIONE AL DETTAGLIO

Interest rate risk on positions in the banking book

Methods of definition, measurement, mitigation and control of the interest rate risk of assets outside the trading book

The interest rate risk relating to the Group's banking book mainly derives from the process of transforming maturities (see the "Interest rate risk on positions in the banking book" section, which should be referenced for more details on the nature of the risk, the management strategies and the measurement methods used by the Group).

In particular, the granting of fixed-rate commercial and mortgage loans, the portfolio of investments in securities, funding from demand current accounts and the issue of fixed-rate bonds constitute the main sources of interest rate risk in terms of the economic outlook, while floating-rate financial assets and liabilities constitute the main sources of interest rate risk in terms of income prospects.

For both prospects, the risk is also managed using hedging derivative strategies.

For interest rate risk on the banking book, in terms of both economic and income prospects, the Group has set up a system of prudential, RAF and operational limits, approved by the relevant Corporate Bodies, to contain the impact of any sudden rise or drop in market interest rates and, for equity market volatility, on the interest margin and on the value of equity.

The Parent Company Risk Models and Methodologies function measures and controls this risk, also on behalf of the banks and the main financial subsidiaries.

Risk measurements applied to evaluate the changes in the economic value of equity and income from net interest and the assessment frequency

The Group applies Asset & Liability Management (ALM) processes in order to identify and therefore measure, on a monthly basis, the impacts ("sensitivity") of changes in the interest rate structure on the expected financial margin and on the economic value of capital related to the banking book.

As regards net interest income ("NII sensitivity"), the variation is estimated over a time horizon of twelve months (annual), in the assumption of an instantaneous shock to the interest rates curve.

Estimates are based - from a static analysis viewpoint - on the assumption therefore that the capital structure remains unchanged in terms of aggregate assets and liabilities, as well as in terms of financial characteristics (rates, spreads, duration).

The static analyses are supplemented by dynamic analyses, they too subject to risk limits, carried out on a quarterly basis and over a time horizon of up to three years.

With regard to the economic value ("EV sensitivity"), the assumption of change in the interest rate curve following instantaneous shocks is applied.

In addition, sensitivity analyses are carried out relating to the Credit Spread Risk of the Banking Book (CSRBB), with two stress scenarios that envisage both the widening and the narrowing of the credit spread curves.

In addition to the EV sensitivity metric, the Group also monitors the variance/covariance type VaR (Value at Risk) metric over a 12-month reference period, with a confidence interval of 99.9%.

In VaR, the items in the banking book are mapped to a series of risk factors represented by individual buckets of the forward interest rate structure.

Based on the volatility matrix and correlation between the individual buckets, the maximum probable loss of value in the banking book is estimated.

Shock scenarios relating to the interest rates used.

With regard to NII sensitivity, the deterministic shock of the interest rate curves is equal to +/100 basis points applied to all interest rate curves as an instantaneous and parallel change. As regards EV sensitivity, the shock subject to the risk limit is +/-200 basis points[15].

The Group's monitoring framework includes additional non-parallel shocks, with and without the application of the floor, envisaged by the EBA Guidelines ("short up/down" and "steepening/flattening") and other internally calibrated shocks.

In addition, with reference to the CSRBB, two shocks were introduced, calibrated on historical data, which envisage both the widening and the narrowing of the credit spread curves. Lastly, two specific stress scenarios are also considered for the assessment of basis risk from the perspective of current earnings.

Main modelling and parameter assumptions

The banking book also includes items that are subject to statistical behavioural modelling, the most significant of which are on-demand and revocable items.

In particular, the model makes it possible to capture the typical characteristics of the temporary persistence of volumes and the partial or non-immediate reactivity of the rates of these items to changes in market conditions.

A further behavioural statistical model makes it possible to measure the risk of early termination on the loan portfolio ("prepayment") by identifying a behavioural amortisation profile, adjusted for the mortgage repayment probability.

Average and maximum due date for the review of conditions assigned to demand deposits.

The average repricing due date of the demand deposits modelled is roughly 2.9 years (the average due date of the inelastic core component alone is roughly 5 years), while the

[15] As part of the quantification activities carried out for the purpose of the Financial Report (Notes - Part E) and based on the related reference regulation (Circular 262), these shocks are set at +/- 100 basis points for both the NII sensitivity and the EV sensitivity.

maximum due date is equal to around 25 years for the deposit settlement segments for historically more stable natural persons.

Other main modelling and parameter assumptions used in internal measurement systems.

For the purpose of calculating both management and regulatory metrics, the measurements are calculated in accordance with the EBA Guidelines in force on the scope of items sensitive to interest rates.

In particular, capital is excluded from the evaluation of the change in economic value.

The modelling assumptions relating to cash flows aligned between management and regulatory metrics are generally applied, except in the case of specific assumptions of the latter as regards the perimeter and the rules of aggregation of the impacts solely on material currencies.

Risk management and mitigation strategies

The structure responsible for managing interest rate risk is the ALM of the Parent Company Finance Function, which carries out this task also on behalf of the banks and financial subsidiaries, it strives to maximise the economic contribution from commercial activity and minimise the volatility of results, in compliance with the interest rate risk exposure limits.

Interest rate risk is managed predominantly through a natural hedge strategy; furthermore, in order to reduce the exposure to interest rate risk on given expiries, the Group also enters into fair value hedges, mainly classified under hedge accounting, banking book securities, portfolios of homogeneous loans, bond loans and demand items.

Recognition of interest rate risk hedging effects

With regard to the accounting treatment of hedging relationships, it should be noted that fixed-rate loans, bonds and demand items are hedged through fair value hedges.

The certificates placed by the Parent Company with ordinary customers are hedged through the fair value option, while the securities portfolio is usually hedged through fair value hedges (or, only in some specific cases, cash flow hedges).

Derivatives are designated as hedges according to IAS 39 opt-out rules through formal documentation. The hedge effectiveness depends on the extent to which the changes in the fair value of the hedged item and in the expected cash flows are actually offset by those of the hedging instrument.

Explanation of the relevance of the risk measurements disclosed and any significant changes to these risk measurements since the previous disclosure date.

The Group’s banking book is exposed to the downside risk in interest rates from the perspective of current profits and an increase in rates in terms of economic value.

Template EU IRRBB1 – Interest rate risks of non-trading book activities

Shock scenarios *(in Euro thousand)*		a	b	c	d
		Effect on economic value		Effect on net interest income	
		31/12/2023	30/06/2023	31/12/2023	30/06/2023
1	Parallel up	-754,774	-789,141	348,014	199,044
2	Parallel down	-429,991	-1,068,371	-439,362	-415,707
3	Steepener	818,567	1,203,177		
4	Flattener	162,396	291,274		
5	Short rates up	23,559	-223,940		
6	Short rates down	1,130,595	1,040,357		

The NII and EV sensitivities reported are calculated in accordance with management metrics (in which, as described above, all currencies with full aggregation are considered).

Liquidity

In Banco BPM Group, liquidity and funding risk is governed by the "Liquidity, funding risk and ILAAP regulation", which establishes: the roles and responsibilities of the corporate bodies and the corporate functions, the metrics used for risk measurement, the guidelines for conducting stress tests, the Liquidity Contingency Plan and the overall reporting framework related to the Group's liquidity and funding risk.

Liquidity risk is managed and monitored as part of the Internal Liquidity Adequacy Assessment Process (ILAAP), which is the process the Group uses to identify, measure, monitor, mitigate and report the Liquidity risk profile of the Group. As part of this process, the Group makes an annual self-assessment regarding the adequacy of the overall liquidity risk management and measurement framework, which also covers governance, methodologies, information systems, measurement tools and reporting. The results of the risk profile adequacy assessment and the overall self-assessment are reported to the Corporate Bodies and submitted for the attention of the Supervisory Authority.

Banco BPM Group monitors and assesses the adequacy of the exposure to liquidity and funding risk on a yearly basis, and under the assumption of stress scenarios, using both regulatory metrics (Pillar I regulatory perspective) and internal metrics (internal perspective), the latter defined on the basis of specific characteristics of Banco BPM Group and complementary to regulatory metrics. These internal metrics include, for example, the survival period, the structural gap ratios and other ratios that seek to capture other aspects of liquidity risk such as the funding concentration level, for which specific risk limits are set:

The adequacy of the risk profile is assessed and monitored continuously with respect to the liquidity risk appetite stated by the Group in the objectives and risk limits of the Risk Appetite Framework.

Within Banco BPM Group, liquidity management is centralised with the Parent Company, which also performs the role of last resort lender for the subsidiaries. In this regard, note that Banco BPM Group received a special exemption from the Supervisory Authority (ECB) from application of the liquidity and funding requirements on an individual basis (LCR, ALMM, NSFR). With regard to this exemption, the Group is, for the moment, not required to meet liquidity and funding requirements on an individual basis.

The liquidity risk identification and measurement framework includes additional safeguards, complementary to regulatory requirements. These include:

- periodic monitoring to verify the significance of exposures in currencies other than the Euro. As at 31 December 2023, there were no significant exposures[16] in currencies other than the euro;
- monthly monitoring of excessive concentration risk relative to funding sources. Specific risk thresholds are placed on unsecured demand funding relative to individual funding

[16] Significance is verified when liabilities in one such currency exceeds 5% of total liabilities.

providers, on the total of the top ten counterparties and the position on the short-term interbank market;

- periodic stress tests on the intraday liquidity profile, short-term liquidity profile and medium/long-term funding profile. In this area, stress scenarios and sensitivity analyses are defined on the basis of the results of the internal process used to identify risk factors. Analyses performed include, for example, risks deriving from derivative transactions, from potential collateral calls and from potential unexpected requirements deriving from the operations of Group customers. These analyses leverage historical evidence as well as models developed internally and periodically updated.

In 2023, the liquidity and funding profile of Banco BPM Group was considered adequate both in the short and long term, respecting the risk limits envisaged both internally and, where present, at regulatory level (LCR, NSFR). In particular, as regards the LCR and NSFR regulatory metrics, both ratios maintained levels that were comfortably higher than the regulatory minimums.

Liquidity Coverage Ratio (LCR)

The Liquidity Coverage ratio (LCR) seeks to promote the short-term resilience of the bank's liquidity risk profile, by ensuring that it has sufficient high-quality liquid reserves to cover cash outflows for one month in the event of a severe stress scenario.

The ratio is monitored internally on a daily basis and is also reported on a monthly basis to the Supervisory Authority though supervisory reporting.

In compliance with the regulatory provisions, for each of the four quarters the table below shows the average data in the previous 12 months relating to the main aggregates underlying the LCR calculation.

Template EU LIQ1: quantitative information of LCR (1 of 2)

		a	b	c	d
		Total unweighted value (average)			
EU 1a	Quarter ending on 31/12/2023	31/12/2023	30/09/2023	30/06/2023	31/03/2023
EU 1b	Number of data points used in the calculation of averages	12	12	12	12
HIGH-QUALITY LIQUID ASSETS					
1	**Total high-quality liquid assets (HQLA)**				
CASH OUTFLOWS					
2	Retail deposits and deposits from small business customers, of which:	73,239	74,803	76,040	76,847
3	*Stable deposits*	*54,450*	*55,135*	*55,599*	*55,918*
4	*Less stable deposits*	*18,744*	*19,622*	*20,397*	*20,883*
5	Unsecured wholesale funding	27,989	27,933	28,303	28,960
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	*7,713*	*7,680*	*7,594*	*7,348*
7	*Non-operational deposits (all counterparties)*	*20,199*	*20,180*	*20,595*	*21,468*
8	*Unsecured debt*	*78*	*73*	*114*	*144*
9	*Secured wholesale funding*				
10	Additional requirements	12,989	12,392	11,515	10,483
11	*Outflows related to derivative exposures and other collateral requirements*	*1,112*	*1,112*	*1,100*	*1,083*
12	*Outflows related to loss of funding on debt products*	*111*	*119*	*161*	*103*
13	*Credit and liquidity facilities*	*11,766*	*11,162*	*10,253*	*9,297*
14	Other contractual funding obligations	218	227	203	215
15	Other contingent funding obligations	40,687	40,521	40,190	39,870
16	**TOTAL CASH OUTFLOWS**				
CASH INFLOWS					
17	Secured lending (e.g. reverse repos)	1,862	1,873	1,699	1,791
18	Inflows from fully performing exposures	1,994	1,925	1,903	1,823
19	Other cash inflows	13,550	14,018	14,438	14,720
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)				
EU-19b	(Excess inflows from a related specialised credit institution)				
20	**TOTAL CASH INFLOWS**	**17,406**	**17,816**	**18,040**	**18,333**
EU-20a	*Fully exempt inflows*	-	-	-	-
EU-20b	*Inflows subject to 90% cap*	-	-	-	-
EU-20c	*Inflows subject to 75% cap*	*17,406*	*17,761*	*17,985*	*18,255*
TOTAL ADJUSTED VALUE					
EU-21	**LIQUIDITY BUFFER**				
22	**TOTAL NET CASH OUTFLOWS**				
23	**LIQUIDITY COVERAGE RATIO**				

Template EU LIQ1: quantitative information on LCR (2 of 2)

		e	f	g	h
		Total weighted value (average)			
EU 1a	Quarter ending on 31/12/2023	31/12/2023	30/09/2023	30/06/2023	31/03/2023
EU 1b	Number of data points used in the calculation of averages	12	12	12	12
HIGH-QUALITY LIQUID ASSETS					
1	**Total high-quality liquid assets (HQLA)**	**33,771**	**34,232**	**35,174**	**36,438**
CASH OUTFLOWS					
2	Retail deposits and deposits from small business customers, of which:	5,071	5,207	5,315	5,375
3	*Stable deposits*	*2,723*	*2,757*	*2,780*	*2,796*
4	*Less stable deposits*	*2,304*	*2,406*	*2,491*	*2,535*
5	Unsecured wholesale funding	11,373	11,494	11,867	12,494
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	*1,817*	*1,809*	*1,789*	*1,730*
7	*Non-operational deposits (all counterparties)*	*9,479*	*9,612*	*9,963*	*10,620*
8	*Unsecured debt*	*78*	*73*	*114*	*144*
9	*Secured wholesale funding*	984	1,166	1,234	1,386
10	Additional requirements	2,993	2,933	2,966	2,757
11	*Outflows related to derivative exposures and other collateral requirements*	*1,112*	*1,112*	*1,100*	*1,083*
12	*Outflows related to loss of funding on debt products*	*115*	*119*	*161*	*103*
13	*Credit and liquidity facilities*	*1,765*	*1,703*	*1,705*	*1,571*
14	Other contractual funding obligations	149	128	97	100
15	Other contingent funding obligations	2,103	2,028	1,947	1,865
16	**TOTAL CASH OUTFLOWS**	**22,672**	**22,957**	**23,425**	**23,978**
CASH INFLOWS					
17	Secured lending (e.g. reverse repos)	248	479	672	867
18	Inflows from fully performing exposures	1,443	1,368	1,330	1,238
19	Other cash inflows	2,793	2,976	3,119	3,206
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)	-	-	-	-
EU-19b	(Excess inflows from a related specialised credit institution)	-	-	-	-
20	**TOTAL CASH INFLOWS**	**4,484**	**4,823**	**5,121**	**5,312**
EU-20a	*Fully exempt inflows*	-	-	-	-
EU-20b	*Inflows subject to 90% cap*	-	-	-	-
EU-20c	*Inflows subject to 75% cap*	*4,484*	*4,823*	*5,121*	*5,312*
TOTAL ADJUSTED VALUE					
EU-21	**LIQUIDITY BUFFER**	**33,771**	**34,232**	**35,174**	**36,438**
22	**TOTAL NET CASH OUTFLOWS**	**18,187**	**18,134**	**18,304**	**18,666**
23	**LIQUIDITY COVERAGE RATIO**	**185.69%**	**188.77%**	**192.81%**	**195.59%**

The figures reported show how the average LCR level continued to remain permanently above the 100% minimum regulatory requirement in the last 12 months. In particular, the LCR reflects the Group's robust liquidity position, which incorporates the increase in commercial deposits and benefits of ECB funding.

The average level of high-quality available liquid assets stands at roughly 33.7 billion euro (weighted), 99% of which composed of the most liquid type (Level 1) of assets eligible for the LCR numerator according to Commission Delegated Regulation (EU) 2015/61 of 10 October 2014.

More specifically, the rules for calculating the LCR divide high quality liquid assets (LCR numerator) into three categories, considered in the regulations in decreasing order of their liquidity: “level 1”, “level 2A” and “level 2B”.

Increasing haircuts are applied to these categories, as well as limits in terms of composition. In addition to these high quality liquid assets (HQLA), the Group has other freely marketable assets to which specific haircuts are applied to take liquidability into account.

Net cash outflows (LCR denominator) are calculated by applying regulatory outflow and inflow factors to demand assets and liabilities or those maturing within 30 days so as to serve as a standardised stress test involving both system and idiosyncratic elements.

For more information, please see the regulations in effect with regards to calculating the LCR, Delegated Regulation (EU) 2015/61 of the Commission dated 10 October 2014 and subsequent updates.

Net Stable Funding ratio (NSFR)

The Net Stable Funding Ratio - NSFR is the structural liquidity regulatory indicator aimed at measuring the ratio between stable sources of funding and stable funding requirements.

The NSFR indicator constitutes a regulatory requirement with a minimum of 100% pursuant to CRR-2 (Regulation (EU) 2019/876) which also establishes its detailed calculation rules.

In 2019, CRR-II (Regulation (EU) 2019/876) acknowledged the NSFR into European regulations (NSFR-CRR2) according to the following terms:

- Detailed calculation rules and consistent with the LCR ratio;
- Minimum regulatory requirement of 100% from June 2021;

The ratio is monitored internally on a monthly basis and is also reported on a quarterly basis to the Supervisory Authority though COREP reporting.

The table below shows the main components of the NSFR of Banco BPM Group as at 31 December 2023, in the format required by the regulations on public disclosure.

Template EU LIQ2: net stable funding ratio (1 of 2) 31/12/2023

		31/12/2023				
		a	b	c	d	e
(Amount in currency)		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1 year	≥ 1 year	
Available stable funding (ASF) items						
1	Equity items and instruments	13,125	-	-	1,615	14,740
2	*Own funds*	13,125	-	-	1,615	14,740
3	*Other equity instruments*		-	-	-	-
4	Retail deposits		71,514	374	4,170	71,555
5	*Stable deposits*		53,716	-	-	51,030
6	*Less stable deposits*		17,798	374	4,170	20,524
7	Wholesale funding:		61,801	6,961	17,794	34,266
8	*Operational deposits*		7,977	-	-	3,989
9	*Other wholesale funding*		53,823	6,961	17,794	30,278
10	Interdependent liabilities		-	-	-	-
11	Other liabilities:	90	4,841	70	1,142	1,177
12	*NSFR derivative liabilities*	90				
13	*All other liabilities and equity instruments not included in the above categories*		4,841	70	1,142	1,177
14	**Total available stable funding (ASF) as at31/12/2023**					**121,738**

Template EU LIQ2: net stable funding ratio (2 of 2) – 31/12/2023

	(Amount in currency)	31/12/2023 a	b	c	d	e
		Unweighted value by residual maturity				**Weighted value**
		No maturity	**< 6 months**	**6 months to < 1 year**	**≥ 1 year**	
Required stable funding (RSF) items						
15	Total high-quality liquid assets (HQLA)					912
EU-15a	Assets encumbered for a residual maturity of one year or more in a cover pool		-	-	11,879	10,097
16	Deposits held at other financial institutions for operational purposes		-	-	-	-
17	Performing loans and securities:		28,372	7,073	66,807	64,357
18	*Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut*		5,466	-	150	170
19	*Performing securities financing transactions with financial customers collateralised by other assets and loans and advances to financial institutions*		3,542	584	5,086	5,729
20	*Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns and PSEs, of which:*		11,062	5,259	37,164	37,968
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		1,809	1,907	10,699	8,828
22	*Performing residential mortgages, of which:*		665	816	15,392	11,491
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		603	728	13,144	9,438
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equity instruments and trade finance on-balance sheet products31/12/2022*		7,637	414	9,015	8,999
25	Interdependent assets		-	-	-	-
26	Other assets:		2,758	785	16,355	17,883
27	*Physical traded commodities*				-	-
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*		1,120	-	6	957
29	*NSFR derivative assets*		-			-
30	*NSFR derivative liabilities before deduction of variation margin posted*		376			19
31	*All other assets not included in the above categories*		1,263	785	16,349	16,907
32	Off-balance sheet items		4,284	938	10,990	1,460
33	**Total RSF as at 31/12/2023**					**94,708**
34	**Net Stable Funding Ratio (%) as at31/12/2023**					**128.54%**

As can be observed from the table, the NSFR as at 31 December 2023 was well above the minimum regulatory requirement of 100% and the internal threshold set out in the Group's Risk Appetite Framework.

Like the LCR, the NSFR benefits from significant customer deposits and funding from the European Central Bank plus the liquidability of balance sheet assets.

More specifically, in the short-term, the sources of funding are composed primarily of customer deposits, mostly retail, stable and diversified.

In the medium to long-term, a significant contribution is made by own funds, debt securities in issue and funding operations with the ECB.

The stable funding requirements are composed predominantly of loans disbursed to customers and the less liquid components of the balance sheet (e.g., non-HQLA securities and other balance sheet components, e.g. fixed assets).

On the other hand, consistent with the significant availability of liquid assets highlighted by the LCR, short-term funding in repurchase agreements, deposits at central banks and HQLA securities do not determine equally material funding requirements based on the fact that they are highly liquid assets.

Encumbered assets

Main types of encumbered assets

The main types of encumbered assets are:

- residential mortgage and real-estate loans and commercial mortgage loans originated by Banco BPM, used as collateral in the Group's CB programmes;
- residential mortgage, real-estate loans and loans disbursed to SMEs originated by Banco BPM sold as part of "RMBS" and "SME" securitisation transactions and consumer loans disbursed by ProFamily S.p.A., now Banco BPM, sold as part of securitisation transactions;
- mortgages and unsecured loans and other commercial and residential loans used for Central Bank refinancing operations (ABACO);
- securities used for short-term borrowing transactions with the Cassa Compensazione e Garanzia (CC&G - settlement and clearing house) and other market counterparties.

The main types of encumbered assets are represented by loans and by debt securities recognised in the financial statements.

The debt securities, mainly Italian government securities, are used as collateral to raise funds in the short-term through repurchase agreements. Instead, the loans are used as collateral or as the underlying assets of longer-term funding arrangements such as, respectively, the issue of CB or securitisation transactions.

The remaining part of the encumbered loans is used as collateral for financial operations in place with the Central Bank and in repo transactions with market counterparties.

Unencumbered assets are mainly represented by loans and debt securities. Both types of assets can potentially be used as guarantees in the main transactions listed above.

The use of guarantees in financial transactions requires that the value of the assets committed as guarantee is higher than the amount of the funds raised.

More specifically, under CB issue programmes, it is envisaged that a portion of the additional portfolio is maintained as a guarantee for the CBs issued in order to ensure a certain level of over-collateralisation.

The loan portfolio underlying the CB Programmes is weighted, in order to take into account (i) any write-down/revaluation of the assets securing the transferred mortgage loans, (ii) the performance of those loans and (iii) also considering any cash reserves present in the SPV and (iv) the loan reserves required by the rating agencies to hedge set off, commingling and negative carry risks.[17][18]

[17] The risk that the SPV may not receive all or part of the collections deriving from loan repayment due to the offsetting of receivables due from assigned debtors from the relative Originator.
[18] The risk that the SPV may not receive all or part of the loan repayment instalments already collected by the Originator in its role as servicer, but not yet transferred to the SPV, as a result of the servicer being subject to bankruptcy procedures.

Comparing the value of the portfolio and of the reserves with the amount of the CB, the programme's credit support is obtained, which provides an indication of the effective level of over-collateralisation.

For securitisations, the rating agencies require a "credit enhancement" constituted by junior securities and cash reserves agreed upon when the various transactions are structured.

Lastly, also as regards the loans and securities used as collateral in refinancing operations with the Central Bank, with the Cassa di Compensazione e Garanzia and with other market counterparties, haircuts are applied to the value of the encumbered loans and securities.

Template EU AE1: encumbered and unencumbered assets (1 of 2)

		Carrying amount of encumbered assets		Fair value of encumbered assets	
			of which EHQLA and HQLA notionally eligible		of which EHQLA and HQLA notionally eligible
		010	030	040	050
010	**Assets of the entity that publishes the disclosure**	**64,996,855**	**21,203,852**		
030	Equity instruments	762,436	130,738	753,754	130,738
040	Debt securities	22,288,172	21,080,055	22,218,789	21,059,865
050	of which: covered bonds	147,404	56,586	107,413	56,111
060	of which: securitisations	15,426	-	15,426	-
070	of which: issued by public administrations	21,307,241	20,926,201	21,298,877	20,907,606
080	of which: issued by financial companies	788,132	95,022	786,846	94,041
090	of which: issued by non-financial companies	149,573	58,832	133,066	58,218
120	Other assets	41,548,884	-		

Template EU AE1: encumbered and unencumbered assets (2 of 2)

		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			of which: EHQLA and HQLA		of which: EHQLA and HQLA
		060	080	090	100
010	**Assets of the entity that publishes the disclosure**	**124,602,304**	**31,299,166**		
030	Equity instruments	2,843,345	105,774	2,852,027	105,448
040	Debt securities	15,602,201	10,428,430	15,183,292	10,099,978
050	of which: covered bonds	382,583	382,583	375,216	375,216
060	of which: securitisations	1,916,037	-	1,906,233	-
070	of which: issued by public administrations	9,315,678	9,257,203	8,996,526	8,939,654
080	of which: issued by financial companies	5,479,909	623,667	5,436,508	617,000
090	of which: issued by non-financial companies	760,233	547,560	750,258	543,325
120	Other assets	105,735,614	20,728,753		

Template EU AE2: collateral received and own debt securities issued

		Fair value of encumbered collateral received or own debt securities issued		Not encumbered	
				Fair value of collateral received or own debt securities issued available for encumbrance	
			of which EHQLA and HQLA notionally eligible		of which: EHQLA and HQLA
		010	030	040	060
130	**Collateral received from entity that publishes the disclosure**	**2,114,961**	**1,719,842**	**3,497,253**	**3,056,239**
140	Loans on demand	-	-	-	-
150	Equity instruments	204,850	21,192	21,881	1,131
160	Debt securities	1,916,861	1,652,408	3,466,174	3,055,467
170	of which: covered bonds	-	-	-	-
180	of which: securitisations	-	-	-	-
190	of which: issued by public administrations	1,530,333	1,520,027	3,048,509	3,048,509
200	of which: issued by financial companies	310,284	-	478,246	6,958
210	of which: issued by non-financial companies	-	-	-	-
220	Loans and advances other than loans on demand	-	-	-	-
230	Other collateral received	-	-	-	-
240	**Own debt securities issued other than own covered bonds or securitisations**	**-**	**-**	**-**	**-**
241	**Own covered bonds and securitisations issued and not yet pledged**			**2,022,580**	**-**
250	**TOTAL COLLATERALS RECEIVED AND OWN DEBT SECURITIES ISSUED**	**66,980,664**	**23,009,939**		

Template EU AE3: sources of encumbrance

		31/12/2023	
		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received, and own debt securities issued other than covered bonds and securitisations, encumbered
		010	030
010	Book value of selected financial liabilities	52,077,100	64,572,341

Leverage

Definition and regulatory framework

From 1 January 2015, the Basel III prudential regulations have required supervised intermediaries to introduce and monitor the Leverage Ratio in their capital adequacy assessments.

From 30 June 2021, the new Basel IV regulations envisage, among other things, the obligation for the institution to meet the minimum requirement established by Article 92 CRR or, where the conditions are met, that in Article 429a(7) CRR.

