BANCO BPM

Annual Report

Consolidated 2023

Consolidated 2023 Annual Report

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

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

Banco BPM S.p.A.

Registered office: Piazza F. Meda, 4 - 20121 Milan, Italy
Administrative headquarters: Piazza Nogara, 2 - 37121 Verona, Italy
Fully paid-up share capital as at 31 December 2023: Euro 7,100,000,000.00
Tax Code and Milan Companies' Register Enrolment no.: 09722490969
A company representing Banco BPM VAT Group, VAT no. 10537050964
Member of the Interbank Deposit Guarantee Fund and the National Guarantee Fund
Parent Company of Banco BPM Banking Group
Enrolled in the Bank of Italy Register of Banks and the Register of Banking Groups

OFFICERS, DIRECTORS AND INDEPENDENT AUDITORS AS AT 31 DECEMBER 2023

Board of Directors

Chairman	Massimo Tononi
Deputy Chairman	Maurizio Comoli
Chief Executive Officer	Giuseppe Castagna
Directors	Mario Anolli
	Paolo Boccardelli
	Paolo Bordogna
	Nadine Farida Faruque
	Paola Ferretti
	Marina Mantelli
	Chiara Mio
	Alberto Oliveti
	Mauro Paoloni
	Eugenio Rossetti
	Manuela Soffientini
	Luigia Tauro

Board of Statutory Auditors

Chairman	Marcello Priori
Standing Auditors	Elbano de Nuccio
	Maurizio Lauri
	Silvia Muzi
	Nadia Valenti
Alternate Auditors	Sara Antonelli
	Marina Scandurra
	Mario Tagliaferri

General Management

Co-General Manager	Domenico De Angelis
Co-General Manager	Edoardo Maria Ginevra

Manager responsible for preparing the Company's financial reports

Gianpietro Val

Independent Auditors

PricewaterhouseCoopers S.p.A.

CONTENTS

BANCO BPM

NOTICE OF CALL OF ORDINARY SHAREHOLDERS' MEETING

Pursuant to articles 12 and 13 of the Articles of Association, the Ordinary Shareholders' Meeting of Banco BPM S.p.A. ("Banco BPM" or the "Company") is convened, in a single call, for **Thursday 18 April 2024 at 10.00 a.m., in Verona, at the administrative headquarters of Banco BPM, Piazza Nogara No. 2**, to discuss and resolve on the following

AGENDA

1) Approval of the financial statements of Banco BPM S.p.A. as at 31 December 2023, accompanied by the reports of the Board of Directors, the Board of Statutory Auditors and the Independent Auditors. Presentation of the consolidated financial statements of the Banco BPM Group.
2) Resolutions on the allocation and distribution of profits.
3) Appointment for the legal audit of the Company's accounts for the period 2026-2034 and related remuneration, based on the reasoned proposal of Banco BPM's Board of Statutory Auditors.
4) Report on the remuneration policy and compensation paid by the Banco BPM Group 2024 (Section I and Section II).
   - 4.1) Approval of the remuneration policy (Section I) pursuant to the applicable regulatory provisions. Related and consequent resolutions.
   - 4.2) Approval of the report on remuneration paid in 2023 (section II) pursuant to the applicable regulations. Related and consequent resolutions.
5) Share-based compensation plan of Banco BPM S.p.A:
   - 5.1) Short-term incentive plan (2024). Related and consequent resolutions.
   - 5.2) Long-term incentive plan (2024-2026). Related and consequent resolutions.
6) Request for authorisation to purchase and dispose of Banco BPM S.p.A.'s share-based compensation plans. Related and consequent resolutions.