As the conditions envisaged in Article 429a(7) do not apply, the minimum requirement that must always be met is 3%.

This indicator must be measured and monitored over time in order to achieve the following objectives:

- limit the accumulation of financial leverage and therefore mitigate the sudden deleveraging processes that occurred during the crisis;
- limit possible measurement errors associated with the current system for calculating weighted assets.

In fact, the definition of excessive leverage risk in Bank of Italy Circular no. 285 of 17 December 2013 "Supervisory provisions for banks", derived from the definitions of Articles 4(93) and 4(94) CRR2, is incorporated from this perspective:

> *"this is the risk that a particularly high level of debt with respect to own funds could make the bank vulnerable, requiring it to adopt corrective measures to its business plan, including selling assets with recognition of losses that could require value adjustments to its remaining assets."*

The leverage ratio is calculated as the intermediary's Tier 1 capital (numerator) divided by the amount of the bank's total exposure measure (denominator) and is expressed as a percentage.

$$\text{Leverage ratio} = \frac{\text{Tier 1 Capital}}{\text{Amount of overall exposure}}$$

The ratio is also calculated on forward-looking basis in order to make short- or medium/long-term projections. The consolidated ratio is also stress tested, by applying adverse scenarios through specific IT procedures used for management purposes, which impact the bank's values, both in terms of numerator and denominator of the ratio.

The Supervisory Reporting function is responsible for quarterly calculation of the leverage ratio on a consolidated and individual basis.

The leverage ratio values are sent to the Risk Function for the purpose of verifying the current, forward-looking and stressed levels of the indicator. The forward-looking estimate of the leverage ratio at consolidated level is made at least annually for the purpose of verifying consistency of the leverage ratio with the respective thresholds of the risk appetite framework[19], while it is updated on an interim basis as part of the periodic monitoring of the Group's capital adequacy (ICAAP).

Also note that the Group has adopted a specific internal regulation aimed at defining appropriate safeguards to ensure adequate monitoring of financial leverage and to formalise any appropriate mitigation actions for its containment.

Currently, the Group calculates the leverage ratio based on the methods defined in Annex XI to Implementing Regulation (EU) no. 2021/451 of 17 December 2020.

As at 31 December 2023, the leverage ratio was 5.22%.[20]

As at 31 December 2022, the leverage ratio stood at 5.21%, using Tier 1 capital as reference, calculated taking transitional arrangements into account; at the same date, the ratio calculated using Tier 1 capital as a reference, determined by applying the fully phased regulations, was 4.75%.

The quantitative disclosure as at 31 December 2023 is shown below, based on the templates provided in Commission Implementing Regulation (EU) 2021/637, which make applicable the standard layouts envisaged by the European Banking Authority.

[19] The leverage ratio is among the strategic indicators in the Group's Risk Appetite Framework, and therefore its compliance with all the defined thresholds is verified.

[20] The ratio as at 31 December 2023 is calculated using the fully phased regulations as, from 1 January 2023, it is no longer possible to apply the transitional provisions to the calculation of Common Equity Tier 1 capital.

Template EU LR1: LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

		31/12/2023
		a
		Applicable amount
1	Total assets as per published financial statements	202,131,973
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	(14,986,044)
3	(Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference)	-
4	(Adjustment for temporary exemption of exposures to central banks (if applicable))	-
5	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the total exposure measure in accordance with Article 429a(1)(i) CRR)	-
6	Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	-
7	Adjustment for eligible cash pooling transactions	-
8	Adjustment for derivative financial instruments	(1,897,044)
9	Adjustment for securities financing transactions (SFTs)	910,675
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	15,712,518
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital)	-
EU-11a	(Adjustment for exposures excluded from the total exposure measure in accordance with Article 429a(1)(c) CRR)	-
EU-11b	(Adjustment for exposures excluded from the total exposure measure in accordance with Article 429a(1)(j) CRR)	-
12	Other adjustments	(2,257,796)
13	**Total exposure measure**	**199,614,281**

Template EU LR2 - LRCom: leverage ratio common disclosure

		CRR leverage ratio exposures	
		a	b
		31/12/2023	31/12/2022 *
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	178,586,047	177,004,632
2	Gross-up for derivatives collateral provided, where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(394,382)	(291,109)
4	Adjustment for securities received under securities financing transactions that are recognised as an asset	-	-
5	(General credit risk adjustments to on-balance sheet items)	-	-
6	(Asset amounts deducted in determining Tier 1 capital)	(2,524,916)	(2,448,520)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**175,666,749**	**174,265,003**
Derivative exposures			
8	Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin)	333,830	224,265
EU-8a	Derogation for derivatives: replacement costs contribution under the simplified standardised approach	-	-
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	1,294,629	1,275,998
EU-9a	Derogation for derivatives: potential future exposure contribution under the simplified standardised approach	-	-
EU-9b	Exposure determined under Original Exposure Method	-	-
10	(Exempted CCP leg of client-cleared trade exposures) (SA-CCR)	-	-
EU-10a	(Exempted CCP leg of client-cleared trade exposures) (simplified standardised approach)	-	-
EU-10b	(Exempted CCP leg of client-cleared trade exposures) (Original Exposure Method)	-	-
11	Adjusted effective notional amount of written credit derivatives	-	-
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
13	**Total derivatives exposures**	**1,628,459**	**1,500,263**
Securities financing transaction (SFT) exposures			
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	5,701,785	2,833,243
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
16	Counterparty credit risk exposure for SFT assets	910,675	164,514
EU-16a	Derogation for SFTs: counterparty credit risk exposure in accordance with Articles 429e(5) and 222 CRR	-	-
17	Agent transaction exposures	-	-
EU-17a	(Exempted CCP leg of client-cleared SFT exposures)	-	-

		CRR leverage ratio exposures	
		a	b
		31/12/2023	31/12/2022 *
18	**Total securities financing transaction exposures**	**6,612,460**	**2,997,757**
Other off-balance sheet exposures			
19	Off-balance sheet exposures at gross notional amount	62,411,623	57,066,930
20	(Adjustments for conversion to credit equivalent amounts)	(46,700,370)	(43,888,500)
21	(General provisions deducted in determining Tier 1 capital and specific provisions associated with off-balance sheet exposures)	-	-
22	**Off-balance sheet exposures**	**15,711,254**	**13,178,430**
Excluded exposures			
EU-22a	(Exposures excluded from the total exposure measure in accordance with Article 429a(1)(c) CRR)	-	-
EU-22b	(Exposures exempted in accordance with Article 429a(1)(j) CRR (on- and off-balance sheet))	-	-
EU-22c	(Excluded exposures of public development banks (or units) - Public sector investments)	-	-
EU-22d	(Excluded exposures of public development banks (or units) - Promotional loans)	-	-
EU-22e	(Excluded passing-through promotional loan exposures by non-public development banks (or units))	-	-
EU-22f	(Excluded guaranteed parts of exposures arising from export credits)	(4,641)	(409)
EU-22g	(Excluded excess collateral deposited at triparty agents)	-	-
EU-22h	(Excluded CSD related services of CSD/institutions in accordance with Article 429a(1)(o) CRR)	-	-
EU-22i	(Excluded CSD related services of designated institutions in accordance with Article 429a(1)(p) CRR)	-	-
EU-22j	(Reduction of the exposure value of pre-financing or intermediate loans)	-	-
EU-22k	**(Total exempted exposures)**	**(4,641)**	**(409)**
Capital and total exposure measure			
23	**Tier 1 Capital**	**10,425,189**	**9,994,207**
24	**Total exposure measure**	**199,614,281**	**191,941,044**
Leverage ratio			
25	Leverage ratio (%)	5.22%	5.21%
EU-25	Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans) (%)	5.22%	5.21%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	5.22%	5.21%
26	Regulatory minimum leverage ratio requirement (%)	3.00%	3.00%
EU-26a	Additional own funds requirements to address the risk of excessive leverage (%)	-	-
EU-26b	of which: to be made up of CET1 capital	-	-

		CRR leverage ratio exposures	
		a	b
		31/12/2023	31/12/2022 *
27	Leverage ratio buffer requirement (%)	-	-
EU-27a	Overall leverage ratio requirement (%)	3.00%	3.00%
Choice on transitional arrangements and relevant exposures			
EU-27b	Choice on transitional arrangements for the definition of the capital measure	Fully phased	Transitional arrangement
Disclosure of mean values			
28	Mean daily value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable	1,801,125	2,943,692
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	5,701,785	2,833,243
30	Total exposure measure (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	195,713,621	192,051,493
30a	Total exposure measure (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	195,713,621	192,051,493
31	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	5.33%	5.20%
31a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	5.33%	5.20%

(*) Figures amended with respect to those contained in the published Pillar III disclosure as at 31 December 2022, for the reasons illustrated in the introductory notes of this disclosure.

Template EU LR3 - LRSpl: split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		31/12/2023
		a
		CRR leverage ratio exposures
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**178,187,025**
EU-2	Trading book exposures	2,389,200
EU-3	Banking book exposures, of which	175,797,825
EU-4	Covered bonds	492,247
EU-5	Exposures treated as sovereigns	57,785,126
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	625,819
EU-7	Exposures to institutions	9,559,299
EU-8	Secured by mortgages of immovable properties	34,468,422
EU-9	Retail exposures	14,057,573
EU-10	Exposures to corporates	36,587,471
EU-11	Exposures in default	2,104,831
EU-12	Other exposures (e.g. equity instruments, securitisations and other non-credit obligation assets)	20,117,038

Changes during the current year in the aggregate of exposures considered for the leverage ratio calculation

As at 31 December 2023, the exposures considered in calculating the denominator for the leverage ratio show a total increase of 7.7 billion euro (+4%) compared to 31 December 2022. The trend is mainly attributable to the increase in securities financing transaction exposures (+3.6 billion euro) and off-balance sheet exposures (+2.5 billion euro).

ESG risks

Introduction

Consistent with the provisions of Article 449(a) of Regulation (EU) no. 575/2013, "*from 28 June 2022, large-scale institutions which have issued securities that are admitted to trading on a regulated market of any Member State, as defined in point (21) of article 4(1) of Directive 2014/65/EU, shall disclose information on ESG risks, including physical risks and transition risks, as defined in the report referred to in article 98(8) of Directive 2013/36/EU. The information [...] shall be disclosed on an annual basis for the first year and biannually thereafter*".

On 24 January 2022, the European Banking Authority (EBA) published the final draft of the Implementing Technical Standards (ITS) on the Pillar III disclosure on environmental, social and governance (ESG) risks.

The ITS include:

- Three qualitative tables in which the disclosure is broken down into the three areas of the acronym ESG with one section dedicated to the topic of environmental risks, one to social risks and one to governance risks.
- Ten quantitative tables, through which entities are required to publish information on:
  - the physical risk linked to climate change;
  - the transition risk linked to climate change;
  - the main key performance indicators on climate change mitigation measures including the Green Asset Ratio (GAR) and the Banking book Taxonomy Alignment Ratio (BTAR).

The drafting of the qualitative part is mandatory from first publication (31/12/2022), while certain quantitative tables require deferred disclosure.

In this December 2023 Market Disclosure, Banco BPM Group therefore published the templates provided for by Regulation 2022/2453 with regard to the specific reference date.

Further details on ESG risk management and mitigation are made available in the 2023 Consolidated Non-Financial Statement.

Qualitative part

Qualitative information on environmental, social and governance risks

Banco BPM Group, as a leading banking institution, is aware of the impact that environmental, social and governance factors have on its business model, on market competitiveness and on corporate objectives and strategies.

This recognition is particularly relevant considering the Bank's fundamental role as a guide for companies and individuals in the transition process towards a sustainable economy, where traditional economic considerations are combined with environmental and social ones.

The Group has integrated said considerations into its Strategic Plan, corporate operational processes and financial planning in the following areas:

- **Business model**, through the definition and offer of solutions, products and consulting services that support customers in the transition to a sustainable economy;
- **Credit policies,** through the integration of ESG factors into the Credit Policies framework;
- **Risk management,** through the inclusion of new indicators in the various risk areas aimed at overseeing the governance and monitoring of the main ESG risk factors;
- **IT Architecture & Data Governance,** through suitable developments of the IT infrastructure and related management of ESG data.

Specific expertise of the Corporate Bodies

Banco BPM Group has adopted an integrated governance model with the aim of addressing issues related to the environment, social responsibility and governance (ESG) in an increasingly effective way.

In particular, with regard to the roles and responsibilities of the corporate bodies involved in the supervision and management of ESG risks:

- The **Board of Directors** defines the Group's socio-environmental policies.

The Board of Directors is responsible for the strategic supervision and management of the company, to be conducted also with a view to "sustainable success", understood as the creation of long-term value to the benefit of shareholders, at the same time considering the interests relevant to the company.

At its meeting of 26 April 2023, following the renewal of the corporate bodies by the Shareholders' Meeting, the Board of Directors set up a specific Sustainability Committee in order to further develop what had been ensured up to then by the Internal Control, Risk and Sustainability Committee (renamed the Internal Control and Risk Committee - ICRC).

The Sustainability Committee offers support in the assessment and in-depth analysis of ESG issues related to the Bank's operations and in the approval of strategic guidelines and policies on sustainability, including the social and cultural responsibility model and the fight against climate change, helping to ensure the best control of risks and taking into account the objectives of solid and sustainable creation and distribution of value for all stakeholders.

The tasks and functions of this new Committee have been laid down in the relevant "Sustainability Committee Regulation".

The ICRC has, however, retained specific competences in, among other things, assisting the Board of Directors in (i) establishing the guidelines of the internal control and risk management system (including climate/environmental risks), so that the main risks pertaining to the Parent Company and its subsidiaries are correctly identified and adequately measured, managed and monitored; and (ii) determining the degree of compatibility of the risks pertaining to the Group with a sound and prudent management, consistent with the strategic objectives identified and the pursuit of sustainable success.

The ICRC, in particular, acquires the observations and makes use of the support of the Sustainability Committee, taking into account the responsibilities reserved to the latter in matters of sustainability.

To this end, the Chair of the Sustainability Committee is invited to participate in ICRC meetings when topics that have sustainability implications are discussed.

The Board of Directors is responsible for approving the Regulations, including in the area of sustainability, and the Code of Ethics.

On the other hand, the Chief Executive Officer is responsible for approving the Bank's Guidelines, including those relating to sustainability issues (such the: "Guidelines regarding the management of environmental and energy issues and the fight against climate change"; "Guidelines on the respect and protection of human rights"; "Guidelines on the integration of sustainability risks in the provision of investment services"; "Guidelines on operations in the sector of materials and weapons system", the latter also approved by the Board of Directors).

With specific reference to the Code of Ethics - updated by the Bank (December 2022) in order to ensure a better formalisation of ESG issues - it is worth highlighting that the expression of the values that inspire the Group contained therein has been enhanced with explicit references to the areas of sustainability, fairness, protection of human rights and the fight against climate change.

Specific references to international sustainability standards were also included.

The Board of Directors also defines the management and coordination policies regarding non-financial disclosure; it annually approves the Consolidated Non-Financial Statement (CNFS) and the related materiality analysis as well as this Pillar III periodic disclosure.

The Parent Company's Board of Directors also has the key role of managing and controlling risks, including those related to ESG aspects, arising from the Group's activities.

The same Body establishes strategic guidelines, approves risk management policies, assesses the degree of efficiency and adequacy of the internal control system and guarantees a suitable level of internal communication and discussion.

In this context, the Board of Directors approves, in particular, the Risk Appetite Framework including the related ESG indicators developed on different risk areas and on three distinct hierarchical levels (strategic, management, Early Warning).

These indicators are monitored not only on a quarterly basis by the Board of Directors, but also on a monthly basis by the Internal Control and Risk Committee as part of its periodic Risk Appetite Framework Monitoring, the contents of which are shared quarterly with the Sustainability Committee through its Chair.

Again, in the pursuit of sustainable success, the Board of Directors:

- periodically monitored the progress of the 2021-2024 Strategic Plan for the main business areas through a set of more significant KPIs, including those associated with sustainability objectives;
- in line with the 2021-2024 Strategic Plan, in March 2023 it resolved to join the Net Zero Banking Alliance (NZBA), making a commitment to align the credit and investment portfolio with the achievement of the net zero emissions by 2050 and identifying 5 priority areas for target communication within 18 months of joining;
- approved the new 2023-2026 Strategic Plan on 11 December 2023, which aims to fully integrate the strategic sustainability goals and ESG initiatives and targets;
- with the 2023-2026 Strategic Plan, it confirmed the definition of targets in priority sectors by the third quarter of 2024, with roll-out to all identified sectors by 2026;
- as part of the annual approval of credit policies to guide commercial activities, it approved the adoption of guidelines and new metrics aimed at achieving the progressive integration of ESG sustainability factors into the Group's business model; in this context, with the policies of December 2023 applicable to 2024, the EU Taxonomy and sustainability factors became increasingly important as fundamental elements of the loan granting process. For this purpose, the Board examines the periodic reports prepared by the competent units, including updates on customer engagement initiatives to acquire information also relating to the ESG profile of the same;
- is the recipient of specific reports regarding transition and physical risks, as well as financed emissions, in compliance with the European Union Taxonomy Regulation;
- it also draws up remuneration and incentive policies, including ESG performance targets, to submit to the Shareholders' Meeting for approval, reviews them at least once a year, and handles their proper implementation. In this regard, the Board is assisted by the Remuneration Committee, comprised by Board members who collectively possess adequate knowledge, skills and professional experience in terms of remuneration policies and practices and risk management and control activities, as well as by the Sustainability Committee, through its Chairperson, for profiles with expertise.

In addition to the above, the Board of Directors also: (i) achieved the increasing integration of sustainability with the 2023-2026 Strategic Plan, defining a series of strategic sustainability goals; (ii) again within the new Strategic Plan, approved the governance of Banco BPM's ESG Plan of Action, broken down into specific thematic projects, with a view to ensuring an increasingly cross-functional approach with respect to the dimensions of sustainability, as well as being integrated into the Bank's activities[21]; (iii) updated the operational plans defined by the Bank in view of the areas for improvement emerging from the "Thematic Review on Climate-related and Environmental Risks" and the "Supervisory assessment of the climate-related and environmental risk disclosures"; (iv) established the "2020-2023 Sustainable Investments" commercial ceiling, aimed at enhancing the investments of Banco BPM's corporate customers that take a virtuous path in terms of the sustainability of their business models; (v) approved new issues of social and green bonds, the proceeds of which are earmarked for financing and/or refinancing eligible loans, as defined in the Green, Social and Sustainability Bonds Framework adopted and periodically updated by the Bank (the latest in November 2023); (vi) as part of its spending and social responsibility policy guidelines and subject to a resolution by the Shareholders' Meeting, earmarked a portion of the profit for the year to the Group's Territorial Offices and Foundations for charitable initiatives to support the needs of the Group's communities.

In addition, it should be noted that Banco BPM's Articles of Association (updated to April 2022) set out clear rules to ensure that the gender quota in the composition of the board is respected, as provided for by the relevant legislation in force and the Corporate Governance Code.

During 2023, the Board of Directors examined ESG issues at 17 meetings[22].

- The newly established **Sustainability Committee** is assigned support functions for the Board of Directors and the other Board Committees of the Parent Company in matters of sustainability, with responsibility for the entire Group.

The Committee is entrusted with overseeing the development of ESG dimensions also in the light of legislation, practice and academia, indications emerging from the materiality analysis, as well as market developments in the area of competence.

The Committee is made up of three non-executive and independent Directors who possess sufficient knowledge, skills and experience to be able to fully understand and monitor the pursuit of the Group's strategies and guidelines in the area of sustainability and its ESG dimensions.

Furthermore, the Committee Chair has adequate experience in the field of sustainability, as ascertained by the Board of Directors at the time of appointment, having also acted as Director in charge of ESG issues during the previous mandate.

Pursuant to its Rules of Procedure, the Committee supports the Board of Directors in defining and approving strategic guidelines on sustainability, also examining proposals and making recommendations. In addition, the Committee supports the Board of Directors in assessing proposed project initiatives (i) in order to integrate sustainability into business processes, consistent with regulatory developments and the strategic guidelines defined in the Strategic Plan with reference to ESG dimensions; and (ii) for the development and promotion of the territories and communities where the Group is based.

21 For further information on the ESG thematic projects, please refer to the Group's 2023 Consolidated Non-Financial Statement.

22 In the meetings of the Board of Directors in 2023, different ESG issues were discussed in 17 meetings out of the 19 meetings held in total. Of these, 43 with reference to climate and environmental risks.

In the area of non-financial reporting, the Committee oversees the activities involved in the preparation of the Consolidated Non-Financial Statement, examining its content, including for the purposes of the internal control and risk management system, and expresses its opinion to the Board of Directors. It also periodically examines the performance of the main indicators contained in the CNFS.
In order to ensure adequate implementation of the provisions of the new legislation on sustainability reporting (Corporate Sustainability Reporting Directive - CSRD - 2022/2464/EU), the Committee supervises the ongoing project activities for the definition of a suitable governance structure.

The Committee also examines, within the scope of the Disclosure to the Public ("Pillar III"), the contribution relating to ESG dimensions, expressing its observations to the Internal Control and Risk Committee.

The Sustainability Committee has defined a structured system of information flows with regard to which, with the support of the qualified corporate functions, it examines:

- periodic reports on the status of implementation of the projects defined as part of the ESG Action Plan, periodically analysing the activities in progress for each Workstream;
- interactions with the Supervisory Authorities on integrating the ESG dimensions in corporate processes, liaising with the Internal Control and Risk Committee;
- the Risk Appetite Framework, the related Guidelines and the Risk Appetite Statement, expressing its observations to the Internal Control and Risk Committee in relation to the indicators relating to the ESG dimensions;
- the Guidelines on credit policies, forwarding its observations to the Internal Control and Risk Committee on the sustainability objectives, in line with the commitments undertaken by the Bank;
- the aspects of Data Quality and Data Governance in the ESG area, also in terms of suitable data control systems (first and second level), to support an adequate cross-functional use of the same in the various business processes;
- the ESG ratings assigned to the Bank, supervising the related process, in particular if solicited.

Lastly, the Sustainability Committee promotes the adoption of remuneration policies that envisage the integration of ESG objectives into incentive plans in order to underline the importance of these aspects by enhancing management's contribution to achieving sustainability objectives. It coordinates and discusses these aspects with the Remuneration Committee.

The Committee acquires additional information flows on issues of interest through the participation of the Chairperson in the meetings of the ICRC and Remuneration Committee when discussing topics with sustainability implications, coordinating with the latter in support of the Board of Directors.

- Chaired by the Chief Executive Officer, the members of the **ESG Committee** include the two Co-General Managers as well as almost all the Bank's first line managers. Its main tasks include examining the Group's positioning and overseeing all corporate activities and initiatives in the social, environmental and governance fields, in line with what is defined in the Group Strategic Plan. The ESG Committee is also tasked with promoting the dissemination of the culture and practices of social responsibility and sustainable development within and outside Banco BPM Group.

- The **Sustainability** structure – within the Communication and Sustainability function – has the objective of overseeing social, environmental and, in a broader sense, other initiatives related to the sustainability of the business. The Sustainability structure conducts the materiality analysis and related stakeholder engagement activities, as well as prepares the Consolidated Non-Financial Statement.
- In addition, specific **ESG Ambassadors** have been identified and appointed within each company function. They act as contact persons for sustainability issues within their function, sharing the issues to be addressed with the Sustainability structure.

Below is a summary representation of the other main company areas/functions that are involved in the ESG field:

- **Chief Lending Officer Area (Loans)**, in the definition of environmental credit policies and inclusion of physical and transition risks, in analysing the needs and requirements of customers for the definition of an overall offer in line with the segments served, optimising the range of products offered with particular attention to green and ESG issues;

- **Chief Risk Officer Area (Risk Management),** in ensuring that all risks are identified, assessed, measured, monitored (also through specific ESG indicators), managed and adequately communicated. In this regard, it provides information, analyses and independent opinions on exposure to risks, including climate, environmental and sustainability-related risks, which materialise through the types of risk already monitored;

- **Co-General Manager/Chief Business Officer and CIB Area (for Investments and Wealth Management),** in integrating sustainability aspects in the investment services provided, through evaluations of products, financial instruments, services and policies to integrate sustainability risks of product companies, in the creation and development of ESG Insurance Products;

- **Co-General Manager/Chief Business Officer (for Corporate, Commercial, Marketing and Omnichannel),** in the development and offering of ESG and climate change products and services, and in the promotion of customer engagement on ESG issues, also through specific initiatives aimed at heightening awareness;

- **Co-General Manager/Chief Financial Officer Area** for:
    - **Finance**, in institutional funding operations within the ESG Framework; financing assets with sustainability characteristics, increasing the share of portfolio invested in ESG securities;
    - **Planning and control,** in monitoring the process of drafting and monitoring the Group's Strategic Plan, including ESG objectives;

  - **Integrated Procurement Management,** in ensuring procurement from suppliers whose activities and products minimise environmental impacts and consider the safeguarding of human rights also by its supply chain;

- **Chief Innovation Officer Area** for:
  - **Operations and Real Estate,** in measuring and managing direct and indirect environmental impacts, in implementing energy reduction and efficiency initiatives to achieve carbon neutrality and in overseeing ESG activities for the Health and Safety of Workers and the Environment.
  - **Information Technology,** in setting up an information system able to collect, store and process information needed for the ESG risk assessment, reporting and monitoring for the Regulators, the calculation of the different KPIs in the analysis and in the frameworks of each of the Bank's Business Units;

- **Organisation (reporting directly to the Chief Executive Officer)**, in promoting advanced sustainability initiatives and defining corrective actions to be implemented in response to any deficiencies identified in the internal processes that are measurable for the purposes of sustainability;

- **Human Resources (reporting directly to the Chief Executive Officer)**, in fostering cultural sensitivity towards ESG issues, in the promotion of specific training activities on sustainability issues, as well as in the definition of sustainable mobility policies for staff travel and targeted initiatives regarding respect for people and diversity, promotion of gender equality, age, ethnicity, disability, religious orientation, emotional orientation, nationality and language, organisational well-being, social inclusion and equality;

- **Compliance (reporting directly to the Chief Executive Officer)**, in overseeing the management of compliance risk with regard to all company activities, according to a risk-based approach, carrying out controls, audits and assessments on the adequacy and effectiveness of the organisational and control measures in place to mitigate compliance risks;

- **Audit (reporting directly to the Board of Directors)**, in examining the internal control and risk management system taking into account, inter alia, external developments and changes in the risk profile, also considering, in this regard, the adequacy of the controls set in place for the management of climate and environmental risks.

1. Qualitative information on environmental risks

1.1. Business strategy and processes

The Strategic Plan

The Group's ESG vision is defined in the 2023-2026 Strategic Plan, approved by the Board of Directors of Banco BPM and presented to the Market in December 2023.

This document completes and expands the Bank's strategic goals in all areas of sustainability.

In fact, the new Plan is based on solid pillars to support customers and the community, aiming for sustainable growth in governance and business models, as well as the creation of value for all stakeholders.

The new Strategic Plan reflects the outcome of a path towards growth and innovation that Banco BPM has undertaken in recent years, also through the increasing integration of sustainability.

In particular, with reference to the main strategic goals of the Plan relating to the Environmental and business component, Banco BPM reiterates its intention to:

1. **support Group customers in their transition process**, through an offer of advisory and commercial products and services, paving the way for the Net-Zero Banking Alliance;
2. **strengthen the management and monitoring of climate and environmental risk;**
3. consolidate the **Bank's leadership role as issuer of ESG bonds and the integration of ESG logic in the investment** of its own financial resources;
4. **continue to reduce our Scope 1 & 2 environmental impact.**

As regards the first goal, the Strategic Plan sets the objective relating to **new green and low-risk transition loans to Businesses and Corporate customers, with an average annual target of 10 billion euro** for the period 2024-2026.

In order to achieve this specific target - and assume, on the market, a central role in "Green Lending to businesses" - the Bank has planned a detailed procedure for business customers, with a view to accompanying them in their sustainable transition process through:

- <u>ESG consulting</u>: identification of ESG development priorities, creation of an ecosystem of partnerships with the main providers of ESG solutions, and full implementation of the "ESG diagnostic tool" (ESG questionnaire) to integrate with credit policies.
- <u>ESG Offer</u>: complete suite of sustainable products, including solutions aligned with the EU Taxonomy, in order to finance specific initiatives to support a tangible sustainable transition.
- <u>ESG training</u>*: workshops and training initiatives for both current and potential customers and increase in the number of managers with ESG skills, in order to provide customers with ESG self-assessment support.*

With regard to **ESG training initiatives, to support business customers in the ecological transition**, Banco BPM Group has already launched a procedure dedicated to awareness of sustainability issues and the importance of ESG factors in corporate strategy.

With the new 2023-2026 Plan, the Bank intends to further strengthen this commitment by providing ESG training to companies, both through the expertise available internally from Banco BPM Academy, and through professionals able to meet the different needs of customers (for example in: i) strategy setting; ii) preparation of specific ESG reports; iii) definition of adequate internal policies, etc.).

In doing so, the Group aims to consolidate its role as a guide and partner in the overall process of sustainable transition of Business and Corporate customers.

Confirming this strategic vision, the Bank aims to provide **more than 3,000 hours of ESG Training to companies in the three-year period 2024-2026.**

With regard to the **Net Zero Banking Alliance (NZBA)**, the new Strategic Plan, in continuity with the previous one, **confirms and extends the commitments undertaken when it joined the initiative promoted by the United Nations** to accelerate the sustainable transition of the banking system through the commitment of participating banks to align their loan and investment portfolios to achieving net zero emissions by 2050, in line with the targets set by the Paris Climate Agreement;

As already noted, **joining the NZBA took place in March 2023**, following a careful internal evaluation, with the aim of carrying out pre-commitment analyses and signing up for membership with full awareness.

Within the framework of these project activities, the main methodological choices were outlined and the baselines of financed emissions relative to the entrusted customers were measured. **This allowed the identification of the first 5 priority sectors (oil & gas, power generation, cement, automotive, coal)** for the communication of the targets.

The 2023-2026 Strategic Plan requires **Banco BPM to define NZBA targets in priority sectors by the third quarter of 2024 and in the remaining sectors by 2026.**

With reference to the second strategic goal, the Bank's willingness to pursue the activities aimed at the full implementation of the "ESG diagnostic tool" (ESG questionnaire) to integrate the credit policies defined by the Group, is reiterated.

In particular, it should be noted that the Strategic Plan expressly provides that, by 2026, all resolutions relating to: i) Businesses and Corporate customers operating in high-emission sectors; ii) Large Corporate customers, will be carried out using the "ESG diagnostic Tool".

With regard to the third goal, the Strategic Plan confirms Banco BPM's objective of consolidating its **leadership role in the "ESG emissions" market**, in compliance with the criteria defined by the new "Green, Social and Sustainability Bonds Framework" approved by the Group, which provides for alignment with the EU Taxonomy for some eligible assets[23].

[23] The alignment of the European taxonomy concerns real estate assets, renewable energy and the production of basic organic chemicals.

The specific target, reported in the new Business Plan, envisages the issue of **at least 5 billion euro of green, social and sustainable bonds in the three-year period 2024-2026.**

The rationales underlying the definition of this objective are:

- The update of the target with respect to the previous 2021-2024 Strategic Plan, which envisaged issues of Green and/or Social Bonds totalling 2.5 billion euro (in the three-year period 2021-23, Banco BPM Group placed Green & Social bonds totalling 4.5 billion euro, well above the expected value).
- The reconciliation with Banco BPM's Funding Plan, defined for the period 2024-2026 and approved by the Board of Directors, envisages a total amount of over 12 billion euro in bonds to be issued as senior/senior non-preferred/covered bonds. In order to pursue the new target of the Plan, approximately 40% of future issues will be comprised by Green and/or Social bonds.
- The coherence of the 5 billion euro target with the stock of eligible assets, as well as with the expected evolution of "green" and "social" loans disbursed by the Bank.

The Group also integrates ESG logic by consciously investing its own financial resources. With regard to this area, the new Strategic Plan sets the objective of **at least 40% of ESG bonds in the owned corporate portfolio at the end of 2026.**

Next year, Banco BPM will also define and publish its **Policy on Sustainable Investments.**

With reference to the last goal indicated - relating to the **direct and indirect environmental impact of the Bank's activities** - the Group has been engaged for some time in monitoring/managing consumption and reducing GHG emissions in order to obtain a **gradual improvement of its environmental footprint (Carbon Footprint).**

The Strategic Plan includes, in particular, the confirmation **of 100% of the use of electricity from renewable sources** and the **carbon neutrality target, by the end of 2024**, with specific regard to **Scope 1 & 2 market-based net emissions**, which will also be obtained by offsetting through *carbon credits.*

The pursuit of the Group objectives, defined in the 2023-2026 Strategic Plan, will undergo adequate monitoring, carried out continuously on a quarterly basis for the Management Committee and the Board of Directors, accompanied - where necessary - by the formulation and proposal of suitable "mitigation actions" (e.g. initiatives and processes aimed at recovering any gaps/delays that may arise).

For a complete representation of the new Strategic Plan defined by the Group, please refer to the link below (https://gruppo.bancobpm.it/media/dlm_uploads/BBPM-Capital-Markets-Day_ITA.pdf).

The following table summarises the main business and environmental ESG indicators of the **previous 2021-2024 Strategic Plan**, with an indication of the respective level of results achieved at the end of 2023.

		2024	Status 31.12.2023
BUSINESS	Share of new loans in Green and low-transition-risk sectors *	> 65%	> 54%
	Green residential mortgages (cumulated new disbursements)	€4 bn	€1,8 bn (of which € 0,48 bn in 2023)
	Issue of Green & Social Bonds (cumulative)	€2,5 bn	€4,55 bn (of which €2 bn in 2023)
	Corporate Bond Ownership Portfolio: share of ESG bonds	> 30%	29,1%
	Banca Akros Lead Manager/Bookrunner of ESG Bonds (cumulative)	€12,5 bn	€24,17 bn (of which €8,12 bn in 2023)

Note: * *Includes both loans to companies belonging to green and low transition risk sectors and loans disbursed with credit products to support the transition.*

Credit policies

The assessment of ESG factors and the impacts of potential climate change-related risks on the economic and capital prospects of the companies to which Banco BPM Group is exposed, have been integrated into the Credit Policy framework since 2022.

A transition risk defined primarily on the basis of the EU taxonomy[24] is associated with each counterparty; however, a differentiated approach is adopted for Real Estate counterparties, on which a specific assessment of the environmental sustainability of the real estate initiative is carried out, as well as on counterparties belonging to certain sectors that have significant levels of emissions (Power Generation, Oil & Gas, Cement and Automotive), as well as on those relating to the coal industry.

Starting from 2023, the assessment of ESG factors has become increasingly important in the credit granting and monitoring process; the Credit policy framework, in particular, has been enhanced with specific components, such as:

- **Transition Risk** - a transition risk is associated with each counterparty on the basis of the economic sector of activity (NACE) in which it operates, expressed on a five-class scale: Very High, High, Medium, Negligible, Green.
  In the Very High risk class, carbon intensive (coal industry) activities have been identified, for which run-off strategies, as defined in the 2021-2024 Strategic Plan were envisaged, confirmed by the 2023-2026 Plan.
  Priority sectors have been identified (Automotive, Cement, Oil and Gas, Power Generation), subject to stricter lending strategies, in particular with reference to those counterparties that do not prepare a sustainability report, and that in general have not undertaken a transition process. Where present, the assessment of the transition risk is carried out on the basis of precise data on emissions, and on the distance of the same with respect to the sectoral trajectories. All analyses seek to accompany the transition process of companies by differentiating their commercial offer through the placement of loan products with ESG KPIs and products aimed at hedging specific investments.

[24] In order to grasp the specific features and different potential of information gathering, a differentiated approach is used according to the type of customer: simplified for Small Business counterparties and advanced for Corporate and Business counterparties.

Lastly, with reference to counterparties operating in the Construction and Real Estate sectors, the assessment of the transition risk is carried out on the basis of the energy class of the asset purchased or the real estate development to which the loan is directed.
Throughout 2023, in addition to strengthening the analysis of the financial sustainability of real estate initiatives through the adoption of specific KRIs, work began on aligning the requirements for the classification of Green real estate investments with the technical requirements of the European Union taxonomy and incorporating physical risk assessments on the collateral asset.

- **Physical Risk** - the assessment of the assets of counterparties requesting loans was enhanced by the physical risk component, which has two meanings: a) counterparty risk, which measures the degree of impact of climatic/physical phenomena on the operations (production assets) of business customers, and consequently on their solvency, for which the presence of mitigating elements is required, mainly represented by adequate insurance cover; b) the risk associated with collateral, therefore the impact that climatic/physical phenomena may have on the value of the assets used as collateral for the loans granted and, consequently, on the probability that the Bank would be able to recover its losses in the event of default.
- **ESG questionnaire** - the objective of which is to understand how the counterparty manages ESG risks, and what strategic actions it has taken in the medium/long term. This objective is achieved by obtaining both qualitative data (strategies/policies/plans aimed at mitigating ESG risks) and quantitative data in order to objectively measure ESG risk (e.g. GHG emissions) and assess the reduction plans over time. The questions are differentiated by sector.

  In 2023, the mandatory completion of the ESG questionnaire was extended to all counterparties that are large and/or that operate in sectors with high/very high transition risk, or in sectors considered priority, as well as for all customers who prepare a non-financial statement.
  During the same year, the questionnaire was also improved with: a) the introduction of questions relating to the green transition path of client companies (questions on emission baselines, targets, etc.); b) the request to notify the presence of any mitigating factors with respect to physical risk (adoption of specific business continuity plans and/or the taking out of insurance policies); c) the identification of specific questions that aim to integrate the assessments by also considering social and governance aspects.

The above-mentioned activities are monitored by the Credit Policies structure, in terms of assessing the ESG risk dynamics of the Bank's loan portfolio and focusing on assessing the correct use of the framework (completion of the ESG questionnaire and use of targeted loans).

During 2024, the assessment of ESG factors will be integrated in a structured manner within the assessment of prospective financial sustainability, through an assessment of counterparties' capacities to support ESG investments aimed at decarbonisation and the use of a prospective KRI assessment tool.

Particular attention will be placed on the assessment of counterparties operating both in the Agrifood sector through the use of a dedicated framework, and in construction and real estate activities for which the ESG component will be extended to the entire real estate portfolio.

Commercial offer of the Group

Loans to business customers

During 2023, Banco BPM reiterated its commitment to the "ESG transition" of its customers as an integral part of the commercial offer proposed by the Group.

This commitment has materialised, in particular, through the continuous expansion of the range of dedicated financial products and services, also with a view to increasing the awareness of Business customers of the importance of ESG issues.

A summary of the main catalogue solutions aimed at supporting the green transition of corporate customers is provided below:

- ***Unsecured Loans for Companies Green Taxonomy***

The Unsecured Green Taxonomy Business Loan is the "catalogue'' solution intended primarily for companies whose economic sectors are eligible in the EU Taxonomy and specifically for counterparties subject to ''NFRD'' Directive 2014/95/EU (companies with > 500 employees) or companies subject to "CSRD'' Directive 2022/2464/EU (companies with > 250 employees, and/or with turnover of > 40 million euro and/or total balance sheet assets of > 20 million euro.

The loan product aims to support businesses in making investments aimed at increasing the alignment of their economic activities with the technical screening criteria of the EU Taxonomy, always envisaging the certification of an independent third party to confirm the alignment of the investment both before signing and at the end of the project.

The positive certification of alignment with the EU Taxonomy enables the loan to be considered "eligible" for the purposes of calculating the Green Asset Ratio (GAR).

- ***Approach to Green Transition***

A financing solution suitable for supporting corporate investments aimed at and traceable to a set of Environmental Objectives, and specifically, the six priority objectives defined by EU taxonomy legislation.

When applying for a loan, the customer must complete a self-certification form, in which it briefly describes the investment and declares in detail the Classes/Records of investments attributable to these Environmental Objectives. For each of them, the necessary documentation is also indicated and collected.

The implementation of the project and the achievement of the relative objective is continuously monitored over time until its implementation.

In fact, the customer undertakes to provide documentation certifying the correct use of the funds for the implementation of the project every six months until the end of the project.

Third-party certification is required for loan amount exceeding 5 million euro for retail customers and 10 million euro for corporate customers.

This commercial offer is mainly addressed to companies not subject to the obligations to publish a Non-Financial Statement (NFRD Directive 2014/95/EU or CSRD Directive 2022/2464/EU).

- ***Unsecured loans with sustainability objectives*****:**

Unsecured Business Loans with Sustainability Objectives is the financing solution developed to support companies that intend to enhance the virtuous path they have undertaken in the field of ESG sustainability.
This solution qualifies as a "Sustainable Linked Loan", whose added value stems from the option of linking an ESG covenant with an impact on the spread, if the sustainability objectives agreed at the time of stipulation of the loan are achieved.
The distinctive elements of "Sustainability Objectives" are:

- the link with one of more ESG Covenants with a direct impact (if certain agreed targets are pursued) on the value of the spread applied to the loan. These covenants are included in a catalogue of ESG KPIs relating to the Environmental, Social and Governance areas, identified with the support of an independent external body, a world leader in this sphere;
- the contractualisation of the selected ESG KPIs with growth objectives modulated on the basis of trends over time, shared with the customer for the entire duration of the loan;
- annual monitoring of the achievement or otherwise of the contractual targets, in order to determine the relative impact on the contractual pricing applied until the next planned audit.

In the face of an extremely complex and changing economic environment and in order to respond to various market needs, the catalogue of selectable KPIs was updated in 2023, adding some related to environmental issues such as the recycling of raw materials or the use of recycled packaging, as well as social ones aimed at enhancing corporate initiatives to promote gender equality.

This updating activity has always been carried out with the assistance of an independent third party.

- ***Renewable Energy Sources (RES) Approach:***

Since the first half of 2022, Banco BPM Group has made a new "approach" available to its commercial network to support the investment plans of companies that install specific systems for the production of energy from renewable sources (RES).

The above "approach" envisages the combination of the various medium/long-term financing products for both ordinary and subsidised Corporate or Retail companies with a technical analysis report of the system drawn up by professionals with minimum professional requirements, which envisages measuring the reduction of CO_2 emissions and the relative Business Plan of the initiative.

- ***SACE green guarantee***

In continuity with the mission to assist customers in the ecological transition process, Banco BPM - like other leading Italian Banking Groups - offers loan solutions to companies backed by the so-called "SACE green guarantee".

SACE issues "Green" guarantees, supporting company projects able to facilitate the transition to an economy with a lower environmental impact, integrate production cycles with low-emission technologies for the production of sustainable goods and services and promote initiatives aimed at developing a new mobility with lower polluting emissions.

In fact, this guarantee is part of a wider European "Green Deal" programme, which encompasses a set of measures in response to the emergency due to climatic changes, and which envisages, for all EU countries, achieving the neutrality of polluting emissions by 2050.

The Bank has also finalised a special dedicated agreement with SACE, called the "SACE Green Agreement", which allows for more standardised and simplified management of the Guarantee up to a specific threshold of a maximum amount that can be financed.

In order to be considered suitable to obtain the above-described Guarantee, SACE provides precise guidelines for compliance with certain parameters on the purpose of the loan, which must be indicated through specific application forms, in terms of self-certification of business customers, and also envisages ex-post checks on compliance with the same, through a report provided by the beneficiary company every six months until the end of the financed project, together with sample checks carried out by SACE itself.

In addition, with reference to the unsecured loan backed by the SACE Supportitalia Guarantee, in the second half year of 2023, Banco BPM offered the opportunity to link an ESG "Sustainability Objective" covenant, with the same methods already applied to the "Unsecured Business Loan sustainability objectives".

- ***Other commercial initiatives***

Lastly, the Group pays particular attention to the Commercial Real Estate (CRE) sector: in addition to strengthening the analysis of the financial sustainability of real estate initiatives through the adoption of specific Key Risk Indicators (KRIs), the Bank necessarily requires full alignment of the requirements for the classification of Green real estate investments, with the technical requirements envisaged in the EU Taxonomy.

This is in order to adequately analyse the environmental sustainability of these transactions and incorporate the physical risk assessments conducted by the Bank on the asset provided as collateral.

Disbursements also continued under the "2020-2023 Sustainable Investments" programme, also aimed at financing the "green transition" projects of business customers.

To this end, a specific agreement was also signed with Cassa Depositi e Prestiti focused on accelerating the green transition of Italian SMEs and Mid-Caps to facilitate their access to credit.

It should also be noted that, at the beginning of 2023, the Group signed a memorandum of understanding with GSE S.p.A. (Energy Services Authority) aimed at providing useful tools for use in the ecological transition, and at identifying, analysing and assessing climate and energy risks, in particular in the financing of environmentally sustainable investments.

Loans to Private customers

With reference to Private customers, the main instrument offered by Banco BPM is the green mortgage.[25] This scope includes loans disbursed to purchase class A, B and C residential properties or those renovated for energy efficiency purposes. An important tool introduced by the Bank to incentivise energy upgrading works by its customers is represented by mortgages with a "green factor" clause[26].

This clause offers subscribers a discount on the rate against specific efficiency improvement works carried out on the property purchased, provided they are guaranteed:

- a reduction in consumption of at least 30% or
- an improvement in the energy rating of the house by two classes[27].

The mortgages in this scope were awarded the Energy Efficient Mortgage Label (EEML), a quality and transparency label promoted by the European Commission for best practices in the energy-efficient mortgage market.[28]

To support customers in their choice, a cost-benefit simulator was made available to them, which considers both the energy potential of the property and current tax benefits.

In order to develop the product catalogue with a more complete green mortgage offer aligned with that of the main players in the market, starting from October 2023, Banco BPM launched a mortgage promotion for those who purchase a property in energy class A or B, envisaging a reduction of the spread applied by 10 bps.

The presence of the "Green Factor" remains the hallmark of our offer and complements the new commercial proposal. The real estate offer also includes the products and services associated with the so-called "superbonus", for which the possibility for private customers, condominiums and companies to assign tax credits arising from energy efficiency and seismic risk reduction measures has been confirmed again for 2023.

As part of the specific catalogue, the main products intended to support energy and structural improvement works are:

[25]Aware of the increasingly central importance that environmental sustainability also plays in housing choices, the Group committed to disbursing 4 billion euro in green residential mortgages in the four-year period 2021-2024. During 2023, the Bank financed 480 million euro of new green mortgage loans (1.8 billion euro cumulatively, also considering the 2021 and 2022 financial years).

[26] The offer covers all mortgages taken out for the purposes of purchase, construction, renovation and purchase with simultaneous renovation, with the exception of those taken out for subrogation, liquidity or commercial purposes.

[27]The reduction in consumption is measured as a change in the overall non-renewable Energy Performance Index (EPgl, nren), while the improvement of two classes in the energy rating of the house is measured through the Energy Performance Certificate (APE) before and after the works.

[28] European initiative to create a standardised European-wide energy efficiency mortgage to encourage the renovation of buildings and the purchase of highly efficient properties through favourable financial conditions.

- Energy Efficiency Building Loan: to finance energy efficiency works on condominium buildings through an advantageously priced loan;
- Consumer Superbonus Advance: to offer private customers and condominiums financial coverage during the time that passes between the start of the works and their completion;
- Advance on Building Renewal Contracts: aimed at advancing financial resources to construction and plant supply companies that discount their invoices.

Investment Banking activities

Among the sustainable growth solutions to support businesses, Banca Akros, the Group's Corporate and Investment Bank, participated in the placement of 11 ESG Bond issues in 2023, as joint bookrunner or joint lead manager, for a total value of 8.12 billion euro.

Also included in this specific list of transactions are the two green bonds and the social bond issued by the Group during the year for which Banca Akros participated in the placement as joint bookrunner.

Private Banking operations

In relation to consulting services, Banca Aletti, the Group's investment centre for asset management, targets the correct and responsible allocation of resources, directing customer resources towards investments that simultaneously combine a return on capital with the objective of sustainability.

With these aims, and in application of the "Guidelines on the integration of sustainability risks in the provision of investment services" to which reference should be made for further information[29], the path of progress has continued with the aim of progressively integrating ESG dimensions in particular (i) in product governance processes; (ii) in the provision of the advisory service; (iii) in investment decisions within the framework of the portfolio management service; (iv) in the provision of information regarding sustainability-related risks, understood as events or conditions not only of an environmental, but also social and good governance nature that, potentially, could cause a significant negative impact on the value of the investment.

During the year, the proprietary sustainable products classification (ESG) methodology described in the "Guidelines on the integration of sustainability risks in the provision of investment services" was adopted.

This classification allows to measure the various attribution levels of eco-sustainability, sustainability and consideration of the PAIs of ESG instruments based on data provided by Info Providers and by product producers.

Moreover, the ESG consistency check between the preferences expressed by the client and the ESG characteristics of the financial instrument was introduced in the advisory activity during the year, alongside the adequacy check.

[29] Document available at gruppo.bancobpm.it > *Sustainability* > Guidelines on the integration of sustainability risks in the provision of investment services

The sustainability preferences of customers were surveyed, starting from last year, through a special section of the MiFID profiling questionnaire.

Finance Operations

Banco BPM Group consistently works to secure appropriate resources on various procurement markets. These resources are channelled toward specific sustainable activities through the issuance of its own ESG bonds and by offering support to other companies that issue such bonds.

With regard to own issues, the cornerstone of this activity is the Green, Social and Sustainability Bonds Framework, a document aimed at raising funds to be used to finance projects with environmental and social impact.

The Framework, the first version of which was published in 2021, was updated in November this year according to the most recent market standards[30]: ICMA's Green Bond Principles (June 2021 with June 2022 appendix), ICMA's Social Bond Principles (June 2023), ICMA's Sustainability Bond Guidelines (June 2021) and the EU Green Taxonomy.

By updating this document, the Group's objective is to align with best market practices, cover a wider range of activities and include alignment with the European taxonomy for some eligible assets.

The categories of assets that can be financed with the proceeds collected through the issue of green bonds are as follows:

- Construction (aligned with EU Taxonomy)
- Renewable energies
- Energy efficiency
- Pollution prevention and control
- Green transport
- Sustainable water infrastructure
- Sustainable agriculture
- Green guarantees
- Production of organic base chemicals (aligned with the EU taxonomy)

Therefore, all activities that involve potentially negative or controversial environmental impacts are not considered, and therefore automatically excluded.

Specifically, any type of investment related to the use of fossil fuels, the production of nuclear energy and the weapons sector.

At the same time as the publication of the first version of the Green, Social and Sustainability Bonds Framework (2021), the Bank issued a Social bond for an amount of 500 million euro.

During 2022, the Group placed three Green Bonds for a total of 1.75 billion euro.

[30] In this document, the Group describes its ESG approach and the eligibility/alignment criteria of the green and social assets and projects that it intends to finance with the proceeds from the issues, the rules and processes for management of the related income, as well as the reporting commitments undertaken by the Bank.

In 2023, Banco BPM issued a further two green bonds (a Green Senior Preferred Bond and a Green Senior Non Preferred Bond) for a nominal amount of 750 million euro each to finance a portfolio of green loans originated by the Bank for the purchase of energy-efficient homes and a portfolio of loans disbursed for the construction and maintenance of plants for the production of electricity from renewable sources.

In addition, in November, following the publication of the new Green, Social and Sustainability Bonds Framework, the Group placed a Senior Preferred Social Bond for a nominal amount of 500 million euro to finance a portfolio of loans granted to SMEs located in provinces with per capita GDP below the national average and/or in areas affected by natural disasters, as well as a portfolio of loans granted to SMEs with a State Guarantee to help borrowers cope with the emergency due to the global Covid-19 pandemic.

Therefore, since 2021, issues have been made under the Green, Social & Sustainability Bonds Framework for a total of 4.25 billion euro (plus 300 million euro of a Senior Preferred Green Bond issued in 2022 as a Private Placement, outside the framework).

The Group's activities made it possible to reach the target set in the 2021-2024 Strategic Plan of 2.5 billion euro ahead of schedule.

The new Strategic Plan confirms and further strengthens the commitment made by the Group in the placement of ESG bonds, envisaging a target of "sustainable" issues, in the three-year period 2023 - 2026, of 5 billion euro.

To ensure full transparency on the allocation of the proceeds of the issue and its social and environmental impacts, a specific report to be provided to the Market is to be published throughout the residual life of each bond at least on an annual basis.

All the financed assets are located in Italy, with the exception of a project for the production of organic-based chemicals located in Belgium.

In July, the Green, Social & Sustainability Bonds Report was published, containing data and information on the allocation of the proceeds of the bonds issued and the environmental and social impacts achieved through the loans disbursed.

The Report was awarded the prize for best Impact Reporting by Environmental Finance.

Based on data updated as at 31 December 2023, the Group's eligible portfolio, under the Framework, was approximately 14.2 billion euro, of which 4.8 billion euro relating to "eligible green loans".

Banco BPM Group also integrates ESG approaches into its proprietary investments.

The goal of an informed investment is to make the most of one's resources while maintaining a low overall exposure to climate risks.

In this regard, it is worth recalling the target defined in the 2021-2024 Strategic Plan that envisaged, by the end of 2024, the investment of at least 30% of the non-governmental bond portfolio in ESG issues.

As at 31/12/23, this percentage stood at 29%. The ESG Bonds present in the Bank's corporate portfolio total 1,512 million euro, of which 1,034 million euro relating to Green

Bonds. The 2023-2026 Strategic Plan further strengthens this perspective by raising the ESG target in the breakdown of the corporate bond portfolio to 40%.

Banco BPM Group used the classification provided by the Bloomberg info-provider to identify/assess the ESG issues to be included in the Bond portfolio.

As anticipated, during 2024, the Bank has also set itself the objective of defining and publishing guidelines relating to the selection of owned sustainable investments in corporate bonds.

1.2. Governance

With regard to the roles and responsibilities of the Board of Directors and the relevant internal board bodies in making decisions concerning the management and mitigation of climate and environmental risks and in the approval of public disclosure documents and internal regulations, please refer to the paragraph "Specific expertise of the Corporate Bodies" in the qualitative section introducing risks.

With regard to the disclosure relating to climate and environmental issues, it should also be noted that the Board of Directors of Banco BPM, in December 2021, resolved to join the Task Force On Climate-Related Financial Disclosures (TCFD) as a supporter.

After joining, the Group undertook to align its Disclosure to the Market with the recommendations of the Task Force.

In particular, the Consolidated Non-Financial Statement published by the Bank is prepared taking these specific indications into account. In the document (CNFS), a specific correlation table will make it easier for the reader to understand the different topics covering the four thematic macro areas of disclosure (governance, strategy, risk management, metrics and targets) required by the TCFD.

Remuneration policies

The remuneration policy represents an important management lever to attract, motivate and retain management and staff.

This steers behaviour towards reducing the risks taken on (including legal and reputational), protecting customers and increasing loyalty while also being careful to manage conflicts of interest.

The policy also pursues sustainable success, which produces long-term value for the benefit of shareholders in the interest of the Group's stakeholders.

The 2023 Policy defines the guidelines of the remuneration systems to pursue long-term strategies, objectives and results, in line with governance and risk management policies.

The correlation between variable remuneration of personnel and ESG (Environmental, Social, Governance) factors is a key element of the 2023 Policy.

Variable remuneration is therefore related to strategic actions concerning environmental issues, health and safety, human resource management, with particular attention to inclusiveness and gender neutrality.

The remuneration policy for staff is gender neutral.

The process of integrating the ESG strategy into the Group's governance model is also significantly reflected in the remuneration policy, with reference to incentive mechanisms.

The combination of objectives relating to the banking business, such as profitability, credit and asset quality, capital adequacy and liquidity, along with ESG metrics is considered a key factor in strengthening the Group's results in the medium term, as it allows to combine personal satisfaction and socio-environmental sustainability.

Quantitative ESG indicators are set to measure the annual progression of ESG targets from the Strategic Plan. These indicators encompass various aspects, including, but not limited to, the share of new disbursements in green and low transition risk sectors, the presence of ESG corporate bonds in the ownership portfolio, the issuance of green and social bonds, objectives from the People Strategy, and the fulfilment of project actions tied to the Thematic Review.

In particular, the **Short-Term Incentive** plan also includes a mechanism linked to customer profiling that also integrates the acquisition of customer ESG preferences.

The mechanism concerns the staff of the commercial networks involved in this area.

The entire commercial chain that manages corporate and business customers is encouraged to promote an ESG commercial offer in line with the Strategic Plan objectives: the objective related to the share of new disbursements in green and low transition risk sectors, the annual definition of the Strategic Plan objective, is in fact assigned not only to the Chief Executive Officer, but also to the managers and staff of the commercial functions and to all the roles of the retail and corporate networks that coordinate, manage or support customers belonging to the assigned segment (corporate, business).

As part of the short-term incentive plan, through the ECAP Reputational Risk indicator that represents the amount of economic capital with respect to the reputational risk estimated using an internal model, the non-financial adjustment factor could reduce the economic resources of all staff in the event of a sudden deterioration of the Group's image, also in relation to the possible occurrence of ESG risks.

As an example, the indicator model considers elements of physical, transition and conduct risks (greenwashing), as well as other elements of environmental risk (e.g. loss of biodiversity, pollution, rising seas, etc.).

The model also considers any sanctions relating to climate and environmental issues, participation in campaigns or initiatives that damage the company's image, customer complaints related to environmental and sustainability issues, entering into agreements with counterparties with a low reputation in terms of climate and environmental risks, worsening of the rating due to non-compliance with sustainability standards.

In the **Long-Term Incentive** plan, the performance objectives include ESG metrics related to the main objectives of the 2021-2024 Strategic Plan, with reference to the Environmental area (achievement of carbon neutrality), the Social area (increase in female staff in managerial roles, creation of a sustainable finance culture for all Group stakeholders as well as corporate volunteering in support of non-profit associations) and the *Governance* area (achievement of a certain level of ESG rating).

For more ESG-related information and updates in the Remuneration Policy, please refer to the document available at gruppo.bancobpm.it > Corporate Governance > Remuneration Policies > Remuneration Policy (section I) in compliance with current regulations.

1.3. Risk Management

Process of identifying relevant risks

The process of identifying risks (risk identification) is one of the key information sources for feeding all the main strategic processes of the Group, including the Business Plan, Budget, RAF, ICLAAP and Recovery Plan.

The process represents a structured and dynamic procedure, carried out at the level of the financial conglomerate, also taking into account the specific nature of the businesses and of the climate, environmental and social (ESG) components.

The process is conducted continuously and updated at least annually, unless extraordinary circumstances make it necessary to update it more frequently, and includes the following steps:

1. identification of all current and emerging risk factors, including those relating to ESG issues, to which the Group is or could be exposed, both under normal and adverse scenario conditions, also from a forward-looking perspective ; The update also entails conducting interviews with the Top Management of the bank and the main Group Companies, also in order to understand potential emerging risk factors on social and environmental issues related to the territory in which the Group operates. The evidence collected in this phase makes it possible to update the long list of potential risks;
2. identification of the correlation between risk factors identified/reference macro-themes;
3. identification of possible levers to mitigate risk factors, enabling their active management;
4. matching the individual risk factors examined, including those on environmental, social and government aspects, to the different types of risk and updating of the related Risk Inventory. Over time, the Group has defined a specific Risk Inventory i.e., the list of relevant risks identified internally by the Bank, which includes both qualitative risks, for which adequate organisational safeguards are defined to mitigate and manage them, and quantitative risks, which are measured using internal methodologies;
5. verification of the materiality of the risks measured quantitatively and preparation of the “Risk Map”, with reference to which it should be noted that the quantifications of the material risks contained therein confirm the inclusion of the measurement of climate risk components.

As part of the risk identification process, conducted by the Group during the second and third quarter of 2023, the materiality of the issues related to climate and environmental risk factors was confirmed, albeit with greater awareness of the impact of ESG issues on the business model, competitive context, objectives and strategies of the Bank, with particular attention to transition, economic sustainability and physical risks.

Furthermore, the emerging risk factor "governance and social sustainability" was confirmed, understood as Banco BPM's capacity to effectively govern the planning, management and reporting of these issues, fully integrating components linked to the social sphere (such as human rights, gender equality, sustainable supply chain management and labour practices) and governance of its business activities.

To this end, Banco BPM is committed to further refining the collection process and the usability of social/governance information relating to the counterparties entrusted and/or the issuers of the assets in which the Group has invested, in order to also include these analysis components into its Risk Appetite framework.

The results of the overall risk identification process revealed a greater awareness of the impact of ESG issues on the business model, on the competitive environment and on the Group's objectives and strategies (outside-in perspective), in its role as a guide for companies and private customers in the process of transition towards business models that combine economic sustainability with environmental and social sustainability.

At the same time, consideration was given to how ESG factors can be influenced by the Group's economic activity (inside-out perspective).

Lastly, with reference to the specific ESG area, the need emerged to continue the process of strengthening the controls relating to direct and indirect risks arising from the ongoing adaptation of internal processes, products, data management and market disclosure.

Risk Appetite Framework

The Board of Directors of the Parent Company Banco BPM approved the Risk Appetite Framework (hereafter, also "RAF") in the first quarter of 2023, through which the strategic supervision body defines the risk levels the Group is willing to assume in pursuing its strategic objectives.

Specifically, Circular 285 requires the adoption of an RAF which:

- assigns the body in charge of strategic supervision the task of defining and approving risk objectives, the tolerance thresholds (where identified) and the risk governance policies;
- envisages the adoption of an integrated approach to risk management;
- highlights the circumstances, including the outcomes of stress scenarios, in which the assumption of certain categories of risk should be avoided or contained with respect to the objectives and the limits set;
- uses appropriate quantitative and qualitative parameters to establish the elements that make up the RAF;

- indicates the procedures for operational measures to activate (escalation) if it is necessary to reduce risk levels to within the pre-set objective or limits;
- states the timing and procedures to be followed to update the RAF (due to changes in legislation, in the reference scenario or internal context) as well as the tasks of the Bodies and all corporate functions involved in process definition.

The Risk Appetite Framework of Banco BPM Group is comprised of 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 summarise risk exposure;
3. the “system of thresholds”, through which the risk appetite is defined;
4. the “escalation process”, which is activated with different intensities and parties when different thresholds are surpassed;
5. the methodological document “Risk Appetite Statement (RAS)”, which contains an analytical description of the calculation procedures for the metrics and definition of the relative thresholds;
6. the "instruments and procedures", which support the representation and operational management of the RAF, including "Most Significant Transactions (MST)".

The RAF is the tool that makes it possible to establish, formalise, communicate, approve and monitor the risk objectives that the Group and the individual relevant Legal Entities intend to assume.

To this end, it is divided into thresholds and risk areas that make it possible to identify in advance the levels and types of risk that the Group intends to assume, stating the roles and responsibilities of the Corporate bodies and functions involved in the process of managing these risks.

The RAF indicators are structured by risk area and make use of the Risk Identification Process, taking into account regulatory indications regarding Risk Governance.

All significant risks identified during the process are considered when defining the Risk Appetite Framework, and specific indicators are identified for monitoring purposes.

In particular, the Group’s RAF has identified different 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.

In particular, new ESG-related indicators were introduced in line with the "Guide on climate-related and environmental risks" issued by the European Central Bank in November 2020.

The indicators that summarise the Group’s risk profile have been divided into 3 levels, differentiating between strategic indicators, which enable the Board of Directors to guide the Group’s strategic decisions, operational indicators, which integrate and anticipate the dynamics - where possible - of the strategic indicators, and Early Warning indicators, which express the risk areas of the RAF and make it possible to anticipate or further leverage the dynamics of the Strategic and Operational indicators.

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 comprehensive number of indicators, which express the risk appetite approved by the Board of Directors and represent the summary performance of the overall risk profile. These indicators also include many of the indicators used to define the RAF Guidelines that are part of the Budget and Business Plan process;
- 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 constitute a set of metrics useful for predicting signs of deterioration of the indicators included in the Strategic and Operational RAF, for which an Alert threshold is defined.

The system of thresholds for the strategic indicators envisages the definition of the following limits:

- *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.
- 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*").
- 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.
- 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.
- 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.

Exceeding the risk limits triggers specific escalation processes, which take the insurance companies and their organisational structure into account.

In order to increase the management and monitoring of ESG risk factors (particularly climate and environmental), in 2023 Banco BPM Group continued to further strengthen its Risk Appetite Framework (RAF)[31] by specifically introducing new KPIs to the various areas of analysis for monitoring the governance and control elements of the main ESG risk factors.

The framework was also extended to the Group's insurance companies with specific KPIs referring to their respective risk areas. In addition, appropriate long-term RAF thresholds are provided for the purpose of:

- considering the long-term risk appetite defined by the Corporate Bodies in line with the targets formalised by the Group in the Strategic Plan;
- strengthening the interconnection with the remuneration policies for Top Managers and the key senior officers of the Bank, in order to create a direct link between the long-term incentive (LTI) system and the expected evolution of the Bank's RAF indicators.

<u>The impacts of ESG factors on the Group's business model, competitive environment and specific strategies were also taken into account when preparing the 2023 RAF.</u>

In fact, all preparatory activities were carried out with the aim of formalising and defining an adequate Risk Appetite Framework, a guiding tool for collecting and constantly monitoring the objectives set by Top Management, contextualised through suitable KPIs with dimensions closely linked to the specific company business in order to continuously pursue a path of environmental and social sustainability that supports the traditional economic sustainability of the Bank.

More specifically, the Group has identified five new RAF ESG indicators, focused in particular on the following areas:

- the Group's energy consumption and related gross CO_2 emissions;
- gender equality in top roles.

These indicators are in addition to the eight ESG KPIs already planned for 2022 and referring to the following business areas:

- lending related to ESG products, (e.g., Superbonus, Ecobonus and Third Sector loans);
- Group funding, with monitoring of the specific green and social bond issues;
- monitoring of operational risks through a suitable indicator that detects the occurrence of potential unexpected losses from physical risk events;
- the Bank's investment activity towards sustainable initiatives, monitoring the incidence of ESG corporate bonds in its bond portfolio;
- internal training on ESG issues;
- placement of ESG bond issued by Banca Akros in the role of co-lead manager;

[31] Instrument through which the Board of Directors identifies and approves risk objectives and defines the Bank's overall risk appetite in compliance with the chosen strategy and the specific business model adopted by the Group.

RAF	REFERENCE AREA	DESCRIPTION	TARGET '24[32]
STRATEGIC	Credit	**Green and "low risk" of transition disbursements**: indicates the incidence of new disbursements for the year to counterparties operating in "Green" and "low risk" of transition sectors, identified through specific Cerved sector analysis, compared to total new disbursements for the year. This scope includes both loans to companies operating in the Green and low transition risk sectors and loans provided with credit products to support the transition	**> 65%**
MANAGEMENT	Finance	**Cumulative amount of "Green and Social" bond issues**: indicates the cumulative amount of the Bank's issues of "Green and Social" funding instruments as at 2023	**€2.5 billion**
	Investments (proprietary portfolio)	**Proportion of ESG Corporate Bonds in proprietary portfolio**: indicates the incidence of investments in ESG Corporate bonds held in the proprietary portfolio, compared to the overall nominal value of the proprietary portfolio of non-governmental securities. Allows investment activity to be directed towards sustainable initiatives	**> 30%**
	Corporate & Investment Banking	**Placement of ESG bonds:** envisaged as a specific indicator for **Banca Akros**, it monitors the total (notional) amount of ESG bond issues by third-party issuers and the Parent Company for which Banca Akros acts as at least co-lead manager as part of the Debt Capital Market (DCM) activity	**€12.5 billion**
EARLY WARNING	Sustainability	**Min. Disbursement of Financing to the Third Sector**: indicates the cumulative amount as at 2023 of "Social" financing disbursed to counterparties operating in non-profit activities identified on the basis of the relevant business segmentation	**> €700 million**
	Credit	**Min. ESG Superbonus/Ecobonus disbursement**: indicates the cumulative amount to 2023 of tax credit purchases resulting from government measures to support the economy	**€3.5 billion (*)**

[32] It should be noted that the 2023 RAF ESG KPIs refer to the objectives set out in the 2021-2024 Business Plan.

RAF	REFERENCE AREA	DESCRIPTION	TARGET '24[32]
	Training	**Hours of training on ESG topics**: indicates the number of hours of training provided to employees on ESG-related topics, in order to monitor the gradual achievement of the objective set by the Strategic Plan for 2024 of 400,000 hours of training on these aspects	**400,000 hours**
	Human Resources	**Share of women in managerial roles:** in line with the objectives of the Strategic Plan, represents the percentage of women in positions of responsibility within the Group compared to the total positions	**> 30%**
	Operational/conduct	**Total energy consumption (GJ)**: refers to the risk of a possible increase in consumption also following extreme weather events (intense heat, intense cold)	**558 Giga Joules**
	Operational/conduct	**Scope 1 and 2 Market Based Emissions**: refers to the representation in terms of CO2 emissions of all forms of energy consumption and climate-changing gases. Excludes electricity from renewable sources	
	Operational/conduct	**ESG – Physical Risk (# events)**: refers to natural events (Physical Risk) and any cases of pollution to the eco-system that occurred in the Q-1 quarter	

(*) the target was defined for 2023 and not for 2024, in compliance with relevant tax regulations.

Moreover, it should be noted that the Group already conducts periodic monitoring on an ongoing basis with reference to the placement of credit products aligned to the Taxonomy.

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.

With reference to the main ESG indicators (RAF), we highlight in particular:

- the result recorded in 2023 by the "Disbursements to Green and low transition risk sectors", is higher than 54% of the total amount disbursed;
- the achievement of the Group's carbon neutrality - already at the end of 2023 - with regard to Scope 1-2 (market-based) net emissions[33]; it is also confirmed that the Bank only uses electricity obtained from renewable sources;

[33] Also, thanks to offsetting with carbon credits.

- the increase in the percentage of ESG corporate bonds in the Bank's own portfolio (ESG bonds represented - at the end of 2023 - 29.1% of the total portfolio examined) compared to the corresponding value in December 2022 (24.2%);
- during 2023, three issues of "Green & Social Bonds" were carried out (two green and one social) for a total of 2.0 billion euro, in addition to a further issue of Green Bonds for 750 million euro in January 2024; through Banca Akros, the Group also assisted in the placement of over 8.0 billion euro of ESG bonds issued by third counterparties.

Management of climate and environmental risks

Climate change leads to a number of risks and opportunities that must be correctly identified and managed to minimise negative impacts and reap positive aspects.

Climate risks can mainly be divided into two specific categories:

- **Transition risks**: mean the financial loss an institution may incur because of the adjustment process to a low-carbon economy that could be caused, for example, by changes in regulation, technology and market preferences (consumer choices and preferences).
- **Physical risks**: mean the financial impact of extreme weather events (acute) and gradual changes in climate, as well as environmental degradation (chronic). This also includes other environmental events such as water and air pollution, over-exploitation of land, loss of biodiversity, deforestation, etc.

The tables below describe the main risk categories associated with physical and transitional risks, as well as the main impacts that these may have directly on the Bank and indirectly on its customers in the short-term, but especially in the medium and long term.

TRANSITION RISK

Risk factor	MAIN IMPACTS IDENTIFIED
Regulatory	▪ Higher operating costs for companies operating in sectors associated with high carbon emissions. ▪ Increased resources for collecting and reporting climate and environmental data and information. ▪ Increased regulatory capital requirements on assets most exposed to physical and transition risks.
Technological	▪ Replacing existing products and services with solutions using lower-carbon technologies. ▪ Need for activities in sectors with a high environmental impact to incur high costs for the transition to more sustainable technologies and business models

Market	▪ Changes in demand for products and services resulting from changes in consumer preferences that could also impact the revenue mix with repercussions on business profitability. ▪ Rising energy prices that can significantly affect the costs incurred by companies.
Reputational	▪ Negative economic/financial impact because of stakeholders' perceived lack of commitment to combating climate change.

PHYSICAL RISK

Risk factor	MAIN IMPACTS IDENTIFIED
Acute	▪ Funds earmarked for the reconstruction of property damaged by natural disasters and increased insurance costs to cover possible future damage. ▪ Reduction in income-generating capacity caused by natural disasters. For example, damage to property used in operations, interruption of the supply chain, logistics difficulties, etc.
Chronic	▪ Reduction in the value of assets in areas impacted by chronic physical risk and in the ability to generate income by companies operating in areas impacted by such risk

The European Central Bank's expectations on environmental and climate-related risks repeatedly make it clear that such risks are to be identified, examined, managed/monitored and mitigated in the «short, medium and long term», but nevertheless only provide limited general guidance on the breadth of these time horizons, thus leaving the formal definition of these risks to the individual Supervised entities.

In compliance with this specific expectation, in line with the current method of conducting the Group's forward-looking capital and financial adequacy analyses/assessments, Banco BPM has established and introduced the following definitions:

- Short Term: one-year time horizon to ensure full alignment with the budget horizon;
- Medium Term: considers a time horizon between 3 and 5 years (up to 2030 where relevant/possible), in line with indications provided by ECB, the intermediate objectives of the Net Zero Banking Alliance and the intermediate targets set by the EU (e.g. Fit 4-55)
- Long Term: time horizon longer than five years (up to 2050 where relevant/possible) consistent with Supervisory Authority guidance, the Net Zero Banking Alliance target horizon and the Paris targets to which the European Union subscribes.

The potential impacts of transition (T) and physical (P) risk factors are assessed by Banco BPM Group in traditional risk categories against the short (S), medium (M), long (L) term horizons of potential materiality, as summarised in the table below:

Type of risk	Potential Impacts of transition and physical risks	T/P	S/M/L
CREDIT RISK Risk that a debtor will default on his obligations or that his creditworthiness will deteriorate	Estimates of the **Probability of Default** (PD) and **Loss Given Default** (LGD) of funded counterparties are impacted by considerations of the **additional costs that companies will incur in complying with the new climate and environmental standards** **PD and LGD estimates of the exposures to sectors or geographies vulnerable to physical risks are impacted by this specific factor** (e.g., lower collateral valuations in real estate portfolios)	T P	S M L
MARKET RISK Risk of potential losses in the trading and banking books generated by adverse changes in issuer-related variables (specific risk) or market conditions (generic risk)	Financial instruments issued by corporations with **business models** perceived as unsustainable in climate and environmental terms.	T	M L
LIQUIDITY RISK Risk of being unable to meet payment obligations due to the inability to raise funds on the market (funding liquidity risk) or to dispose of assets (market liquidity risk)	Direct impact in the face of **significant cash withdrawals** by customers to finance the **repair of damage** caused by extreme weather events **Sudden repricing of securities** due to **extreme weather events** or the sudden implementation of **restrictive carbon emissions policies can reduce the value of the bank's liquid assets**	P T	M L
OPERATIONAL RISK Risk of suffering losses caused by inadequacy or failure attributable to internal procedural, human resource and system risk factors, or caused by external events	**Interruption of operations** following the occurrence of physical risks to owned operating assets, outsourced services or IT activities **Damage to property, plant and equipment owned by the Bank** Financial impact of **legal liability also in terms of "greenwashing"**	P T	S M L
REPUTATIONAL RISK Risk arising from a negative perception of the Bank's image by stakeholders	Negative impacts on the **ability to maintain or develop new business opportunities** and to continue to have **access to funding sources** because the Bank is not perceived by the various stakeholders as adequately sensitive to ESG issues	T P	S M L

Banco BPM is also constantly committed to continuously improving the assessment and transparency activities to assess/measure the exposure of the Group's overall loan and investment portfolio to physical and transition risks.

These analyses made it possible, as early as last year, to carry out an initial integration of climate risks in the Group's independent capital adequacy assessment process (ICAAP), also leveraging, with specific reference to credit risk, the methodology defined by the ECB in the context of the so-called "Climate Stress Test 2022".

The process of integrating climate risk factors into capital and financial/liquidity adequacy assessments was further strengthened and completed in the current year.

Note that, in 2022, Banco BPM Group actively participated in the "Climate Risk Stress Testing" exercise conducted by the Supervisory Authority, also processing the m/l term bottom-up projections which, in practice, represented an initial test of the ability of financial intermediaries to examine and quantify the potential impacts deriving from climate and environmental risk factors.

This exercise constituted a useful learning tool with respect to the specific issues analysed, at the same time helping to strengthen both the internal methodologies defined by the Bank, and to further increase the relationship of dialogue and discussion with the Supervisory Authority.

Furthermore, it should be noted that in the last quarter of 2023, the Group was engaged in preparatory activities for the first data collection exercise "Fit for 55 climate risk scenario analysis" conducted by the European Banking Authority in collaboration with the ECB, which will take place in early 2024.

This exercise is part of the new mandates received from the EBA, as part of the renewed sustainable finance strategy of the European Commission. Its primary objective is to assess the overall resilience of the banking sector with respect to the targets defined with the "Fit for 55" package and to acquire information on the ability of the Entities to support the transition to a low-carbon economy.

The participating intermediaries will have to provide the starting point values, as at 31 December 2022, of the required climate data, which will be included in the banking sector module of the "One-off Fit for 55 climate risk scenario analysis".

The forward-looking results of this module will be obtained using the top-down climate risk stress test models defined by the European Central Bank.

Lastly, it is important to note that the Risk Function is a standing member of the New Products and Markets Committee and expresses prior technical opinions on new products presented to the Committee, also evaluating the reputational risk profile.

In issuing these opinions, the function also takes into account the integration of sustainability risks in the provision of investment services.

Overall risk monitoring and control is accompanied by a timely and periodic flow of information to the Board of Directors and the organisational units involved in risk management, and by the continuous improvement of risk measurement models.

In order to disseminate and promote a sound and robust ESG risk culture, Banco BPM Group has launched a training course on ESG issues (dissemination of the new RAF, credit policies and credit assessment integrated with ESG factors for sales network managers and managers of central structures).

Specific risk induction sessions were also carried out for the Board of Directors relating to ESG strategies (with a specific focus on climate and environmental risks).

Measurement and management of climate and environmental risks

The impacts related to climate change are assessed in the context of **credit risk** on the basis of the specific provisions of related regulations.

They require banks to consider climate and environmental risks in all phases of the lending and credit monitoring process, carrying out analyses to identify any concentrations in sectors/geographic areas that are highly exposed to these risks, even if only potentially.

In particular, in the vertical reporting produced on the issue, Banco BPM Group integrated the assessments of transition risk and physical risk (the most relevant factors of climate and environmental risk as a whole) with a series of detailed analyses that provide a complete methodological overview and an analytical representation for each individual risk driver, in order to be able to examine all the characterising elements considered most significant.

The methodology described was developed by the Group with the support of an external data provider. This allows for continuous updating of physical (acute, chronic and environmental) and transition risk scoring, with regard to: i) real estate received as collateral; ii) the companies financed and their related physical assets.

The scoring scale adopted by Banco BPM is consistent for all types of risk and based on specific assessment classes, from "Very Low" (score 0) to "Very High" (score 4) risk.

The approach implemented, however, also makes it possible to consider specific elements of analysis in relation to the individual driver examined.

For example, the "Very Low" score, defined with specific regard to transition risk, is assigned to all corporate counterparties that conduct green economic activities (i.e. fully aligned with Taxonomy requirements).

If, on the other hand, the Bank is assessing the risk relating to the potential loss of biodiversity, the same scoring is attributed only to companies directly involved in the support/enhancement of this specific factor.

Lastly, with reference to acute physical risk, the "Very Low" score relates to real estate located in geographic areas not substantially exposed to this potential phenomenon.

The scoring process is based, first of all, on the availability of precise and analytical data that allow the Group to carry out adequate detailed assessments.

In some cases, this information is public (i.e., the maps provided by the Italian Institute for Environmental Protection and Research - ISPRA for flood and landslide risks), in others it was necessary to request the support of specialised providers (e.g., on emission intensities) or draw from appropriate certified external data sources (i.e., for energy performance certificates of production assets and/or guarantees).

In order to assign an overall summary score, the information collected is then integrated with that made available to the Bank directly by borrower customers through the completion of specific qualitative questionnaires.

The risk score obtained, for each individual counterparty or property, is therefore calculated with a top-down approach (mainly sector-based for transition risk) and a bottom-up approach (often relevant for significantly larger customers that draw up a NFS or Sustainability Report).

In general, the methodology for estimating climate and environmental risks is therefore based on the combination of sector elements, precise geographic data, and where available, additional information provided by the customer or relating to the individual asset examined.

With regard to the specific analysis of transition risk, for the purpose of its internal assessments the Group also considers the emission intensities relating to the counterparty examined, its overall alignment with the EU Taxonomy requirements and the possibility for the customer to access the CO_2 emissions market (EU Emissions Trading System).

Lastly, for certain types of loans, requested by companies in order to make specific investments of a structural nature, the Bank envisages certification of the overall projects by independent third-party experts in the field.

With reference to the analysis of other environmental risk factors (related to the protection and restoration of biodiversity and ecosystems, the transition to a circular economy, the sustainable use of water resources and the reduction of pollution), the Group adopts separate assessment criteria for each individual objective examined, borrowing its approach from the EU Taxonomy regulations.

Particular importance is attributed to "Do No Significant Harm" (DNSH) and the indications adopted by the main Italian and European institutions.

The analyses conducted by the Bank for the purpose of assessing the physical risk component are specifically based on the requirements of current regulations on the matter. In fact, the methodology developed by the Group considers all the potential physical risk hazards envisaged in the Taxonomy.

However, taking into account the predominantly domestic nature of its business, Banco BPM pays great attention to the most significant risk factors for Italy with a dedicated focus, in particular, on hydrogeological events (landslides and floods) and the phenomenon of drought.

The methodology adopted by the Group makes it possible to assess, directly or indirectly - also considering the important correlations between the various events examined - the overall list of physical risk hazards (acute and chronic) envisaged by the Regulator, therefore guaranteeing a complete score mapping.

During 2023, Banco BPM continued to strengthen and fine-tune the estimation models used to assess the potential impacts of climate and environmental risk factors on its business model and on the definition of specific company strategies, also through greater availability of detailed information.

The increasing data availability, collected through borrower customers or through suitable info providers, will at the same time determine a substantial improvement in the quality, accuracy and timeliness of the information relating to these particular areas of analysis.

Currently, with reference to credit risk, transition and physical climate risks and environmental risks are material but have an overall low score for transition risk, acute and chronic physical risks and environmental risks, a clear sign of the fact that Banco BPM benefits from a concentration of customers on average in geographic areas and sectors that are not excessively exposed to them. [34]

In addition to the measurement models described above, the Risk Function of Banco BPM carries out specific sensitivity analyses to estimate the impact of the factors examined on the main risk parameters (PD and LGD), taking into account expected evolutions over the different time horizons considered and in relation to the different scenarios used.

Specifically, in the credit risk area, Banco BPM has:

- integrated climate risks into IFRS 9 provisioning measures (via post model adjustment already starting from December 2022);
- integrated climate risks, adopting an advanced approach, into capital adequacy assessments - ICAAP (starting from March 2023);
- defined the methodological framework for including climate risks in the internal rating system for management purposes.

With reference to the first two points - in particular with regard to transition risk - the Bank has developed and implemented a methodological approach to stress the PD of the counterparties (and, indirectly, the LGD parameters) with climate factors, leveraging the financial module of the AIRB model, both to calculate the ECL and to estimate economic capital.

This methodology therefore considers the greater credit risk due to the impact of climate change and the costs of mitigation policies.

The assessment of the impact of physical risk, instead, is directly reflected on the LGD parameter, by leveraging the flood scenario provided by the ECB.

The latter assumes a shock in the price index of residential and commercial properties, making it possible to stress the guarantee portion of the Group's loan portfolio, thus impacting the expected recovery rate.

With regard to the third point, at the end of 2023 a framework was defined to support the Rating Desk structure, to attribute a credit rating to borrowing customers, and the manager who can override the rating.

This framework envisages the definition of a Climate rating alongside the AIRB reporting rating, while waiting for the climate and environmental risk drivers to be directly included in the regulatory rating system.

The aforementioned Climate rating derives from the application of a specific model that can modify the counterparty AIRB rating through the application of worsening/improving notches, in order to incorporate the impacts on the assessment of the debtor's credit rating deriving from exposure to physical and transition risks.

[34] Certain specific underlying risk drivers are more impactful than others, such as biodiversity risk among environmental risks, flood risk for acute physical risk and soil erosion risk for chronic physical risk.

With regard to transition risk, the Climate rating model considers both the costs and investments that impact the single-name balance sheet projections of the debtor under different climate scenarios, and the qualitative ESG questionnaires complete by the relationship managers.

These two factors are integrated so as to create a single climate score to be compared with notch-up and notch-down thresholds for each estimation sector/cluster defined during the assessment of the model.

The factors considered by the climate rating model for physical risk, on the other hand, are represented by synthetic scores at counterparty level and by specific questions on the ESG qualitative questionnaires completed by the relationship managers.

Also in this case, these factors are integrated so as to create a single Climate score to be compared with specific thresholds (notch-up and notch-down) defined during the model estimation phase.

The impacts relating to climate change were assessed by Banco BPM Group also with specific reference to **market risk**, analysing the potential impairment of financial instruments included in the owned portfolios in the face of unexpected economic difficulties/default of the issuing companies, due to the effect of higher costs/investments incurred by them and related to the energy transition.

In particular, the Bank conducted an in-depth analysis to estimate the materiality - in terms of overall exposure - of its investment portfolios (trading and banking books) to these risk factors, examining their composition (bonds, shares and derivatives) as well as the concentration/distribution by individual issuer with respect to the business sectors deemed most sensitive (transition risk).

The results of the checks carried out confirm those emerging from previous analyses carried out by the Group. Almost all of the exposure deriving from the financial instruments falling within the scope considered are marginally impacted by climate and environmental risks.

Banco BPM also conducts an estimate of the transition risk on the fair value of (equity and bond) positions included in the trading portfolio. The analysis described is also extended, from a management point of view to the banking books limited to the credit spread risk factor, as the latter represents the main risk factor of the portfolios in question.

The methodology adopted by the Bank is mainly based on the rationales and evolution of macroeconomic variables envisaged for these types of risk as part of specific "Climate Stress Test" exercises.

With reference to the (corporate and financial) issuers of bonds and shares of the Group's proprietary portfolios, separately by trading book and banking book, Banco BPM also conducts a materiality analysis of the exposure to ESG risks, based on certain indicators calculated by the Sustainalytics (Morningstar) platform.

The Bank has also adopted a quantitative solution to measure Environmental and Climate risks (the "E" of ESG) of a transitional nature, as a milestone of the internal project in the context of the Thematic Review of Climate & Environmental risks, starting from December

2023, by integrating the C&E risk within the risk measure defined as E-IRC and based on the IRC (Incremental Risk Charge), able to capture the deterioration in portfolio performance due to downgrades or defaults of issuers in position.

With regard to the annual update in progress, the impact of ESG factors in economic capital assessments (trading and banking book) for the purpose of capital adequacy assessment (ICAAP) is being examined in more depth.

The potential impacts related to climate change are also assessed by the Group in terms of **operational risk** in relation to the occurrence of events related to the climate and the environment (floods, landslides, fires, droughts, weather phenomena, etc.) that could cause an increase in operational risks, with a focus - in addition to the effects on business continuity and on the damage to the real estate and artistic assets of the Banking Group - also on the potential losses directly or indirectly caused by legal actions (i.e. for greenwashing linked to the sale of banking/financial products or to legal action and complaints by stakeholders due to environmental non-compliance of products issued/placed or for Bank exposures in controversial sectors).

In particular, the objective is to assess the potential exposure of the Group to operational ESG risk factors, both through the historic reporting of the events and through the forward-looking analyses carried out, including the results of in-depth analyses.

A dedicated assessment of potential exposures related to physical risk and related conduct risk was carried out, through analytical risk self-assessment scenarios. The assessments showed limited impacts even in terms of unexpected losses.

These impacts were also considered in determining second-pillar risks in the periodic capital adequacy assessment exercises (ICAAP).

The Group continuously implements further methodological developments, also in line with the relevant regulatory developments.

The potential impacts linked to climate change are also assessed by the Group in terms of **liquidity risk** with specific reference to three main areas of analysis: credit lines, funding mix and securities portfolio.

The materiality of exposure to environmental and climate risk factors is assessed by Banco BPM through a qualitative analysis, for each of the above-mentioned areas, of the NACE sectors classified by *different* risk scores, on the basis of indications and data on the GHG emissions.

The results of the analyses show, on the whole, low exposure of the Group to NACE sectors characterised by high transition risk scores.

With reference to the cluster relating to the investment portfolio, the analysis on transition risk was also conducted on the basis of the ESG score, calculated through the Morningstar-Sustainalytics platform. The Group's exposure to issuers with medium-high ESG scores recorded negligible values.

Starting from 2023, with reference to credit lines and funding (funding mix), the assessments also entailed measuring ESG scores relating to acute and chronic physical risk.

The summary data were acquired from Cerved's ESG data warehouse. The results of these assessments resulted in overall low exposures to counterparties with high ESG scores.

In addition, Banco BPM carried out specific analyses to assess the historical impacts on liquidity and funding profiles originating from acute and unforeseen physical events, which actually occurred, with a specific focus on demand deposits.

Lastly, note that the Group is integrating, into the databases used to measure liquidity/funding risks, a set of ESG information considered important in preparing adequate automatic monitoring reports.

ESG risk factors have also been integrated into the measurement models of the other types of **Pillar II Risk**[35].

With reference to **reputational risk**, Banco BPM has refined the methodology it uses for quantifying estimates of economic capital in order to include the possible deterioration of the Group's image, perceived by its various stakeholders, as a result of the potential emergence of specific ESG risk factors.

In particular, the marginal contribution of the various climate and environmental risk factors to the overall measure of economic capital to deal with this particular type of risk was assessed.

A what-if analysis was also conducted to assess potential reputational impacts observed in the banking system as a whole.

Banco BPM has also defined a framework for continuous monitoring and for the preventive mitigation of the reputational risk of counterparties with loans.

This framework is based on analyses deriving from instruments of the commercial network, from credit policy processes, from activities of the Rating Desk on the credit risk rating of counterparties and, lastly, envisages second-level controls conducted by the Risk Function, both for purposes of monitoring, and ex-ante.

The tools available in the commercial network make it possible to analyse companies by collecting a wide range of information, including elements useful for identifying potential reputational risk factors.

The fundamental drivers of the credit policy framework include the ESG score of counterparties. This score is directly impacted by the results of the ESG questionnaire which covers, in particular in the qualitative section, elements of potential reputational risk both for environmental (E), social (S) and governance (G) aspects, and a specific question is also envisaged to be completed by the manager on the reputational aspects known to them not already covered by the questions in the questionnaire.

There are also two “fatal” questions on social (S) and governance (G) that can nullify the mitigation effect of the ESG questionnaire.

[35] Reputational, Strategic, Equity and Real Estate

The activities carried out by the Rating Desk envisage the option to override the credit rating of counterparties, in a negative sense, in the presence of potential reputational risks of an ESG nature.

In order to carry out these assessments, the structure also makes use of the information provided by the manager, the decision maker or on the indications available in the ESG questionnaire. Its intervention may, in the most serious cases, lead the counterparty to be included on the watchlist.

The Risk Function also manages the analysis of the reputational risk of counterparties, both as part of ex-ante assessments, and in periodic monitoring with reference to the second level controls.

With regard to **strategic risk**, the Group completed a review of the main methodological assumptions to further strengthen assessments of short-term commercial objectives with the Business Plan targets, more oriented to a medium and long-term time horizon, at the same time strengthening the strategic controls relating to the impacts of ESG factors and the overall evolution of digitalisation processes.

Banco BPM also refined its property risk and equity risk models by including the physical risk and transition risk components in the estimation methodologies.

In particular, with reference to **real estate risk**, in the measurements of economic capital used to assess the Group's capital adequacy, the impacts deriving from the potential occurrence of physical risk (acute and chronic) were also considered, according to specific assumptions developed on the basis of Network for Greening the Financial System (NGFS) scenarios, also adopted in the specific climate stress test exercises.

In addition, as regards **equity risk**, similar assessments were carried out by the Group in order to include the incidence of the transition risk component, again with respect to the scenarios mentioned above, on the potential reduction in fair value of equity investments included in the scope examined.

The overall analyses of the impacts of ESG factors, particularly environmental and climate-related, conducted on the main types of risk relevant to Banco BPM, to date show a marginal exposure and materiality in consideration of the current risk score.

<u>Based on this specific analysis, the expected potential economic loss linked to C&E risks is low for the Group</u>.

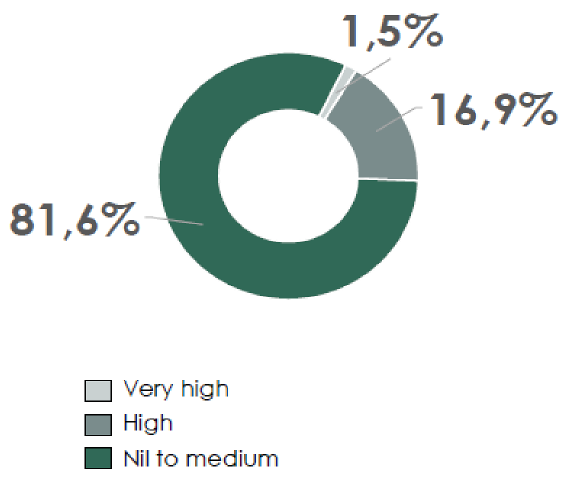
The outcomes of the monitoring of each type of risk, including the related ESG impacts, are periodically reported within both the respective vertical reporting and the Group's integrated reporting (Risk Appetite Monitoring - RAM).

Portfolio transparency

In continuity with previous years, analyses were conducted in 2023 to measure the exposure of the Bank's loan portfolio to climate-related risks in key economic sectors and geographic areas.

With reference to **transition risk**, the mapping of the loan portfolio as at 31 December 2023 shows a moderate exposure to this type of risk:

TRANSITION RISK – NON FINANCIAL COMPANIES
Banco BPM - € 61 billion Gross cash exposure –
Portfolio as 31/12/2023



Specifically, very high risk exposures account for 1.6%.

The "very high" risk bracket includes the sectors of hard coal mining and the manufacture of coal-fired blast furnace products, for which the 2021-2024 Strategic Plan envisaged a progressive run-off (objective also confirmed in the new 2023-2026 Strategic Plan). The "high" risk bracket, representing 18% of the portfolio, includes companies that will have to undertake major "green conversion", with potentially significant effects on financial stability.

When compared to the overall distribution of the Italian System, the distribution by level of exposure to the transition risk of Banco BPM's loan portfolio appears to be better.

ITALY
Distribution by transition risk

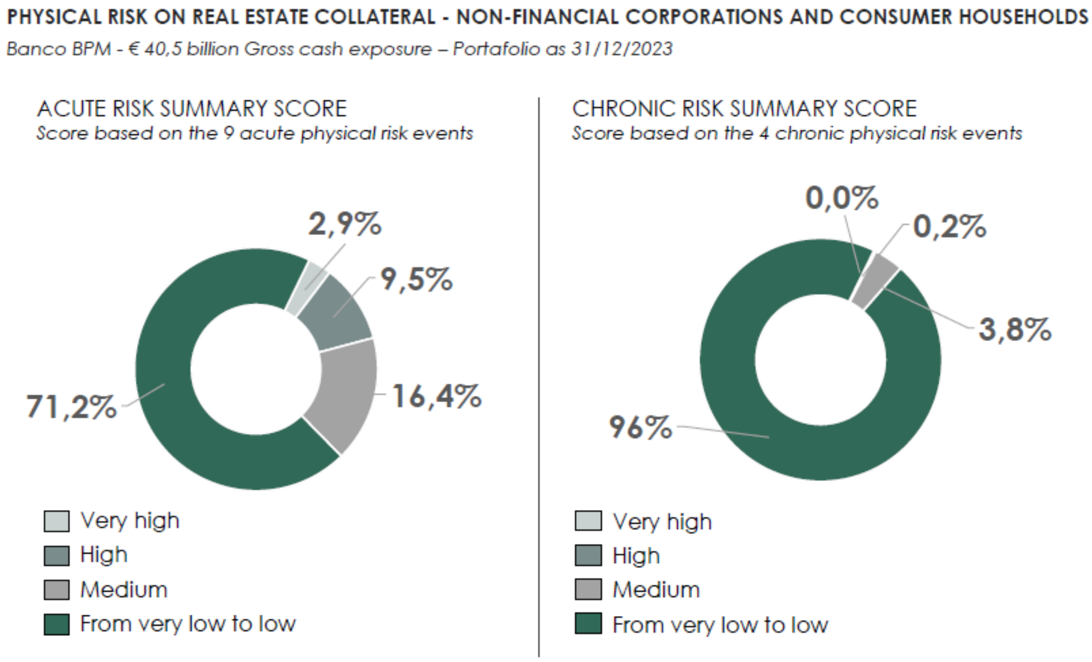
Very high	1,6%
High	17,5%
Nil to medium	80,9%

Source: info provider Cerved, which applied Banco BPM's methodology to the entire Italian system to make the comparison consistent and homogeneous.

For a detailed representation of the methodology and of the results relating to the analysis of transition risk, please refer to the Group's 2023 Consolidated Non-Financial Statement.

It should be noted, however, that during the year, a methodological refinement was introduced, resulting in a more prudential allocation of certain Ateco codes to specific risk brackets.

Even with reference to **physical risk**, the Group's credit portfolio shows a low exposure to this risk (both acute and chronic).



In general terms, the low exposure to physical risks is favoured by the geographic distribution of our loan portfolios, which are concentrated in the Northern Italian regions marked by an average exposure to physical risks which is lower than the average in Italy.

For a detailed representation of the methodology and of the results relating to the analysis of physical risk, please refer to the Group's 2023 Consolidated Non-Financial Statement.

The overall assessment methodology is, however, constantly evolving also in order to take into account the improved quality of the available information.

Financed emissions - Scope 3

As is known, for the purpose of calculating financed emissions it is necessary to have the absolute GHG data[36]. Where available, Banco BPM Group considered the information provided directly by the individual counterparties under analysis, described in specific public reports (such as Non-Financial Statements and Sustainability Reports).

[36] The carbon footprint (also called GHG or Greenhouse Gas inventory), is a measure that expresses in CO_2 equivalent the total greenhouse gas emissions associated directly or indirectly with a product, organisation or service.

In the cases where, on the other hand, the absolute emission figure is not communicated by the entrusted company, a specific estimation methodology is applied that includes the following steps:

1. Definition of GHG sectoral intensities, differentiated by the different types of emission (Scope 1, 2 and 3)[37] and NACE codes[38], calculated with the support of external info-providers;
2. Calculation of absolute emissions by multiplying the sectoral GHG intensities by the turnover of each counterparty.

For the calculation of financed GHG emissions, the Bank used the Partnership for Carbon Accounting Financials (PCAF) methodology, adopting the following analysis logic:

• for scope 1 and 2 emissions, all NACE sectors were considered;

• for scope 3 emissions, only counterparties operating in the business sectors defined in Delegated Regulation (EU) 2020/1818 - which in relation to such emissions envisages a gradual reporting approach - were selected.

During the year, the Group started the preparatory activities for the definition of the specific decarbonisation processes that the Bank intends to follow, with a particular focus on the priority sectors identified, taking into consideration the regulatory developments currently underway, also evaluating possible alternative methods (metrics and scenarios) to be adopted as part of the process of defining the Net Zero Banking Alliance targets.

Scenario analysis

Banco BPM Group already defines and uses adequate baseline and alternative macroeconomic scenarios as part of its capital (regulatory and operating) and liquidity adequacy assessments that allow the Bank to project/simulate the evolution of its economic and capital figures as well as of the related underlying risk measures.

With reference to ESG issues, particularly environmental and climate-related issues, the need to be able to conduct specific forward-looking assessments is becoming increasingly important in estimating the impacts of these factors not only over a short-term time horizon, but also, and above all, looking ahead to the medium and long terms.

In recent years, therefore, it has become necessary to integrate the effects of climate and environmental components into the forward-looking scenarios adopted for capital and liquidity projections in order to assess their impact on the Bank's overall business.

This area includes monitoring the impacts of climate change and environmental degradation on the business environment of the Banking Group, in the short, medium and long terms, with regard to specific macroeconomic variables and in reference to its particular competitive context.

[37] Scope 1: direct emissions generated by the company; Scope 2: indirect emissions generated by the energy purchased and consumed by the company; Scope 3: other indirect emissions generated by the company's value chain.
[38] The statistical classification of economic activities in the European Community or NACE code is a general classification system used to systematise and standardise the definitions of economic/industrial activities in the various EU Member States.

The monitoring described, therefore, has a dual purpose.

Firstly, to allow the Group to select, update and analyse the different climate scenarios available, with the aim of verifying their impacts on the reference context; to this end, the Bank makes use of the climate scenarios developed periodically at institutional level, in particular those produced by the NGFS, a group of Central Banks and Supervisory Authorities committed to sharing best market practices, and to contribute to the development of climate and environmental risk management in the financial sector, as well as to mobilise traditional finance to support the transition to a sustainable economy.

In addition, there are assessments of specific impact on the Bank of both transition and physical risks that affect the Group's overall business with direct impacts on the financial choices/needs of customers, as well as on the type and quality of services and products offered by the intermediary.

Over time, the NGFS has prepared a set of scenarios that incorporate the effects of climate change on the global economy and individual countries under different climate shock assumptions.

The new scenarios released by the NGFS in November 2023 (phase IV) were updated considering the latest available economic and climate data, new technologies, as well as the latest political objectives and the implications of the war in Ukraine on the energy market.

The NGFS proposes 4 climate scenarios: "Orderly", "Disorderly", "Hot house world" and "Too little - too late", developed over a time horizon up to the year 2100, and which differ according to the goal of the efforts made by national governments to counter the effects of global warming.

In the set recently presented by the NGFS, two new scenarios, “Low Demand” and “Fragmented world” were added, while “Divergent net Zero”, which was included in the previous version, was eliminated due to the reduced likelihood of achieving environmental targets as a result of an uncoordinated transition.

Further changes result from the improved modelling of physical risks with a more detailed definition of how the same, particularly the acute ones, might materialise.

The economic impact of the four scenarios is measured through the deviation of the cumulative GDP from a baseline assumption.

These deviations are assessed over three distinct time horizons: 2030, 2050 and 2100.

The assessments for Italy - on which the Banco BPM Group’s economic activity is focused - show, also in the November 2023 NGFS document, that the growth differential between the various climate scenario assumptions by 2030 is small.

Lastly, it should be noted that Banco BPM Group, although currently using the NGFS phase III scenarios, is also continuing to assess its own capital adequacy, also in light of the financial KPIs generated by the information contained in the new ESG scenarios, by adopting specific sector/territorial analyses, as well as by implementing increasingly advanced and accurate approaches.

EU Taxonomy Project

In order to comply with the regulatory requirements of EU Regulation 852/2020 and subsequent delegated acts, Banco BPM Group initiated a number of preparatory activities during 2023.

As part of the taxonomy project, the information and metrics used to assess the substantial contribution and do no significant harm criteria were identified.

The specific project allowed the Bank to identify the current information gaps and to start the subsequent refinement of credit processes.

The necessary actions were therefore defined to render the Group's offer "Taxonomy Aligned", both in terms of developing and marketing new “green” products - intended for the transition and decarbonisation process of companies according to more stringent criteria - and in terms of improving the granting processes, with regard in particular to specialised lending (e.g., loans for real estate projects and power generation from renewable sources).

IT Architecture & Data Governance

To allow proactive governance of ESG risk factors, it is necessary to have a suitable IT infrastructure in place to ensure that the Bank can collect, log and process all detailed information/data useful for developing and guaranteeing adequate and effective internal reporting.

The importance of environmental, social and governance (ESG) factors, in fact, is the subject of increasing attention by national/international institutions and, within the banking sector, there is a growing awareness of the need to integrate these analysis dimensions into strategies, processes and Market disclosures.

In particular, data availability is undoubtedly one of the main challenges that banks are facing to effectively measure and assess the exposure of their portfolios to ESG risks.

These data include:

- quantitative metrics (such as customer carbon emissions);
- qualitative information on their organisational structure and activities (i.e., the presence of teams focused on ESG risks and policies in place, plans to eliminate net greenhouse gas emissions, procurement practices);
- broader macroeconomic, social and environmental data (e.g., shared social-economic scenarios).

In this specific context, Banco BPM Group's IT function is proactively collaborating, on an ongoing basis, with the various business functions to identify gaps in the data and in the reporting tools in order to adapt the overall IT infrastructure to incorporate, collect and integrate the missing information.

As part of this, the IT function has equipped the bank with a centralised repository (DWH Risks) with the aim of collecting, processing and storing the new ESG information needs, enriching the existing databases.

Specifically, data are collected from both inside and outside the Group.

Data from internal sources are mainly acquired through:

- ESG questionnaires, submitted to the Bank's borrower customers to gather all the information useful for assessing the ESG objectives of the individual counterparties and, at the same time, enhancing the impact metrics relating to loans to the Third Sector.
- MiFID questionnaires for the purpose of alignment with the new Directive 2014/65/EU - MiFID II to gather knowledge about the financial world, economic situation and investment objectives.
- FFS platform for simulating forward-looking financial statements in order to include ESG assessments and to generate stressed scenarios (including climate) and to carry out sustainability-oriented evaluations.

The data from external sources are mostly obtained through suitable and qualified external providers in order to:

- gather granular information necessary for carrying out appropriate detailed analyses;
- have forward-looking climate scenarios to define and implement robust stress tests also aimed at projecting physical and transition risk scores over different time horizons.

In 2023, the IT function continued to support the Bank's various business functions by further enhancing the functionality of the Risks DWH (ESG scope), so as to ensure centralised management of ESG issues, consistent with the various internal reporting and Market disclosure requirements.

Specifically, the DWH implementations concentrated on developing enhancements that align with regulatory requirements and business demands. These enhancements aimed to include additional ESG risk events (physical risks) and proxies related to physical and transition risks. This was done to address data gaps and enhance data quality.

These implementations are also aimed at reviewing and integrating the questions in the ESG Questionnaires.

With specific regard to the Market disclosure (Pillar III), during the second half of the year, an in-depth gap analysis was carried out to identify the data set needed for the completion and publication of ESG templates 6, 7, 8 and 10.

More specifically, the European Taxonomy envisages that, starting from 1 January 2024 (on the reference date of 31/12/2023), credit institutions must communicate the value of their Green Asset Ratio - GAR) to the Market, namely the ratio between the Bank's assets that finance/are invested in economic activities aligned with the Taxonomy and total assets hedged.

This indicator must be provided by credit institutions both in terms of stock, and in terms of cash flow, taking into account new gross assets disbursed/invested (i.e., created in the current reporting period), without considering repayments and other reductions.

It should be noted in this regard that the process of producing ESG information and the related data management methodologies are being developed in the DWH Risks (ESG area).

In this context, and more generally, the information processed is necessarily subject to potential adjustments, also in relation to the methodological refinements gradually introduced.

Furthermore, the IT function collected the data requirements from the various applications to provide the ESG attributes used for different disclosure purposes required by the Regulator, by customers, and by the other Group stakeholders, as well as to integrate the ESG KPIs into the various analyses and frameworks of each function.

Like the IT architecture, the definition of an adequate data governance framework for ESG issues is an enabling factor in having reliable and correctly rebuildable information.

In 2023, the Data Governance framework was primarily implemented in response to changes in the data architecture and the increasing complexity of ESG-related information. This was a part of the ongoing effort to enhance Data Quality.

With reference to Data Management activities, new relevant data areas were identified, and the respective data owners were activated in order to ensure adequate monitoring of the different inputs within the scope of the Group's IT system.

During 2024, the overall framework will be further extended, and the data areas already examined will be updated.

With reference to data quality and accuracy, the control system was further strengthened by providing for the coverage of all ESG data areas.

In particular, with regard to physical risk and transition risk, the new first-level controls, in addition to those already activated in the first half of 2023, will be released into production in time for the acquisition of the data referring to December 2023 and, therefore, fully implemented in the first quarter of 2024.

Also in the first quarter of 2024, the design and development of additional controls regarding the ESG - Wealth Management Platform is envisaged.

The first checks relating to the consistency of the data of the ESG qualitative questionnaires were agreed with the Data Owner and carried out at the end of 2023.

The overall system for monitoring data quality was also extended and strengthened as regards the data provided by DWH ESG to third-party applications/processes.

The analysis of the requirements of new first-level controls will continue in 2024.

2. Qualitative information on social risks

2.1. Business strategy and processes

The Group’s ESG vision is defined in the 2023-2026 Strategic Plan, approved by the Board of Directors of Banco BPM and presented to the Market in December 2023.

This document completes and expands the Bank's goal in all areas of sustainability, committing it to full integration of ESG criteria in its Governance and business models.

In fact, the new Plan is based on the Group's desire to meet the specific needs of customers and the local community, at the same time pursuing sustainable growth and the creation of value for all stakeholders.

With reference to the social component, Banco BPM intends to continue with its efforts to strengthen the Group's "People Strategy" based, specifically, on three key pillars: generational turnover, female empowerment and focus on the work-life balance.

To demonstrate its strong commitment to spreading a corporate culture based on diversity and inclusion, the new Strategic Plan envisages, in particular, increasing - by the end of 2026 - the share of female colleagues in managerial positions compared to the reporting date (December 2023) by at least 20%.

The Group also intends to invest in a progressive generational turnover of its workforce, to be implemented through the recruitment of young talents with strong IT-tech skills.

Over the course of the plan (2024-2026), Banco BPM plans to hire at least 800 new resources under 30.[39]

The Group is also aware of how training represents a central enabling factor for the growth of human capital, also in order to effectively face future business challenges, and at the same time fully integrate ESG factors.

The Bank's primary objective is to create a new structure dedicated to training, in order to support/implement the new standards envisaged for the development and acquisition of skills, which will enable it to both generate value in professional growth paths and to implement suitable reskilling initiatives.

Specifically, a special "Academy" will be established, which will provide around 140,000 training days per year and - in particular - by 2026, around 200,000 hours dedicated to ESG issues.

Lastly, the 2023-2026 Strategic Plan focuses on flexible work, oriented towards the tangible pursuit of objectives, and aimed at guaranteeing the development of "smart working" as a way to actually improve the work-life balance, as well as a useful tool to attract/retain talents.

40% of the working hours of head office employees will be carried out in smart mode. Smart working will also be guaranteed for network sales staff.

The Group also intends to confirm its commitment to the Community. In the coming years, Banco BPM will further strengthen its role as lender to "Third Sector" entities/institutions.

In fact, the objective is to disburse at least 200 million euro in new loans to this sector in 2026.

The new Strategic Plan also confirms the Group's willingness to operate as a "Top Community Bank" for the benefit and in support of the community.

In particular, the Bank is committed to ensuring the pursuit of the following objectives: i) disbursement of adequate contributions to fund environmental and social projects (5 million euro per year over the plan period); ii) implementation of specific company volunteering

[39] Of which around 200 IT-Tech Specialists

projects (more than 2,000 average hours per year guaranteed over the course of the plan); iii) definition of specific financial education and ESF awareness initiatives (expected to be more than 4,000 average hours per year).

In addition, note that some business targets described in section "*1. Qualitative information on environmental risks*" cover all areas of sustainability, including Social.

Specifically, reference is made to the objectives of the new Strategic Plan relating to the placement of green, social and sustainable bonds, as well as the share of ESG bonds that the Group intends to maintain in its owned portfolios (banking and trading books).

As already illustrated, the pursuit of the objectives defined in the 2023-2026 Strategic Plan will undergo adequate monitoring, carried out continuously on a quarterly basis for the Management Committee and the Board of Directors, accompanied - where necessary - by the formulation and proposal of suitable "mitigation actions" (e.g. initiatives and processes aimed at recovering any gaps/delays that may arise).

With reference to the previous 2021-2024 Strategic Plan, the following table summarises the main targets aimed at achieving a positive social impact and the relative level reached at the end of 2023.

		2024	Status 31.12.2023
PEOPLE	Share of women in managerial positions	> 30%	29.7%
	Training hours for employees on ESG issues (cumulative)	400,000	443,750 (of which 164,205 in 2023)
	Share of new hires young people aged 20-30 (since Jan. 21)	> 90%	96.5%
COMMUNITY	Donations and sponsorships for social and environmental projects	€10 mln	€14,1 mln (of which €5.8 mln in 2023)
	Hours of corporate community services, ESG awareness and financial education	> 10,000	33,592 (of which 9,402 in 2023)
	New lending to third sector	> €700 mln	€525mln (of which €169 mln in 2023)

Furthermore, it is important to remember that, in December 2021, Banco BPM formally joined the United Nations' voluntary "Global Compact" initiative aimed at promoting a sustainable global economy, also declaring its specific commitment to implement, disseminate and promote within the scope of its activities, the ten universal principles relating to Human Rights, Labour, the Environment and the Fight against Corruption.

As already mentioned, - with specific reference to issues relating to social risks - Banco BPM Group pays great attention to listening to the various stakeholders, particularly when defining its strategic decisions, as well as in the daily performance of its operating activities.

In fact, the Bank conducts its business in compliance with the law, guaranteeing the protection of occupational health and safety and combating any form of social discrimination.[40]

The Group’s internal regulations convey the principles expressed in the Code of Ethics.

In particular, during the year, the Policy on Respect for and Protection of Human Rights was drawn up, a document that places particular emphasis on respect for human dignity, inclusiveness, fairness and valuing diversity, combating all forms of discrimination and harassment, as well as protecting personal data.

Banco BPM also updated its internal operations in relation to the specific Defence sector, strengthening the authorisation process with a view to sustainability.

In fact, adequate controls have been introduced to assess the potential ESG impacts of the individual operations subject to approval.

It is envisaged that the Board of Directors authorise these credit granting operations, subject to the non-binding opinion of the ESG Committee.[41]

In addition, the Management Body defines the list of countries - in particular non-NATO and non-EU countries - with which it is possible to operate.

In order to achieve the ambitious goals of the Strategic Plan (in the social sphere), the Bank considers the relationship based on constructive dialogue with the Group's main stakeholders, in particular its **customers**, to be a priority.

This relationship is conducted, on an ongoing basis, through specific surveys to detect the degree of overall satisfaction with the Group and to collect useful feedback on the services/products offered, as well as on any new methods for their use.

The surveys described involve all customer segments of Banco BPM, both corporate and private, with the aim of understanding and addressing the specific and different financial needs.

With specific reference to borrower companies, one of the main points emerging from the analyses is the need for the Group to define and develop suitable approaches to ESG issues, differentiated according to the different business size of the counterparties supported.

In this context, the "ESG Factory" project is worth mentioning, which transforms the Bank into a meeting and training place for companies, thanks also to the contribution and support of qualified partners.

The initiative aims to explore all issues related to sustainability and assess the potential paths that companies could take with regard to this specific context, providing them with adequate information to cope with change.

[40] Respecting and valuing differences in terms of gender, age, ethnicity, nationality, religion, language, different abilities, sexual orientation and identity, political and trade union membership.

[41] The ESG Committee has the right to resolve autonomously on operations that do not envisage any use of credit lines.

Aware of the central role attributed to intermediaries in guiding the transition of customer companies, Banco BPM Group is actively committed to progressively integrating ESG factors into its credit policies, as well as developing and proposing specific lending solutions.

In particular, as already highlighted in the previous section on climate and environmental risks, within the overall framework of Credit Policies, the use of the ESG questionnaire is of great importance as a tool useful for assessing/guiding customers. Through this tool, the Group is able to collect and analyse important data and information necessary for the correct and accurate profiling of financed counterparties, also with regard to their responsibility/reputation in the social and governance spheres.

With reference to the "fatal" questions of a social nature included with the 2023 credit policies, these are aimed at intercepting/verifying possible situations of litigation and/or pending cases on the part of the individual counterparties examined.

These questions also focus on issues relating to employee health and safety, respect for human rights, as well as the adequacy and protection of company data and information systems.

With regard to the specific lending solutions, Banco BPM is able to offer a wide range of products and services able to meet the different needs of its customers.

By way of example, note the "Unsecured loan with sustainability objectives", which guarantees the borrower the option of adding a specific "ESG clause" in order to link the actual cost of the disbursement to the achievement and/or maintenance of certain sustainability objectives.

During 2023, in order to respond to the increasingly challenging and complex needs of the market, the Bank expanded the list of social ESG KPIs, extending them to issues such as gender equality and antitrust policies.

In order to guarantee widespread cost-effective development and combat potential situations of difficulty, Banco BPM Group offers adequate social tools and facilities, with a view to permitting its customers access to credit and to have suitable financial resources able to support specific projects and/or overcome difficult situations.

With regard to young people, the following initiatives are of note:

i) "*Mutuo You Giovani Green*" [Green Mortgage Loan for Young People] for those under 36 for the purchase of their first home. The product offers the possibility of obtaining up to 100% of the value of the property and envisages subsidised rates, elimination of preliminary processing costs and instalment payment costs;
ii) ii) "*Student Loan*", which allows deserving individuals between 18 and 40 years of age, without sufficient financial means, to undertake a course of study or complete their training, thanks to the economic support represented by a loan guaranteed by the State.

In support of women and equal opportunities, Banco BPM also adheres to the protocol that the Italian Banking Association (ABI) and the sectoral Trade Unions signed in 2019.

Under this protocol, the Bank agrees to suspend payment of the principal of mortgages and loans, with corresponding extension of the repayment plan for a maximum period of 18 months, for women who are victims of violence and included in protection programmes, and who are in situations of economic difficulty.

In November 2023, this protocol was extended until 2025.

Over the last year, the Group has also confirmed its commitment to supporting families and businesses damaged by natural disasters.

Banco BPM has suspended the payment of mortgage and loan instalments for people living in areas affected by earthquakes. Through the use of funds specifically earmarked by the State, specific funding was also provided for the reconstruction of damaged buildings/assets or for the payment of taxes.

In addition, Banco BPM has collaborated for several years with the main anti-usury foundations, established for the purpose of combating this specific criminal phenomenon and acting on behalf of parties in economic difficulty, with assistance and provision of guarantees with banks.

These foundations guarantee coverage of up to 100% of the amount of loans granted to people who are victims of these difficult social situations. The specific disbursements are intended to counteract the possible use of illegal credit channels by parties in difficulty.

Banco BPM also considers the relationship with its **employees** to be fundamental, as one of the elements of its business strategy.

Suitable programmes for professional development were therefore launched, with a view to empowering young people and key employees, who stood out for their characteristics, commitment and aspirations for growth.

These programmes are designed to guide individuals on a journey of initiatives and experiences which, at the same time, develop their skills and grow their talents.

The main development programmes involved:

- young people to hire them, involve them and enable them to grow professionally in their first years of experience in the company, also strengthening their soft skills;
- talents, placed in professional and commercial roles, to accompany them on a path to strengthen their skills in view of the recruitment of future managerial positions;
- women, to strengthen their self-confidence by working on personal effectiveness, on the power of influence and on individual affirmation;
- second or and third level managers, with the aim of strengthening the management team by consolidating their leadership style and training them in the skills required when taking on management roles.

As part of our People Strategy, training is an essential tool to accompany and support people in their professional and managerial growth through paths consistent with the changing context, to foster knowledge, continuous learning and build advanced professional skills, including digital ones.

Specifically, the bank continued to focus on ESG training, striving to foster a strong internal culture in these areas and boost awareness and competence in sustainability issues.

In line with the provisions of the Code of Ethics, the Occupational Health and Safety Guidelines and international standards on which they are based, the protection of people's health and safety, and well-being in the workplace are values that guide the Group's choices.

During the year, the Bank also published the “Guidelines on the respect and protection of human rights”.

Banco BPM's commitment to the **Communities** where it operates is evident in its direct support for local social initiatives. This support includes providing specific charitable contributions approved by the Charity Committee and signing sponsorships, with a special emphasis on enhancing school facilities and investing in educational activities. These efforts aim to promote ESG culture, including financial education, ESG awareness, and gender equality in STEM education.

These initiatives involve the Bank's partners, suppliers and customers.

Commitment to their Communities is also evident through the activities carried out by:

- Local Committees, which regularly assess local needs and actively contribute to ESG materiality analyses;

- the seven Foundations envisaged in the Articles of Association, located in the areas in which we historically operate, to respond to social and environmental needs in a comprehensive manner;

Banco BPM recognises the vital role that the **Third Sector** plays in fostering sustainable, united and resilient communities. To this end, the bank consistently backs the efforts and projects of organisations working in this sector by offering tailored products and support services (during 2023, the total loans provided to these customers amounted to 169 million euro).

Banco BPM also pays great attention to the **supplier** selection process and relations with them.

In the value chain, suppliers are selected from a specific register that includes all parties interested in partnering with the Group. This tool makes it possible to develop constant dialogue between the parties, helping to create a direct and structured relationship.

Almost all suppliers are based in Italy. This choice enables, on one hand, value to be returned to the regions, and on the other, to minimise the geopolitical risks arising from a delocalisation of the supply chain.

Verification of the documentation collected at the qualification stage and a series of controls distributed over time allow the Group to mitigate or preserve itself from possible economic, reputational and legal risks related to the supply chain.

The bank does not have any relationship with persons involved in illegal activities or who, directly or indirectly, violate human rights - whose protection is a value expressed in the Group Code of Ethics.

In 2023, the Supplier Register was enriched with a sustainability section, essential in the qualification process.

In fact, suppliers are periodically asked to fill in specific questionnaires, both during the initial registration and ongoing thereafter. From the information collected, in addition to actually checking the goods and services provided, the Bank is able to assess the individual counterparties in detail.

This allows the Group to evaluate its suppliers also from a sustainability perspective and to assign them an internal ethical rating useful for certifying the social responsibility profile of the party examined.

In particular, thanks to the cooperation with the ABC Consortium (mainly consisting of banks and insurance companies and focused on the provision of services for purchasing functions), a questionnaire was implemented, calibrated to the EU classification of the company (micro/small/medium/large) and developed based on the UNI ISO 26000:2010 guidelines for the Social Responsibility of organisations.

The questionnaire envisages, in particular, 59 questions referring to different thematic areas[42], each of which is assigned a specific weight of relevance.

The overall rating assigned to individual suppliers is represented by a quantitative score - ESG Rating - attributed to increasing classes of coverage of the best practices identified: ESG0, ESG+, ESG++ and ESG+++.

As further confirmation of the extent to which social sustainability issues are integrated into the Group's corporate strategies, note that in November 2023, the Bank successfully concluded the issue of a new Senior Preferred Social Bond for a counter value of 500 million euro.

The bond financed a portfolio of loans granted to SMEs located in provinces with per capita GDP below the national average and/or in areas affected by natural disasters, as well as a portfolio of loans granted to SMEs with a State Guarantee to help borrowers cope with the emergency due to the global Covid-19 pandemic.

This placement represented the first issue of bonds as part of the new Green, Social & Sustainability Bonds Framework recently published by the Group.

The categories of assets that can be financed with the proceeds collected through the issue of social bonds, according to the eligibility criteria of the new Framework, are as follows:

- Support for SMEs located in disadvantaged areas or initiatives to reduce social or gender inequalities or to combat the Covid-19 pandemic
- Third Sector
- Health
- Loans to SMEs related to sustainability
- Residential mortgages granted to disadvantaged people.

[42] The areas considered are: corporate governance; environment; good management practices; labour relations and conditions; human rights; community involvement and development; aspects related to consumers.

Based on the data updated as at 31 December 2023, the eligible portfolio, under the Framework, was approximately 14.2 billion euro, of which approximately 9.3 billion euro relating to "eligible social loans".

It should also be noted that, already in 2021, the Bank had carried out a first issue of Social Bonds (for a total amount of 500 million euro) aimed at financing small/medium-sized enterprises affected by the pandemic crisis.

With specific reference to the portfolio owned by the Group, at the end of the current year, the ESG Bonds included in the scope were 1,512 million euro, of which 205.9 million euro represented by Social Bonds.

2.2. Governance

With regard to the roles and responsibilities of the Board of Directors and the relevant internal board bodies in making decisions concerning the management and mitigation of social risks and in the approval of public disclosure documents and Internal Regulations, please refer to the paragraph "Specific expertise of the Corporate Bodies" in the qualitative section introducing risks.

With particular reference to Banco BPM's Code of Ethics, which has recently been updated, it should be noted that this document has been enhanced with multiple clear references to sustainability. It provides a detailed outline of the values that guide the Group in the areas of human rights protection, climate change mitigation, anti-corruption efforts, fairness and transparency.

Given the central role Banco BPM attributes to the report, the document is structured by describing the individual values in relation to each specific stakeholder relevant to the Group.

Furthermore, the Board of Directors - within the framework of its spending and social responsibility policies, and subject to resolution by the Shareholders' Meeting - allocates a portion of the year's profit to the Group's Territorial Offices and Foundations for charitable initiatives aimed at supporting the needs of the reference communities.

To this end, it approves the directives and guidelines on spending and social responsibility policies pursuant to Article 5.4. of the Articles of Association, receiving periodic reports on the activities carried out.

The ongoing engagement with Banco BPM's individual stakeholders, as well as the alignment of interests and objectives, enables the identification of fresh opportunities to refine its business model.

In this context, at the end of 2021, the Group approved the "Regulation governing the management of dialogue with shareholders" aimed at ensuring constructive dialogue, on an ongoing basis, with major institutional investors and other players in the Financial Community.

In this regard, also considering the size and organisational complexity of the Group, Banco BPM decided to assign to separate structures, specialised and equipped with adequate resources and professionalism, relations (i) with institutional investors and relations with financial analysts/rating companies; (ii) with retail shareholders.

During the year, Banco BPM also adopted specific guidelines regarding the respect and protection of human rights. This document is valid for all Group companies. It is inspired by the main international treaties and addresses the relevant issues, with a specific focus on the areas of greatest materiality for the Group: anti-discrimination, diversity and inclusion, health and safety.

It should also be noted that Banco BPM is particularly attentive to the social principles of Diversity and Inclusion. To this end, adequate management incentive systems have been defined, which include a selected number of KPIs relating to these specific areas of assessment.

It should also be noted that Banco BPM's Remuneration Committee has promoted and endorsed the adoption of (i) appropriate measures in the area of diversity and aimed at increasing the number of female managerial positions, as well as (ii) concrete actions to progressively close the gender pay gap.
The Remuneration Committee, in agreement with the Group's other internal committees, also pointed out the need to consider, among the sustainability objectives, the promotion of social initiatives, corporate volunteering and the development of ESG awareness and culture among customers.
For further information on the Group's remuneration policies, please refer to what has already been described in section "1. Qualitative information on environmental risks".

2.3. Risk Management

The increasing availability/quality of the information gathered from the questionnaire submitted as part of the overall Credit Policy framework described above will allow the Group to strengthen the strategies implemented by the Bank with regard to the specific management of these risk factors, enabling it to direct adequate initiatives aimed at proactively managing the impacts of these special components on its business model, processes and internally adopted corporate policies.

In addition, the Bank pays great attention to those "controversial" sectors that, despite dealing with operations that are lawful in terms of regulations, may present critical social and environmental issues.

Specifically, the Group conducts thorough assessments, with the aid of suitable organisational controls, when evaluating prospective financing for counterparties involved in the materials and weapons systems sector.

Banco BPM is also committed to strengthening its overall Risk Appetite framework and the underlying risk estimation methods currently in use in order to include, in its forward-looking capital adequacy assessments, also the potential incidence of social risks relating to the individual borrower counterparties.

The Group defines social risk (as a specific type) as the potential risk of financial losses that the Institution may incur as a result of the current and/or prospective negative impact of social factors relating to the entrusted counterparties or the assets in which Banco BPM has invested.

For all the details on the process of identifying relevant risks and the Risk Appetite Framework, also with reference to social risks, please refer to the relevant paragraphs included in section "1. Qualitative information on environmental risks".

3. Qualitative information on governance risks

3.1. Governance

With reference to the roles and responsibilities of the Board of Directors and the Committees in making decisions relating to the management and mitigation of governance risks, please refer to the paragraph "Specific expertise of the Corporate Bodies" in the qualitative section introducing ESG risks.

In addition, it should be noted that Banco BPM's Articles of Association set out clear rules to ensure that the gender quota in the composition of the board is respected, as provided for by the relevant legislation in force.

They also expressly require that the Board of Directors be responsible for the strategic supervision and management of the company, to be conducted also with a view to "sustainable success", understood as the creation of long-term value to the benefit of shareholders, at the same time considering the interests relevant to the company.

As already mentioned, the Board of Directors defines, among other things, the guidance and coordination policies on public disclosure, social and environmental policies, and approves the disclosures to the market (Pillar III Disclosure of entities to the public and the Consolidated Non-Financial Statement - CNFS).

The Board of Directors is also responsible for approving the Regulations (including Policies with specific ESG content) and the Code of Ethics.

The Chief Executive Officer is, however, responsible for approving the Guidelines, including those relating to sustainability issues (such as the "Guidelines regarding the management of environmental and energy issues and the fight against climate change", "Guidelines on the integration of sustainability risks in the provision of investment services", etc.).

The Board of Directors also draws up the Group's remuneration and incentive policies. Also at the specific stimulus of the Remuneration Committee, these policies increasingly include ESG performance objectives.

The Board is expressly required to review them at least annually and, at the same time, is responsible for their adequate and correct implementation.

They are subject to the approval of the Shareholders' Meeting.

The Parent Company's Board of Directors also has the key role of controlling risks, including those related to governance, arising from the Group's activities.

This body also establishes strategic guidelines, approves risk management policies, assesses the degree of efficiency and adequacy of the internal control system and guarantees a suitable level of internal communication and discussion.

Moreover, it approves the Group's comprehensive Risk Appetite Framework, which has seen a substantial expansion of the ESG-related indicators across various risk categories and on three different hierarchical levels (strategic, management and Early Warning) over the past two financial years.

These indicators are monitored quarterly by the Board of Directors and on a monthly basis by the Internal Control and Risk Committee as part of the periodic review of the Risk Appetite Framework Monitoring.

Lastly, note that, in line with the objectives defined by the Group in the Strategic Plan, the Board of Directors of Banco BPM, with the active contribution of its internal board Committees, introduced:

(i) credit policies that integrate ESG assessment and promote companies that have invested or will invest in sustainability projects (also in terms of adequate governance);

(ii) internal measures and processes to promote sustainable investment products and services;

(iii) remuneration policies in which the integration of ESG objectives into the incentive plans has been increasingly expanded and strengthened, enhancing the contribution of management to achievement of the sustainability objectives.

For the purpose of specifically preventing and combating corruption and money laundering, Banco BPM Group is aware of its important responsibilities as a systemically important institution in the Italian financial sector.

Indeed, it acts with determination in countering and combating these illegal phenomena, which damage the economic development of communities and violate people's human rights, limiting the growth of the entire social and productive fabric.

To this end, other than strict compliance with regulations currently in force, in the exercise of its specific activities, it complies with strict rules of conduct, such as the definition of regulations on anti-corruption (both active and passive) and extension of the application of anti-money laundering regulations not only to all Group companies but also to individual relations with counterparties not directly subject to the obligations envisaged in Italian Legislative Decree 231/07.

In order to support the integration and dissemination of ESG issues in the Group's processes, in addition to the governance structures at board and management level, the figure of ESG Ambassador was established.

These particular individuals were chosen from the operational staff of all the key corporate functions and received training on ESG matters. Their contributions are intended to help incorporate sustainability considerations within their respective organisational departments, with a focus on relevance for each specific area.

As at 31 December 2023, 98 resources were already appointed and active. As a target of the 2021-2024 Plan, Banco BPM envisages to increase this number to 100 by the end of the next financial year (2024).

3.2. Risk Management

The Group defines governance risk (as a specific type) as the potential risk of financial losses that Banco BPM may incur as a result of the current and/or prospective negative impact of governance factors relating to the entrusted counterparties or the assets in which the Bank has invested.

- *Entrusted counterparties*

As already mentioned, within the overall framework of the Credit Policies, development of the ESG questionnaire makes it possible to gather more information on borrower counterparties, also useful for assessing the overall adequacy of the governance they have defined and implemented.

In particular, the inclusion of additional "fatal" questions guarantees detection by the Group of any dispute situations and/or pending legal actions with reference to the areas of anti-corruption and anti-money laundering activities.

Also in this specific case, the increasing availability of the information collected will allow Banco BPM to strengthen the strategies put in place with regard to the specific management of risk factors relating to the governance of borrower customers.

These developments will also impact the overall risk estimation methodologies adopted by the Group in order to allow inclusion - in their measurements - of the potential impacts deriving from these specific factors.

- *Property portfolio*

Lastly, note that the Bank also duly takes ESG logic into account in its investment decisions. In the Alternative Investments and Funds segment, these approaches are fully integrated in the process of selecting the funds in which the Bank directly invests its financial resources.

In particular, the due diligence phase of the products requires a careful analysis of the relative management companies.

This phase allows Banco BPM to verify the governance of the counterparty examined, its strategies, specific track record and the regulation for each individual fund assessed.

The main ESG areas subject to verification and monitoring are: adherence to UNPRI/SDG principles and/or other organisations, the adoption by the company of an ESG policy, the appointment of an ESG officer, the preparation of a periodic report for shareholders, and the verification of ESG analyses in the shareholding acquisition memoranda.

As of 2022, Banco BPM Group also invests in funds classified under Article 8 (19 funds) and Article 9 (2 funds) according to SFDR principles.

For further information on the process of identifying relevant risks and the Risk Appetite Framework also in relation to governance risks, please refer to the relevant paragraphs included in section 1- "Qualitative information on environmental risks".

ESG - Quantitative part

It should be noted at the outset that the detailed information contained in the tables illustrated below does not represent information available within the Group's accounting system. The data mentioned above were processed using management information gathered from both internal and external sources associated with the accounting values. This was conducted with the assistance of a dedicated centralised repository (Risks DWH).

Therefore, the detailed ESG information contained in the tables must be understood as managerial in nature.

Table 1 – "*Indicators of potential transition risk related to climate change: credit quality of exposures by emission sector and residual maturity*" - requires institutions to publish the breakdown of the gross book value of exposures to non-financial companies, including loans and advances, debt securities and equity instruments, classified in the accounting portfolios of the banking book, excluding financial assets held for trading or available for sale.

The exposures are reported by specific sector of economic activity, using the NACE codes, on the basis of the core business of the counterparty. The objective of the template is to provide details of the Group's overall portfolio with regard to companies operating in carbon-intensive sectors[43].

The table also requires the inclusion of additional information regarding the quality of these exposures, including the status of non-performing exposures, any classification at stage 2, the related value adjustments, as well as the maturity categories and the weighted average maturity. The lines of the template relate to the classification by regulatory NACE code of non-financial companies included in the scope.

In column b), the regulations specifically require indication of the gross book value relating to exposures to all counterparties excluded from the EU benchmarks aligned with the Paris Agreement. The business sectors in which these companies operate were identified on the basis of the provisions of article 12, paragraphs 1 and 2, points d) to g) of Regulation (EU) 2020/1818.

The methodology adopted by Banco BPM to complete this column was based on identification of the total amount of exposures relating to counterparties associated with the NACE/ATECO[44] codes, which make it possible to identify companies to be excluded as they are not aligned with the Paris Agreement.

However, companies that are "Green" according to the internal classification defined by the Group were not included in this scope.

[43] In line with Commission Delegated Regulation (EU) 2020/1818, which supplements Regulation (EU) 2016/11 as regards the minimum standards for the EU climate transition benchmarks and for the EU benchmarks aligned with the Paris Agreement - the "Climate Benchmark Standards Regulation - Recital 6": sectors listed in sections A to H and section L of Annex I, Regulation (EC) 1893/2006.

[44] The list of ATECO codes considered was further extended following refinement of the methodology adopted.

Column c) shows the amount relating to the exposures of non-financial companies that are aligned with the taxonomy, with specific reference to the mitigation objective (CCM).

In addition, note that columns i, j and k, relating to the financed emissions of borrower counterparties (scopes 1, 2, 3), are not present in the model as this information will be published, as the first reporting date, in the disclosure as at 30 June 2024.

Table 1: Banking book - Transition risk related to climate change: credit quality of exposures by sector, emissions and residual duration (1 of 2)

		a	B	C	d	e	f	g	h	I	m	n	o	p
	Sectors/Sub-sectors	Gross book value (EUR millions)					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions (thousand euro)			≤ 5 years	> 5 years ≤ 10 years	> 10 years ≤ 20 years	> 20 years	Weighted average duration
			Of which exposures to companies excluded from the EU Benchmarks aligned with the Paris Agreement [45]	Of which environmentally sustainable (CCM)	Of which stage 2 exposures	Of which non-performing exposures		Of which stage 2 exposures	Of which non-performing exposures					
1	**Exposures to sectors that highly contribute to climate change**	**49,274**	**1,685**	**289**	**7,599**	**2,785**	**(1,657)**	**(177)**	**(1,428)**	**27,633**	**8,864**	**3,257**	**9,519**	**3.86**
2	A - Agriculture, forestry and fishing	1,689	-	-	348	71	(46)	(13)	(31)	634	427	385	242	6.85
3	B - Mining and quarrying	234	126	-	13	6	(5)	(1)	(4)	178	29	2	25	2.07
4	*B.05 - Coal mining (excluding lignite)*	0	0	-	-	-	(0)	-	-	0	-	-	-	4.26
5	*B.06 - Extraction of crude petroleum and natural gas*	115	112	-	-	-	(0)	-	-	112	3	-	-	0.83
6	*B.07 - Mining of metal ores*	0	-	-	-	-	(0)	-	-	0	-	-	0	0.82
7	*B.08 - Other mining and quarrying*	104	-	-	12	5	(5)	(1)	(4)	57	23	2	22	3.27
8	*B.09 - Mining support service activities*	15	14	-	1	1	(1)	(0)	(0)	9	4	-	3	3.18
9	C - Manufacturing	20,798	489	124	2,718	815	(456)	(31)	(410)	13,534	2,672	316	4,276	2.92
10	*C.10 - Manufacture of food products*	2,722	-	-	397	58	(40)	(4)	(32)	1,596	442	47	636	2.96
11	*C.11 - Manufacture of beverages*	515	-	-	30	4	(3)	(0)	(2)	330	101	28	57	3.64
12	*C.12 - Manufacture of tobacco products*	16	-	-	-	-	(0)	-	-	2	11	-	3	4.90
13	*C.13 - Manufacture of textiles*	584	-	-	38	43	(27)	(0)	(26)	337	81	2	164	2.67
14	*C.14 - Manufacture of wearing apparel; manufacture of leather and fur articles*	638	-	-	121	37	(22)	(1)	(20)	421	78	2	137	2.69
15	*C.15 - Manufacture of leather and related products*	571	-	0	53	49	(29)	(1)	(28)	354	96	8	114	2.84
16	*C.16 - Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials*	365	-	-	28	16	(11)	(1)	(10)	177	86	17	85	3.54
17	*C.17 - Manufacture of paper and paper products*	578	-	-	64	8	(5)	(1)	(4)	335	99	19	125	3.14
18	*C.18 - Printing and reproduction of recorded media*	191	-	-	28	12	(7)	(1)	(7)	109	27	3	53	2.71
19	*C.19 - Manufacture of coke and refined petroleum products*	339	339	0	213	3	(1)	(1)	(1)	304	1	0	35	2.96
20	*C.20 - Manufacture of chemicals and chemical products*	1,331	149	13	171	29	(18)	(2)	(15)	936	183	11	202	3.00
21	*C.21 - Manufacture of basic pharmaceutical products and pharmaceutical preparations*	677	-	-	140	5	(3)	(1)	(1)	592	38	12	36	2.97
22	*C.22 - Manufacture of rubber and plastic products*	1,160	-	0	227	23	(15)	(3)	(10)	760	127	11	262	2.84
23	*C.23 - Manufacture of other non-metallic mineral products*	887	-	0	75	50	(29)	(1)	(28)	593	124	9	161	3.45
24	*C.24 - Manufacture of basic metals*	1,371	-	26	102	28	(9)	(1)	(8)	936	141	19	275	2.91
25	*C.25 - Manufacture of fabricated metal products, except machinery and equipment*	2,904	-	0	390	223	(99)	(5)	(92)	1,665	413	67	759	2.91
26	*C.26 - Manufacture of computer, electronic and optical products; electromedical instruments, appliances for measuring, watches and clocks*	609	-	8	88	16	(9)	(1)	(8)	400	63	4	141	2.77
27	*C.27 - Manufacture of electrical equipment and non-electrical household appliances*	741	-	2	138	12	(8)	(2)	(6)	484	129	8	120	3.27

[45] Pursuant to Article 12.1, letters d) to g), and in accordance with Article 12.2 of the Climate Benchmark Standards Regulation.

Table 1: Banking book - Transition risk related to climate change: credit quality of exposures by sector, emissions and residual duration (2 of 2)

	Sectors/Sub-sectors	a	b	c	D	e	f	g	h	l	m	n	o	p
		Gross book value (EUR millions)					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions (thousand euro)			≤ 5 years	> 5 years ≤ 10 years	> 10 years ≤ 20 years	> 20 years	Weighted average duration
			Of which exposures to companies excluded from the EU Benchmarks aligned with the Paris Agreement [46]	Of which environmentally sustainable (CCM)	Of which stage 2 exposures	Of which non-performing exposures		Of which stage 2 exposures	Of which non-performing exposures					
28	*C.28 - Manufacture of machinery and equipment n.e.c.*	2,365	-	37	202	129	(73)	(2)	(69)	1,619	213	31	501	2.68
29	*C.29 - Manufacture of motor vehicles, trailers and semi-trailers*	457	-	-	54	20	(13)	(1)	(12)	308	72	3	74	3.09
30	*C.30 - Manufacture of other transport equipment*	564	-	18	16	14	(12)	(0)	(11)	449	31	1	83	2.44
31	*C.31 - Manufacture of furniture*	356	-	-	28	23	(12)	(0)	(11)	214	46	6	90	2.66
32	*C.32 - Other manufacturing*	355	-	-	33	9	(6)	(1)	(5)	245	33	2	76	2.58
33	*C.33 - Repair, maintenance and installation of machinery and equipment*	501	-	19	82	6	(5)	(1)	(4)	368	39	5	89	2.55
34	D - Electricity, gas, steam and air conditioning supply	1,652	633	78	177	28	(24)	(5)	(15)	940	434	81	198	3.76
35	*D.35.1 - Electric power generation, transmission and distribution*	1,145	240	78	138	23	(20)	(4)	(12)	539	364	81	162	4.36
36	*D.35.11 - Production of electricity*	579	240	-	132	10	(11)	(4)	(5)	221	284	70	4	6.18
37	*D.35.2 - Manufacture of gas; distribution of gaseous fuels through mains*	484	393	-	29	5	(4)	(1)	(3)	390	59	0	35	2.31
38	*D.35.3 - Steam and air conditioning supply*	23	-	-	11	0	(0)	(0)	(0)	11	12	-	0	4.29
39	E - Water supply; sewerage, waste management and remediation activities	776	-	3	104	12	(10)	(2)	(7)	307	295	89	85	5.27
40	F - Construction	5,316	-	54	1,118	404	(300)	(40)	(252)	2,638	1,050	515	1,114	5.31
41	*F.41 - Construction of buildings*	3,430	-	-	892	283	(219)	(36)	(178)	1,534	793	451	652	6.44
42	*F.42 - Civil engineering*	707	-	54	94	39	(28)	(1)	(25)	424	83	39	161	3.36
43	*F.43 - Specialised construction activities*	1,178	-	1	131	82	(53)	(3)	(49)	680	173	24	301	3.18
44	G - Wholesale and retail trade; repair of motor vehicles and motorcycles	8,932	437	16	1,085	398	(246)	(17)	(221)	5,241	794	155	2,742	2.39
45	H - Transportation and storage	2,364	-	15	266	90	(67)	(7)	(56)	1,274	477	232	380	4.49
46	*H.49 - Land transport and transport via pipelines*	1,096	-	6	85	43	(30)	(2)	(26)	719	159	24	194	3.46
47	*H.50 - Water transport*	114	-	-	21	5	(5)	(0)	(4)	59	47	-	8	4.98
48	*H.51 - Air transport*	20	-	-	1	1	(0)	(0)	(0)	3	17	-	0	6.65
49	*H.52 - Warehousing and support activities for transportation*	1,054	-	10	157	40	(31)	(4)	(25)	451	227	208	168	5.41
50	*H.53 - Postal and courier activities*	80	-	0	1	1	(1)	(0)	(1)	43	28	0	10	5.11
51	I - Accommodation and food service activities	2,302	-	0	615	221	(127)	(18)	(107)	1,170	608	429	95	5.74
52	L - Real estate activities	5,211	-	-	1,155	740	(376)	(44)	(325)	1,717	2,078	1,053	363	6.50
53	**Exposures to other sectors that do contribute greatly to climate change**	**9,574**	**-**	**232**	**1,535**	**274**	**(186)**	**(22)**	**(146)**	**6,039**	**2,037**	**412**	**1,088**	**3.75**
54	K - Financial and insurance activities	558	-	8	83	10	(11)	(3)	(7)	361	173	5	18	3.92
55	Exposures to other sectors (NACE codes J, M-U)	-9,017	-	224	1,452	263	(175)	(19)	(139)	5,678	1,863	406	1,069	3.74
56	**TOTAL**	**58,848**	**1,685**	**521**	**9,134**	**3,059**	**(1,843)**	**(199)**	**(1,575)**	**33,672**	**10,901**	**3,669**	**10,607**	**3.84**

[46] Pursuant to Article 12.1, letters d) to g), and in accordance with Article 12.2 of the Climate Benchmark Standards Regulation.

Table 2 – *Indicators of potential transition risk linked to climate change: loans secured by real estate - energy efficiency of collaterals* - requires the Bank to publish information on the energy efficiency of the real estate used as collateral.

In particular, the scope refers to loans secured by commercial and residential property and real estate collateral recovered, divided into EU Area and Non-EU Area.

For the purpose of compilation, information is provided on the energy efficiency level of the collateral measured, both in terms of energy consumption in kWh/m² and in terms of the class attributed by the energy performance certificate (EPC) of the collaterals.

The estimated portion of the energy efficiency level must be indicated separately. The template also requires mention of foreclosed assets owned by the reporting entity.

During the year, the refinement of the data set available to the Group allowed for an improvement in both the collection of information on energy labels and the quantification of goods without this certification.

Columns b) to g) show the values based on the EP score in terms of estimated and actual kWh/m², while columns h) to n) show the values exclusively on the basis of the actual EPC energy label.

The energy efficiency class is defined as actual when the Bank has this information as provided directly by the borrower; the estimated energy efficiency component was instead obtained through qualified external info providers.

Columns o) and p) of the table respectively show:

- the value for which the energy efficiency level of the property in terms of EPC label is not present or is estimated;
- the percentage of the portion estimated with respect to the total (estimated and missing) of column o).

Lines 2, 3 and 4 (EU Area) and lines 7, 8 and 9 (Non-EU Area) of the template show the distinction between loans guaranteed by residential, commercial and foreclosed real estate, respectively; as regards the completion of lines 5 and 10, the regulations clearly indicate that the portion of data estimated and not based on precise data must be indicated.

Since not all types of assets as collateral have an energy label, the Group has defined, as convention, to exclude exposures guaranteed exclusively by assets that do not fall within the scope of the regulation relating to energy performance certification from Template 2 ESG.

The following table illustrates the exclusion methods applied that determine the value of the first column of Template 2, with an explicit opening between Eurozone (line 1) and Non-Eurozone (line 6).

(figures in million euro)

		Prudential scope [47]	Loans excluded [48]	ESG Scope template 2
1	**Total EU Area**	**39,794**	**4,620**	**35,173**
2	Of which loans secured by commercial properties	11,570	3,350	8,220
3	Of which loans secured by residential properties	27,705	1,224	26,481
4	Of which guarantees obtained by acquiring possession: residential and commercial properties	519	46	473
6	**Total Non-EU Area**	**63**	**4**	**59**
7	Of which loans secured by commercial properties	2	0	1
8	Of which loans secured by residential properties	62	4	58
9	Of which guarantees obtained by acquiring possession: residential and commercial properties		-	-

[47]Gross Carrying Amount reconciled with the values reported in the relevant regulatory document sent to the Supervisory Authority (FINREP).

[48] Loans guaranteed only by assets that do not fall within the scope of the regulations relating to energy performance certification were excluded.
With regard to the foreclosed guarantees, no real estate assets that do not fall within the scope of the regulations relating to energy performance certification were considered.

Table 2: Banking book - Transition risk related to climate change: loans secured by real estate - energy efficiency of collaterals

	Counterparty sector	a	B	c	d	e	f	g	h	i	j	k	l	m	n	o	p
		Total gross book value (Euro millions)															
			Energy efficiency level (EP score of guarantee in kWh/m²)						Energy efficiency level (EPC guarantee label)							Without EPC guarantee label	
			0; ≤ 100	> 100; ≤ 200	> 200; ≤ 300	> 300; ≤ 400	> 400; ≤ 500	> 500	A	B	C	D	E	P	G		Of which energy efficiency level (EP score of guarantee in kWh/m²) estimated
1	**Total EU Area**	**35,173**	**4,900**	**9,719**	**5,924**	**3,505**	**854**	**418**	**1,886**	**706**	**748**	**1,318**	**1,727**	**2,075**	**2,452**	**24,261**	**59.39%**
2	Of which loans secured by commercial properties	8,220	289	459	1,601	1,800	345	68	128	146	130	152	67	55	90	7,451	50.91%
3	Of which loans secured by residential properties	26,481	4,612	9,260	4,323	1,705	509	350	1,758	560	618	1,166	1,660	2,020	2,362	16,338	64.97%
4	Of which guarantees obtained by acquiring possession: residential and commercial properties	473	-	-	-	-	-	-	-	-	-	-	-	-	-	473	0.00%
5	Of which Energy efficiency level (EP score of guarantee in kWh/m²) estimated	14,408	1,852	5,666	3,579	2,606	549	156								14,408	100.00%
6	**Total Non-EU Area**	**59**	**10**	**15**	**6**	**4**	**1**	**1**	**7**	**1**	**2**	**2**	**2**	**3**	**2**	**40**	**45.29%**
7	Of which loans secured by commercial properties	1	-	-	-	-	-	-	-	-	-	-	-	-	-	1	0.00%
8	Of which loans secured by residential properties	58	10	15	6	4	1	1	7	1	2	2	2	3	2	39	46.67%
9	Of which guarantees obtained by acquiring possession: residential and commercial properties	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Of which Energy efficiency level (EP score of guarantee in kWh/m²) estimated	18	4	5	4	3	1	1								18	100.00%

Table 3 - *Banking book - Indicators of potential transition risk associated with climate change: alignment metrics* - is not shown as the first reporting date is 30 June 2024.

Table 4 – *Indicators of potential transition risk related to climate change: exposures to the top 20 carbon-intensive companies* – requires disclosure of the aggregate exposures of the Group to the 20 most polluting companies in the world, including their percentage weighting with respect to the total portfolio exposures, as well as the weighted average maturity of these exposures.

Column c) of the Template, of first disclosure, relating to exposures aligned with the taxonomy (Climate Change Mitigation) is zero.

The scope of analysis is the same as required for table 1 ESG, i.e.: banking book exposures, including loans and advances, debt securities and equity instruments, to the 20 most carbon-intensive non-financial companies in the world.

Therefore, financial assets held for trading and for sale are excluded from the scope.

Prudentially, and in line with that specified in the recent EBA Q&A 2022_6536, in providing the required disclosure, Banco BPM considered the listing of the *Top 20 most polluting companies* in the world on the basis of the economic and legal group to which the individual counterparties examined belonged.

In order to identify the correct scope of analysis, on which to verify any presence of companies financed by the Group, Regulation 2022/2453 requires the use of reliable, accurate and publicly accessible data sources.

These include in particular:

- *Carbon Majors Database:* (CDP Carbon Majors Report 2017);
- *Climate Accountability Institute:* (CAI-PressRelease-Dec20.pdf);
- *Thomson Reuters.*

The Bank has decided to use, in particular, the first two data sources described above in order to define the overall list of counterparties to be assessed.

The Group has also chosen to conduct its audits on a broader scope obtained by combining the lists provided by the various info-providers.

Both lists used are included as attachments to this document.

As can be seen from the following template, the aggregate exposure to the 20 most polluting counterparties in the world can be considered negligible as it accounts for 0.01% of the Group's overall exposure to non-financial companies (debt securities, equity instruments, loans and advances).

Table 4: Banking book – Indicators of potential transition risk related to climate change: exposures to the top 20 carbon-intensive companies.

a	b	c	d	e
Gross carrying amount (aggregate) in million euro	Gross book value referring to the company compared to the total gross book value (aggregate)	Of which environmentally sustainable (CCM)	Average duration	Number of companies among the 20 most polluting
7	0.01%	-	1.83	2

Table 5 – *Indicators of potential physical risk related to climate change: exposures subject to physical risk* – requires institutions to publish information on banking book exposures, including loans and advances, debt securities and equity instruments not held for trading and for sale, to non-financial companies, on loans secured by real estate assets and on recovered real estate collaterals, exposed to potential chronic and acute physical risks (or both) linked to climate, with a breakdown by sector of economic activity (NACE classification) and by geographic location of the counterparty's business or collaterals.

In addition, the template provides additional reporting information relating to exposures sensitive to physical events related to climate change, such as the gross book value of stage 2 and non-performing exposures, adjustments and provisions, as well as the maturity categories and the weighted average maturity.

With regard to physical risk, the methodology developed[49] by Banco BPM - already starting from 2022 - directly and/or indirectly considers all the acute and chronic risk hazards linked to the climate and mapped by the Regulation on the "EU Taxonomy"[50].

During the year, the overall physical risk assessment approach was aligned with the management methodology internally adopted by the Group in line with the materiality analyses on the loan portfolio.

It should be noted, however, that the specific evaluation methodology appears to be constantly evolving, also thanks to ever greater accuracy and better quality of the information available.

In fact, note that during the year, in particular, the physical risk summary scores were refined.

By way of example, the property address normalisation algorithm was further refined, in addition to the inclusion of a corrective factor based on the altitude of the asset under analysis, in order to ensure a better assessment of the chronic risks related to the rising of the sea.

[49] This methodology was defined with the support of a qualified and approved external data provider. This allows continuous updating of physical (acute, chronic and environmental) risk scores.

[50] The reference is the list of 28 risks included in Regulation 2020/852, where those most relevant to Italy are measured directly (for example, flood or drought risks as acute risks, or soil erosion risk as chronic risks). However, since the different types of hazards are highly correlated (for example, flood and heavy rainfall risks), all of them can be measured at least indirectly, thus guaranteeing complete mapping in terms of scores.

The materiality of the exposures to physical risk is assessed by the Group both with regard to the real estate guarantees received and with respect to the production assets of borrower non-financial companies.

The data sources used to calculate the scoring are both public and owned by third parties.

For the purpose of compiling this table, Banco BPM Group considers only exposures with a "High" or "Very High" risk score to be subject to significant physical risk (acute and/or chronic).

The reported template provides three distinct views: consolidated, Italy and Rest of the World.

Table 5: Banking book – Physical risk related to climate change: exposures subject to physical risk.

	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
	Total exposures	Gross book value (Euro millions)													
			of which exposures sensitive to the impact of physical events linked to climate change												
			Breakdown by maturity bracket					of which exposures sensitive to the impact of chronic climate change events	of which exposures sensitive to the impact of acute climate change events	of which exposures sensitive to the impact of both chronic and acute climate change events	Of which stage 2 exposures	Of which non-performing exposures	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
			≤ 5 years	> 5 years ≤ 10 years	> 10 years ≤ 20 years	> 20 years	Weighted average duration							Of which stage 2 exposures	Of which non-performing exposures
1	A - Agriculture, forestry and fishing	1,689	206	143	125	62	6.48	1	536	0	119	26	(14)	(5)	(8)
2	B - Mining and quarrying	234	119	3	-	4	0.94	-	126	-	1	0	(0)	(0)	(0)
3	C - Manufacturing	20,798	996	344	62	443	3.31	7	1,833	6	233	93	(53)	(4)	(48)
4	D - Electricity, gas, steam and air conditioning supply	1,652	42	18	6	2	4.71	-	67	-	10	0	(0)	(0)	(0)
5	E - Water supply; sewerage, waste management and remediation activities	776	51	37	0	15	4.25	0	102	0	4	1	(1)	(0)	(1)
6	F - Construction	5,316	421	179	108	176	4.73	3	866	15	144	97	(57)	(5)	(51)
7	G - Wholesale and retail trade; repair of motor vehicles and motorcycles	8,932	485	108	17	325	2.37	8	912	15	103	50	(30)	(2)	(27)
8	H - Transportation and storage	2,364	135	42	11	59	3.60	12	234	1	42	8	(6)	(1)	(5)
9	L - Real estate activities	5,211	206	202	73	38	5.95	10	502	7	105	31	(17)	(4)	(13)
10	Loans secured by residential properties	27,766	131	363	1,555	1,338	18.11	34	3,314	39	197	65	(25)	(9)	(15)
11	Loans secured by commercial properties	11,572	298	477	377	14	7.79	6	1,151	8	324	133	(68)	(12)	(55)
12	Guarantees recovered	519	-	-	-	25	-	2	23	-	-	-	-	-	-
13	Other relevant sectors (breakdown below, where applicable)	11,877	641	327	201	75	5.46	9	1,221	14	235	92	(48)	(5)	(40)

	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
	of which to Italian entities	Gross book value (Euro millions)													
			of which exposures sensitive to the impact of physical events linked to climate change												
			Breakdown by maturity bracket					of which exposures sensitive to the impact of chronic climate change events	of which exposures sensitive to the impact of acute climate change events	of which exposures sensitive to the impact of both chronic and acute climate change events	Of which stage 2 exposures	Of which non-performing exposures	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
			≤ 5 years	> 5 years ≤ 10 years	> 10 years ≤ 20 years	> 20 years	Weighted average duration							Of which stage 2 exposures	Of which non-performing exposures
1	A - Agriculture, forestry and fishing	1,689	206	143	125	62	6.48	1	536	0	119	26	(14)	(5)	(8)
2	B - Mining and quarrying	231	119	3	-	4	0.94	-	126	-	1	0	(0)	(0)	(0)
3	C - Manufacturing	20,583	996	344	62	443	3.31	7	1,833	6	233	93	(53)	(4)	(48)
4	D - Electricity, gas, steam and air conditioning supply	1,596	42	18	6	2	4.71	-	67	-	10	0	(0)	(0)	(0)
5	E - Water supply; sewerage, waste management and remediation activities	770	51	37	0	15	4.25	0	102	0	4	1	(1)	(0)	(1)
6	F - Construction	5,292	421	179	108	176	4.73	3	866	15	144	97	(57)	(5)	(51)
7	G - Wholesale and retail trade; repair of motor vehicles and motorcycles	8,890	485	108	17	325	2.37	8	912	15	103	50	(30)	(2)	(27)
8	H - Transportation and storage	2,289	135	42	11	59	3.60	12	234	1	42	8	(6)	(1)	(5)
9	L - Real estate activities	5,211	206	202	73	38	5.95	10	502	7	105	31	(17)	(4)	(13)
10	Loans secured by residential properties	27,690	130	361	1,551	1,336	18.12	34	3,304	39	195	65	(24)	(9)	(14)
11	Loans secured by commercial properties	11,523	298	477	377	14	7.79	6	1,151	8	324	133	(68)	(12)	(55)
12	Guarantees recovered	519	-	-	-	25	-	2	23	-	-	-	-	-	-
13	Other relevant sectors (breakdown below, where applicable)	10,883	641	327	201	75	5.46	9	1,221	14	235	92	(48)	(5)	(40)

a		b	c	d	e	f	g	h	i	j	k	l	m	n	o
of which non-Italian entities (rest of the world)			Gross book value (Euro millions)												
			of which exposures sensitive to the impact of physical events linked to climate change												
			Breakdown by maturity bracket					of which exposures sensitive to the impact of chronic climate change events	of which exposures sensitive to the impact of acute climate change events	of which exposures sensitive to the impact of both chronic and acute climate change events	Of which stage 2 exposures	Of which non-performing exposures	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
			≤ 5 years	> 5 years ≤ 10 years	> 10 years ≤ 20 years	> 20 years	Weighted average duration							Of which stage 2 exposures	Of which non-performing exposures
1	A - Agriculture, forestry and fishing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2	B - Mining and quarrying	3	-	-	-	-	-	-	-	-	-	-	-	-	-
3	C - Manufacturing	215	-	-	-	-	-	-	-	-	-	-	-	-	-
4	D - Electricity, gas, steam and air conditioning supply	56	-	-	-	-	-	-	-	-	-	-	-	-	-
5	E - Water supply; sewerage, waste management and remediation activities	6	-	-	-	-	-	-	-	-	-	-	-	-	-
6	F - Construction	24	-	-	-	-	-	-	-	-	-	-	-	-	-
7	G - Wholesale and retail trade; repair of motor vehicles and motorcycles	42	-	-	-	-	-	-	-	-	-	-	-	-	-
8	H - Transportation and storage	74	-	-	-	-	-	-	-	-	-	-	-	-	-
9	L - Real estate activities	0	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Loans secured by residential properties	77	1	2	4	2	14.21	-	9	-	1	0	(0)	(0)	(0)
11	Loans secured by commercial properties	48	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Guarantees recovered	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Other relevant sectors (breakdown below, where applicable)	993	-	-	-	-	-	-	-	-	-	-	-	-	-

Table 6 - Summary of key performance indicators (KPIs) on taxonomy-aligned exposures - requires a synoptic representation of the Green Asset Ratios (GAR)[51], represented in detail in Tables 7 and 8 below.

The GAR (Green Asset Ratio) is an indicator of the level of alignment of the Group's exposure to the objectives climate change mitigation (CCM) and climate change adaptation (CCA), in compliance with the Taxonomy Regulation (EU Regulation 2020/852) and related Delegated Acts and the Implementing Regulation (EU) 2022/2453, and is calculated as the ratio of assets that finance/are invested in economic activities aligned with the Taxonomy to total covered assets, which includes loans and advances, debt securities, equity investments and recovered collateral.

In line with European recommendations, the scope of the Pillar III disclosure on ESG Risks includes the assets of the parent company Banco BPM and of the subsidiaries belonging to the Group, identified on the basis of the scope of prudential consolidation, determined in accordance with Title II, Chapter 2, Section 2, of Regulation (EU) no. 575/2013.

The first line of the Table provides information on stock, as a snapshot of the Group's financial statement assets as at 31 December 2023; while the second line the information represents the level of flows, i.e., only the new flows[52] generated by the Group in the second half year of 2023.

While the information on the GAR stock (point-in-time) is useful to show the level of the Group's alignment with the EU Taxonomy at the reference date, the GAR flow shows how the institution is supporting its counterparties in the process of transition to a sustainable economy.

As at 31 December 2023, the GAR stock of Banco BPM Group stood at 2.02%, covering 70.81% of total assets.

The value assumed by the KPI to date is small and unrepresentative, partly due to the limited availability of timely data on the funded counterparties that publish a NFD and the current absence of alignment information on financial firms.

It should also be noted that the denominator of the ratio also includes several assets for which it is not feasible to verify eco-sustainability.

As at 31 December 2023, the GAR flow of Banco BPM Group - referring to the second half year of the year under review - was 0.52%.

[51] Delegated Regulation (EU) 2021/2178 requires institutions to estimate and communicate the GAR according to two specific views. The first on the basis of the alignment with the taxonomy of the turnover of the counterparty (for non-financial companies) for exposures whose purpose is not to finance specific activities (generic loans). The second is based on the alignment with the taxonomy of the counterparty's capital expenditure for the same exposures from generic loans. For the purposes of the Disclosure to the Market (Pillar III), supervised entities must publish the KPI only with reference to the first view (GAR Turnover).
[52] New flows are considered gross of repayments and other reductions.

Table 6: Summary of key performance indicators (KPIs) on taxonomy-aligned exposures

	KPI			% coverage (of total assets)*
	Climate change mitigation	Climate change adaptation	Total (climate change mitigation and climate change adaptation)	
GAR stock	2.02%	-	2.02%	70.81%
GAR flow	0.52%	-	0.52%	51.26%

* % of assets covered by the KPI on the total assets of banks

Table 7 - *Mitigation actions: assets for the calculation of the GAR* - requires information on the gross book value of loans and advances, debt securities and equity instruments in the banking portfolio, with a breakdown of information by type of counterparty, including financial corporations, non-financial corporations, households, local governments, as well as collateral repossessed in exchange for debt relief, and on Taxonomy eligibility and alignment of exposures with respect to the environmental objectives climate change mitigation and adaptation, as set out in Article 9, letters a) and b) of Regulation (EU) 2020/852.

In line with the provisions of the reference legislation (Annex V - EC Delegated Regulation (EU) 2021/2178 of 6 July 2021), the assets considered for the calculation of the Green Asset Ratio - GAR indicator, for the purposes of preparing the Taxonomy disclosure, relate to exposures towards:

1. **Financial companies**[53]
   The identification of eligible exposure is done by weighting the Gross Carrying Amount by the percentage of eligibility for the Taxonomy regularly disclosed by the specific counterparty in the NFD (Non-Financial Disclosure) during the reporting period. Eligibility percentage means the proportion of eligible business exposures in total assets covered or total activities, based on counterparty turnover. With regard to aligned exposure, it is not possible - at the moment - to report it, as these companies will publish this information with their December 2023 disclosure.
2. **Non-financial companies subject to NFRD (Non-Financial Reporting Directive) obligations**
   Only companies that prepare a non-financial disclosure on a mandatory basis were considered, while companies that prepare it on a voluntary basis will contribute to the calculation of the BTAR (Banking Book Taxonomy Alignment Ratio) starting from 1 January 2025 (first date of disclosure to the Market on data as at 31 December 2024). The amount of eligible exposure aligned with the EU Taxonomy is calculated according to the following methods:
   a. in the case of general purpose loans, the gross book value of the exposures was weighted by the turnover KPI aligned with the EU Taxonomy that the non-financial corporation is required to report (within its non-financial disclosure) for each environmental objective;

[53] This scope includes credit institutions and other financial companies: investment companies, management companies and insurance companies.

b. in the case of special purpose loans, the gross book value of the exposures is taken into account in proportion to the contribution that the financed project makes to financing an economic activity aligned with the Taxonomy.

3. **Private**
   This scope includes loans to households secured by residential real estate or granted only for the purpose of renovating residential buildings (dwellings) that are Taxonomy-aligned according to the technical screening criteria for buildings, namely for renovation, purchase and ownership in accordance with Annex I of Delegated Regulation 2021/2178. For these exposures, the relative energy class and compliance with the thresholds envisaged by the NZEB criteria - 10% or Top 15% - PED, with reference to the climate zone, date of construction and cadastral category/intended use of the property, are verified. For the purposes of DNSH (Do No Significant Harm), the adequacy of the related physical risk is also assessed.

4. **Local Governments**
   The gross book value of project finance exposures to the Public Authority is taken into account in proportion to the contribution that the financed project makes to financing a taxonomy-aligned economic activity.

5. **Real estate collateral recovered**
   Recovered commercial and residential real estate collateral held for sale at their gross value, based on the degree of conformity of the buildings, according to specific technical screening criteria.

The following portfolios were also included in the denominator of the KPI, in addition to those already included in the numerator:

- Exposures to EU and non-EU non-financial companies not subject to NFRD requirements;
- Interbank loans on demand;
- Derivatives;
- Liquidity and related activities;
- Other assets (e.g., goodwill, commodities, etc.).

The following assets remain outside the scope of calculation of the ratio:

- Financial assets held for trading, or Trading Book (held for trading);
- Exposures to Sovereign entities;
- Exposures to Central Banks.

Table 7: Mitigation actions: assets for the calculation of the GAR (1 of 3)

		a	B	c	d	E	f
			Reference date of the disclosure T				
			Climate change mitigation (CCM)				
		Gross carrying amount	Of which: to sectors relevant to the taxonomy				
				Of which: environmentally sustainable			
					Of which: specialised lending	Of which: transitional	Of which: enabling
	GAR - Assets hedged in both the numerator and the denominator						
1	Loans and advances, debt securities and equity instruments not held for trading, eligible for the GAR	36,425.47	29,938.82	2,678.12	-	100.30	202.45
2	**Financial companies**	**4,422.26**	**541.64**	**-**	**-**	**-**	**-**
3	Credit institutions	2,624.61	511.86	-	-	-	-
4	Loans and advances	1,087.48	68.54	-	-	-	-
5	Debt securities	1,484.71	433.24	-	-	-	-
6	Equity instruments	52.42	10.08	-		-	-
7	Other financial companies	1,797.65	29.78	-	-	-	-
8	Of which: investment companies	-	-	-	-	-	-
9	Loans and advances	-	-	-	-	-	-
10	Debt securities	-	-	-	-	-	-
11	Equity instruments	-	-	-		-	-
12	Of which: management companies	0.00	-	-	-	-	-
13	Loans and advances	0.00	-	-	-	-	-
14	Debt securities	-	-	-	-	-	-
15	Equity instruments	-	-	-		-	-
16	Of which: insurance companies	4.21	0.31	-	-	-	-
17	Loans and advances	4.21	0.31	-	-	-	-
18	Debt securities	0.00	0.00	-	-	-	-
19	Equity instruments	-	-	-		-	-
20	**Non-financial companies subject to NFRD obligations**	**3,711.71**	**1,289.93**	**521.20**	**-**	**100.30**	**202.45**
21	Loans and advances	3,304.77	1,142.13	417.71	-	95.58	162.29
22	Debt securities	405.71	146.57	103.48	-	4.72	40.16
23	Equity instruments	1.23	1.23	-		-	-
24	**Households**	**28,107.25**	**28,107.25**	**2,156.92**	**-**	**-**	**-**
25	Of which: loans collateralised by residential property	27,766.48	27,766.48	2,156.92	-	-	-
26	Of which: loans for building renovation	76.74	76.74	-	-	-	-
27	Of which: motor vehicle loans	264.03	264.03	-	-	-	-
28	**Financing of local administrations**	**184.26**	**-**	**-**	**-**	**-**	**-**
29	Financing of housing	-	-	-	-	-	-
30	Other local administration financing	184.26	-	-	-	-	-
31	Collaterals obtained by acquiring possession: residential and non-residential properties	518.77	518.77	-	-	-	-
32	Total GAR assets	36,944.24	30,457.58	2,678.12	-	100.30	202.45
	Assets excluded from the numerator for the calculation of the GAR (included in the denominator)						
33	**Non-financial EU companies (not subject to NFRD obligations)**	**54,479.91**					
34	Loans and advances	53,933.92					
35	Debt securities	356.62					
36	Equity instruments	184.23					
37	**Non-financial companies from third countries (not subject to NFRD obligations)**	**736.30**					
38	Loans and advances	478.16					
39	Debt securities	258.14					
40	Equity instruments	0.00					
41	Derivatives	979.92					
42	Interbank loans on demand	318.73					
43	Cash and cash equivalents	454.39					
44	Other assets (including goodwill, goods etc.)	38,600.97					
45	**Total assets in the denominator (GAR)**	**132,514.46**					
	Other assets excluded from both the numerator and the denominator for the calculation of the GAR						
46	Sovereign exposures	31,831.28					
47	Exposures to the central bank	18,457.45					
48	Trading book	4,342.74					
49	**Total assets excluded from the numerator and denominator**	**54,631.47**					
50	**TOTAL ASSETS**	**187,145.93**					

Table 7: Mitigation actions: assets for the calculation of the GAR (2 of 3)

		g	h	i	J	k
		Reference date of the disclosure T				
		Climate change adaptation (CCA)				
		Of which: to sectors relevant to the taxonomy				
			Of which: environmentally sustainable			
				Of which: specialised lending	Of which: transitional	Of which: enabling
	GAR - Assets hedged in both the numerator and the denominator					
1	Loans and advances, debt securities and equity instruments not held for trading, eligible for the GAR	5.19	1.33	-	1.33	-
2	**Financial companies**	**-**	**-**	**-**	**-**	**-**
3	Credit institutions	-	-	-	-	-
4	Loans and advances	-	-	-	-	-
5	Debt securities	-	-	-	-	-
6	Equity instruments	-	-		-	-
7	Other financial companies	-	-	-	-	-
8	Of which: investment companies	-	-	-	-	-
9	Loans and advances	-	-	-	-	-
10	Debt securities	-	-	-	-	-
11	Equity instruments	-	-		-	-
12	Of which: management companies	-	-	-	-	-
13	Loans and advances	-	-	-	-	-
14	Debt securities	-	-	-	-	-
15	Equity instruments	-	-		-	-
16	Of which: insurance companies	-	-	-	-	-
17	Loans and advances	-	-	-	-	-
18	Debt securities	-	-	-	-	-
19	Equity instruments	-	-		-	-
20	**Non-financial companies subject to NFRD obligations**	**5.19**	**1.33**	**-**	**1.33**	**-**
21	Loans and advances	5.08	1.33	-	1.33	-
22	Debt securities	0.02	-	-	-	-
23	Equity instruments	0.09	-		-	-
24	**Households**					
25	Of which: loans collateralised by residential property					
26	Of which: loans for building renovation					
27	Of which: motor vehicle loans					
28	**Financing of local administrations**	**-**	**-**	**-**	**-**	**-**
29	Financing of housing	-	-	-	-	-
30	Other local administration financing	-	-	-	-	-
31	Collaterals obtained by acquiring possession: residential and non-residential properties	-	-	-	-	-
32	Total GAR assets	5.19	1.33	-	1.33	-
	Assets excluded from the numerator for the calculation of the GAR (included in the denominator)					
33	**Non-financial EU companies (not subject to NFRD obligations)**					
34	Loans and advances					
35	Debt securities					
36	Equity instruments					
37	**Non-financial companies from third countries (not subject to NFRD obligations)**					
38	Loans and advances					
39	Debt securities					
40	Equity instruments					
41	Derivatives					
42	Interbank loans on demand					
43	Cash and cash equivalents					
44	Other assets (including goodwill, goods etc.)					
45	**Total assets in the denominator (GAR)**					
	Other assets excluded from both the numerator and the denominator for the calculation of the GAR					
46	Sovereign exposures					
47	Exposures to the central bank					
48	Trading book					
49	**Total assets excluded from the numerator and denominator**					
50	**TOTAL ASSETS**					

Table 7: Mitigation actions: assets for the calculation of the GAR (3 of 3)

		l	m	n	o	p
		Reference date of the disclosure T				
		TOTAL (CCM + CCA)				
		Of which: to sectors relevant to the taxonomy				
			Of which: environmentally sustainable			
				Of which: specialised lending	Of which: transitional	Of which: enabling
	GAR - Assets hedged in both the numerator and the denominator					
1	Loans and advances, debt securities and equity instruments not held for trading, eligible for the GAR	29,944.01	2,679.45	-	101.63	202.45
2	**Financial companies**	**541.64**	**-**	**-**	**-**	**-**
3	Credit institutions	511.86	-	-	-	-
4	Loans and advances	68.54	-	-	-	-
5	Debt securities	433.24	-	-	-	-
6	Equity instruments	10.08	-		-	-
7	Other financial companies	29.78	-	-	-	-
8	Of which: investment companies	-	-	-	-	-
9	Loans and advances	-	-	-	-	-
10	Debt securities	-	-	-	-	-
11	Equity instruments	-	-		-	-
12	Of which: management companies	-	-	-	-	-
13	Loans and advances	-	-	-	-	-
14	Debt securities	-	-	-	-	-
15	Equity instruments	-	-		-	-
16	Of which: insurance companies	0.31	-	-	-	-
17	Loans and advances	0.31	-	-	-	-
18	Debt securities	0.00	-	-	-	-
19	Equity instruments	-	-		-	-
20	**Non-financial companies subject to NFRD obligations**	**1,295.12**	**522.53**	**-**	**101.63**	**202.45**
21	Loans and advances	1,147.21	419.05	-	96.92	162.29
22	Debt securities	146.59	103.48	-	4.72	40.16
23	Equity instruments	1.31	-		-	-
24	**Households**	**28,107.25**	**2,156.92**	**-**	**-**	**-**
25	Of which: loans collateralised by residential property	27,766.48	2,156.92	-	-	-
26	Of which: loans for building renovation	76.74	-	-	-	-
27	Of which: motor vehicle loans	264.03	-	-	-	-
28	**Financing of local administrations**					
29	Financing of housing	-	-	-	-	-
30	Other local administration financing	-	-	-	-	-
31	Collaterals obtained by acquiring possession: residential and non-residential properties	518.77	-	-	-	-
32	Total GAR assets	30,462.77	2,679.45	-	101.63	202.45
	Assets excluded from the numerator for the calculation of the GAR (included in the denominator)					
33	**Non-financial EU companies (not subject to NFRD obligations)**					
34	Loans and advances					
35	Debt securities					
36	Equity instruments					
37	**Non-financial companies from third countries (not subject to NFRD obligations)**					
38	Loans and advances					
39	Debt securities					
40	Equity instruments					
41	Derivatives					
42	Interbank loans on demand					
43	Cash and cash equivalents					
44	Other assets (including goodwill, goods etc.)					
45	**Total assets in the denominator (GAR)**					
	Other assets excluded from both the numerator and the denominator for the calculation of the GAR					
46	Sovereign exposures					
47	Exposures to the central bank					
48	Trading book					
49	**Total assets excluded from the numerator and denominator**					
50	**TOTAL ASSETS**					

Table 8 - GAR (%) - must indicate to what extent the Group's activities are considered environmentally friendly pursuant to Articles 3 and 9 of Regulation (EU) 2020/852, so that stakeholders can understand the actions implemented by institutions to mitigate physical and transition risks related to climate change.

Therefore, on the basis of the information included in Table 7, the GAR Stock and Flow in was published in Table 8, in accordance with delegated regulation (EU) 2021/2178, determined by the ratio between environmentally sustainable activities (aligned with the EU Taxonomy) and the total assets hedged in the GAR denominator (Total Covered Assets).

As already mentioned, as at 31 December 2023, the GAR flow of Banco BPM Group - generated in the second half year of the year under review - was 0.52%. The percentage of their new assets hedged, of the relative total assets, stands at 51.26%.

Table 8: GAR (%) (1 of 2)

	% (with respect to total assets hedged in the denominator)	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
		Reference date of the disclosure T: KPI on stock															
		Climate change mitigation (CCM)					Climate change adaptation (CCA)					TOTAL (CCM + CCA)					Share of total assets hedged
		Percentage of assets that finance sectors relevant to the taxonomy					Percentage of assets that finance sectors relevant to the taxonomy					Percentage of assets that finance sectors relevant to the taxonomy					
			Of which: environmentally sustainable					Of which: environmentally sustainable					Of which: environmentally sustainable				
				Of which: specialised lending	Of which: transitional	Of which: enabling			Of which: specialised lending	Of which: adaptation	Of which: enabling			Of which: specialised lending	Of which: transitional/ adaptation	Of which: enabling	
1	**GAR**	**22.98%**	**2.02%**	**0.00%**	**0.08%**	**0.15%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**22.99%**	**2.02%**	**0.00%**	**0.08%**	**0.15%**	**70.81%**
2	Loans and advances, debt securities and equity instruments not held for trading, eligible for the calculation of the GAR	22.59%	2.02%	0.00%	0.08%	0.15%	0.00%	0.00%	0.00%	0.00%	0.00%	22.60%	2.02%	0.00%	0.08%	0.15%	19.46%
3	Financial companies	0.41%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.41%	0.00%	0.00%	0.00%	0.00%	2.36%
4	Credit institutions	0.39%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.39%	0.00%	0.00%	0.00%	0.00%	1.40%
5	Other financial companies	0.02%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.02%	0.00%	0.00%	0.00%	0.00%	0.96%
6	Of which: investment companies	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
7	Of which: management companies	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
8	Of which: insurance companies	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
9	Non-financial companies subject to NFRD obligations	0.97%	0.39%	0.00%	0.08%	0.15%	0.00%	0.00%	0.00%	0.00%	0.00%	0.98%	0.39%	0.00%	0.08%	0.15%	1.98%
10	Households	21.21%	1.63%	0.00%	0.00%	0.00%						21.21%	1.63%	0.00%	0.00%	0.00%	15.02%
11	Of which: loans collateralised by residential property	20.95%	1.63%	0.00%	0.00%	0.00%						20.95%	1.63%	0.00%	0.00%	0.00%	14.84%
12	Of which: loans for building renovation	0.06%	0.00%	0.00%	0.00%	0.00%						0.06%	0.00%	0.00%	0.00%	0.00%	0.04%
13	Of which: motor vehicle loans	0.20%	0.00%	0.00%	0.00%	0.00%						0.20%	0.00%	0.00%	0.00%	0.00%	0.14%
14	Financing of local administrations	0.00%	0.00%	0.00%	0.00%	0.00%						0.00%	0.00%	0.00%	0.00%	0.00%	0.10%
15	Financing of housing	0.00%	0.00%	0.00%	0.00%	0.00%						0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
16	Other local administration financing	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.10%	0.00%	0.00%	0.00%	0.10%
17	Collaterals obtained by acquiring possession: residential and non-residential properties	0.39%	0.00%	0.00%	0.00%	0.00%						0.39%	0.00%	0.00%	0.00%	0.00%	0.28%

Table 8: GAR (%) (2 of 2)

	% (with respect to total assets hedged in the denominator)	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
		Reference date of the disclosure T: KPI on flows															
		Climate change mitigation (CCM)					Climate change adaptation (CCA)					TOTAL (CCM + CCA)					Share of total assets hedged
		Percentage of assets that finance sectors relevant to the taxonomy					Percentage of assets that finance sectors relevant to the taxonomy					Percentage of assets that finance sectors relevant to the taxonomy					
			Of which: environmentally sustainable					Of which: environmentally sustainable					Of which: environmentally sustainable				
				Of which: specialised lending	Of which: transitional	Of which: enabling			Of which: specialised lending	Of which: adaptation	Of which: enabling			Of which: specialised lending	Of which: transitional/ adaptation	Of which: enabling	
1	**GAR (%)**	**2.96%**	**0.52%**	**0.00%**	**0.05%**	**0.03%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**2.97%**	**0.52%**	**0.00%**	**0.05%**	**0.03%**	**51.26%**
2	Loans and advances, debt securities and equity instruments not held for trading, eligible for the calculation of the GAR	2.96%	0.52%	0.00%	0.05%	0.03%	0.00%	0.00%	0.00%	0.00%	0.00%	2.97%	0.52%	0.00%	0.05%	0.03%	3.40%
3	Financial companies	0.22%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.22%	0.00%	0.00%	0.00%	0.00%	1.21%
4	Credit institutions	0.21%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.21%	0.00%	0.00%	0.00%	0.00%	0.98%
5	Other financial companies	0.02%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.02%	0.00%	0.00%	0.00%	0.00%	0.23%
6	Of which: investment companies	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
7	Of which: management companies	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
8	Of which: insurance companies	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
9	Non-financial companies subject to NFRD obligations	0.21%	0.13%	0.00%	0.05%	0.03%	0.00%	0.00%	0.00%	0.00%	0.00%	0.21%	0.13%	0.00%	0.05%	0.03%	0.38%
10	Households	2.54%	0.39%	0.00%	0.00%	0.00%						2.54%	0.39%	0.00%	0.00%	0.00%	1.80%
11	Of which: loans collateralised by residential property	2.52%	0.39%	0.00%	0.00%	0.00%						2.52%	0.39%	0.00%	0.00%	0.00%	1.79%
12	Of which: loans for building renovation	0.01%	0.00%	0.00%	0.00%	0.00%						0.01%	0.00%	0.00%	0.00%	0.00%	0.01%
13	Of which: motor vehicle loans	0.00%	0.00%	0.00%	0.00%	0.00%						0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
14	Financing of local administrations	0.00%	0.00%	0.00%	0.00%	0.00%						0.00%	0.00%	0.00%	0.00%	0.00%	0.02%
15	Financing of housing	0.00%	0.00%	0.00%	0.00%	0.00%						0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
16	Other local administration financing	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.02%	0.00%	0.00%	0.00%	0.02%
17	Collaterals obtained by acquiring possession: residential and non-residential properties	0.00%	0.00%	0.00%	0.00%	0.00%						0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Tables 9 - BTAR: Mitigating actions - and in particular Templates 9.1 - Mitigating actions: assets for BTAR calculation; 9.2 - % of BTAR; and 9.3 - Summary Table % of BTAR - are not shown as the first reporting date is 31 December 2024.

Table 10 – *Other mitigation actions related to climate change not covered by the European Taxonomy* – requires entities to provide information regarding their loans granted or bonds that are not perfectly Taxonomy-aligned in compliance with Regulation (EU) 2020/852 according to templates 7 and 8[54] (envisaged in EBA ITS 2022/01, with first reference date of 31 December 2023[55]) but which in any case support the counterparties in the transition and adaptation process for the objectives of climate change mitigation and adaptation[56].

The Table includes the total assets that finance climate risk mitigation actions even if not aligned with the EU Taxonomy.

Specifically, the Green bonds held by the bank, Loans to Customers, in particular the Specialised Loans created through the use of ad hoc products, are considered.

[54] Template 7: Mitigation actions: assets for the calculation of the GAR; Template 8: *Green Asset Ratio* (%)
[55] This interpretation was also confirmed by the EBA Q&A 2022_6531, according to which the content of this specific template should be complementary to that reported in templates 7 and 8 (GAR) which, as required by the regulations, have disclosure deferred to 31 December 2023.
[56] These mitigation actions and activities include bonds and loans issued under rules other than those of the European Union, including green bonds; sustainable obligations linked to climate change-related aspects; sustainability-related obligations linked to climate change-related aspects; green loans; sustainability-related loans linked to climate change-related aspects; sustainability-related loans linked to climate change-related aspects.

Table 10: Other mitigation actions related to climate change not covered by (EU) Regulation 2020/852

	a	b	c	d	e	f
	Type of financial instrument	Type of counterparty	Gross book value (million euro)	Type of risk mitigated (Climate change transition risk)	Type of risk mitigated (Physical risk from climate change)	Qualitative information on the nature of mitigation actions
1	**Bonds (e.g., green, sustainable, linked to sustainability based on standards other than EU standards)**	Financial companies	884.41	Transition risk	N.A.	(*)
2		Non-financial corporations	382.54	Transition risk	N.A.	(*)
3		Of which loans secured by commercial properties	-	Transition risk	N.A.	(*)
4		Households				
5		Of which loans secured by residential properties				
6		Of which loans for building renovation				
7		Other counterparties	8.41	Transition risk	N.A.	(*)
8	**Loans (e.g. green, sustainable, linked to sustainability based on standards other than EU standards)**	Financial companies	315.75	Transition risk	N.A.	(*)
9		Non-financial corporations	3,528.63	Transition risk	N.A.	(*)
10		Of which loans secured by commercial properties	181.62	Transition risk	N.A.	(*)
11		Households	11.63	Transition risk	N.A.	(*)
12		Of which loans secured by residential properties	-	Transition risk	N.A.	(*)
13		Of which loans for building renovation	-	Transition risk	N.A.	(*)
14		Other counterparties	-	Transition risk	N.A.	(*)

(*) Additional qualitative information on mitigation actions is provided in the following paragraphs.

With regard to Bonds (investment products), financial instruments catalogued as Green Bonds, Sustainability Bonds, Sustainability-linked Bonds and Transition Bonds have been included. It should be noted that these exposures do not contribute to populating template 7 (eligibility/alignment with the Taxonomy), in the absence of information on:

- purpose of the use of proceeds consistent with the EU Taxonomy; and
- alignment of the Bond to the EU Taxonomy (use of proceeds).

With regard to Loans, the following are included in template 10:

- the portion of guaranteed green loans, as per the bank nomenclature, for which the underlying properties were assessed as not aligned;
- the portion of green loans, as per the bank's nomenclature, with no collateral.

Information on the remuneration policy

The information required by Article 450 of Regulation (EU) no. 876/2019 (CRRII), regarding the Group's remuneration policy and procedure relating to the categories of personnel whose professional activities have a significant impact on the risk profile, is drafted according to the templates and instructions identified in Implementing Regulation (EU) no. 637 of 15 March 2021 (tables REMA, REM1, REM2, REM3, REM4 and REM5). Please refer to the document "*Report on the remuneration policy and payouts awarded to Banco BPM Group staff - 2024*" published in the Corporate Governance section of the Group's website at the following address:

www.gruppo.bancobpm.it/corporate-governance/politiche-di remunerazione/

Declaration of the Chief Risk Officer

The undersigned, Andrea Rovellini, in his capacity as Chief Risk Officer of the Parent Company Banco BPM S.p.A., hereby certifies that the Public Disclosure Document (Pillar III) as at 31 December 2023 was prepared in accordance with the reference legislation (Bank of Italy Circular no. 285/2013 and the CRR - Regulation (EU) no. 575/2013, as amended by the CRR2 - Regulation (EU) no. 876/2019). Also note that the overall Document was drafted in accordance with the Public Disclosure Model defined by the Group for 2024, which describes the institution's formal policy regarding market disclosures, as expressly envisaged in Article 431 CRR2.

Milan, 12 March 2024

Il Responsabile
della Funzione Rischi

Declaration of the Financial Reporting Manager

The undersigned, Gianpietro Val, in his capacity as Financial Reporting Manager of Banco BPM S.p.A, hereby declares, in compliance with the provisions of Article 154a, paragraph 2 of Italian Legislative Decree no. 58 of 24 February 1998, that the accounting information contained in this document is consistent with the corporate documents, books and accounting records.

Milan, 12 March 2024

Il Dirigente Preposto alla redazione dei
documenti contabili societari
Gianpietro Val

Declaration of the Chairman of the Board of Directors

With the resolution of 12 March 2024, the Board of Directors of Banco BPM declares, pursuant to Article 435, paragraph 1, letter e) of Regulation (EU) no. 876/2019 (CRRII) that the risk management systems implemented and described in the document "Basel III Pillar III - Public Disclosure by Entities as at 31 December 2023" are in line with the profile and strategy of Banco BPM Group.

Milan, 12 March 2024

Board of Directors of Banco BPM

Annexes

Annex 1: Lists of the Top 20 most polluting companies in the world

Climate Accountability Institute: (CAI-PressRelease-Dec20.pdf);

Climate Accountability Institute		
Entity	**MtCO2e**	**% of global 1965-2018**
Saudi Aramco, Saudi Arabia	61,143	4.33%
Gazprom, Russia	44,757	3.17%
Chevron, USA	43,787	3.10%
ExxonMobil, USA	42,484	3.01%
National Iranian Oil Co.	36,924	2.62%
BP, UK	34,564	2.45%
2Royal Dutch Shell, The Netherlands	32,498	2.30%
Coal India, India	24,338	1.73%
Pemex, Mexico	23,025	1.63%
PetroChina / China Natl Petroleum	16,515	1.17%
Petroleos de Venezuela (PDVSA)	16,029	1.14%
Peabody Energy, USA	15,783	1.12%
ConocoPhillips, USA	15,422	1.09%
Abu Dhabi, United Arab Emirates	14,532	1.03%
Kuwait Petroleum Corp., Kuwait	13,923	0.99%
Iraq National Oil Co., Iraq	13,162	0.93%
Total SA, France	12,755	0.90%
Sonatrach, Algeria	12,700	0.90%
BHP, Australia	10,068	0.71%
Petrobras, Brazil	9,061	0.64%
Top Twenty	**493,473**	**34.98%**
Global (1965-2018)	**1,410,737**	**100.00%**

Carbon Majors Database: (CDP Carbon Majors Report 2017);

Carbon Majors Database				
Producer	Cumulative 1988-2015 Scope 1 GHG, MtCO2e	Cumulative 1988-2015 Scope 3 GHG, MtCO2e	Cumulative 1988-2015 Scope 1+3 GHG, $MtCO_2e$	Cumulative 1988-2015 Scope 1+3 of global industrial GHG, %
China (Coal)	9,622	119,312	128,933	14.3%
Saudi Arabian Oil Company (Aramco)	4,263	36,298	40,561	4.5%
Gazprom OAO	4,652	30,569	35,221	3.9%
National Iranian Oil Co	2,468	18,037	20,505	2.3%
ExxonMobil Corp	1,833	15,952	17,785	2.0%
Coal India	892	15,950	16,842	1.9%
Petroleos Mexicanos (Pemex)	2,055	14,749	16,804	1.9%
Russia (Coal)	1,216	15,524	16,740	1.9%
Royal Dutch Shell PLC	1,212	13,805	15,017	1.7%
China National Petroleum Corp (CNPC)	1,479	12,564	14,042	1.6%
BP PLC	1,072	12,719	13,791	1.5%
Chevron Corp	1,215	10,608	11,823	1.3%
Petroleos de Venezuela SA (PDVSA)	1,108	9,971	11,079	1.2%
Abu Dhabi National Oil Co	1,135	9,635	10,769	1.2%
Poland Coal	884	9,596	10,480	1.2%
Peabody Energy Corp	266	10,098	10,364	1.2%
Sonatrach SPA	1,490	7,507	8,997	1.0%
Kuwait Petroleum Corp	767	8,194	8,961	1.0%
Total SA	778	7,762	8,541	0.9%
BHP Billiton Ltd	588	7,595	8,183	0.9%
ConocoPhillips	654	6,809	7,463	0.9%
Petrobras	533	6,375	6,907	0.8%
LukOil	557	6,193	6,750	0.8%
Top twenty-three	**40,739**	**405,822**	**446,558**	**49.9%**
Other producers	17,589	170,684	188,277	20.7%
Total Sample (100 producers)	**58,328**	**576,506**	**634,835**	**70.6%**