You are hereby informed that the Company has decided to avail itself of the option – in accordance with Article 106 of Decree-Law No. 18 of 17 March 2020 converted, with amendments, by Law no. 27 of 24 April 2020 (the effects of which were last extended by Decree-Law no. 215 of 30 December 2023, containing urgent provisions on regulatory deadlines, converted, with modifications, by Law no. 18; the "Decree") – to provide that **attendance at the Shareholders' Meeting and the right to vote shall be exercised by those entitled to do so exclusively through the representative designated pursuant to Article 135-*undecies* of Legislative Decree No. 58 of 24 February 1998,** as amended (the "Consolidated Law on Finance" or "TUF") as indicated below, **without therefore the physical participation of shareholders in the proceedings of the Shareholders' Meeting.**
The participation of the directors, the statutory auditors, the secretary of the meeting, the representatives of the auditing firm and the designated representative shall take place in compliance with the provisions in force, including, if necessary, through the use of remote connection systems.
The manner in which the Assembly will be conducted may be supplemented and/or modified and will be promptly announced.

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The necessary information is provided below in accordance with the provisions of Article 125-*bis* of the Consolidated Law on Finance.

PARTICIPATION IN THE SHAREHOLDERS' MEETING AND REPRESENTATION

Persons entitled to vote may attend the Shareholders' Meeting **exclusively** through the representative appointed pursuant to Article 135-*undecies* of the Consolidated Law on Finance (the "Designated Representative"), as indicated below, for whom the Company has received, by the end of the third trading day prior to the date of the

Shareholders' Meeting, i.e. **by 15 April 2024,** the notice issued by the authorised intermediary certifying their entitlement to attend the Shareholders' Meeting and exercise their voting rights.
In accordance with the provisions of Article 83-*sexies* of the TUF and Article 42 of the Single Post-Trading Provision of Consob and the Bank of Italy of 13 August 2018, as subsequently amended (the "**Joint Provision**"), such disclosure shall be made to the Company by the authorised intermediary on the basis of the evidence relating to the end of the accounting day of the seventh open market day preceding the date of the Shareholders' Meeting **(9 April 2024 - the so-called "record date")**.
Those who hold shares in the Company after that date shall not be entitled to attend and vote at the Shareholders' Meeting.
Shareholders, whose shares are already deposited in custody and administration files, and as such already dematerialised, with the Parent Company Banco BPM S.p.A. or with Banca Aletti S.p.A., must in any case request **by 15 April 2024**, pursuant to Article 42 of the Joint Provision, the issuance of the notice, receiving at the same time a copy thereof, valid as an admission ticket to the Shareholders' Meeting.
For the benefit of Shareholders whose shares are deposited with other Authorised Intermediaries, it should be noted that, pursuant to the afore-mentioned Article 42 of the Joint Provision, the request for disclosure must always be made by **15 April 2024**, taking care to obtain a copy.
Shareholders holding shares that have not yet been dematerialised must deliver them to Banco BPM S.p.A. or to another Banco BPM Group Bank or to another authorised intermediary to proceed with their dematerialisation and then request the issue of the notice for participation in the Shareholders' Meeting.

REPRESENTATIVE APPOINTED BY THE COMPANY
Pursuant to Article 106 of the Decree, those entitled to vote, should they wish to attend the Shareholders' Meeting, must alternatively:

(i) grant proxy free of charge (except for transmission expenses) - to Computershare S.p.A. - Via Nizza 262/73, 10126, Turin - as Designated Representative, together with voting instructions on all or some of the resolution proposals regarding the items on the agenda.
In this regard, in order to facilitate the submission of the proxy and voting instructions, from the section of Banco BPM's website dedicated to the Shareholders' Meeting, *www.gruppo.bancobpm.it* section "*Corporate Governance - Shareholders' Meeting*", it will be possible to fill in and submit the specific form prepared by the Appointed Representative also online and in guided mode **until 12.00 noon on 17 April 2024**.
Members are recommended to use the online mode.
As an alternative to filling in online, you may use the form downloadable from the same site to be submitted by **16 April 2024** to the addresses and in the manner indicated on the form.
The proxy to the Designated Representative, with voting instructions, together with an identity document - and in the case of a delegating legal entity a document proving the powers to issue the proxy - must be transmitted, in a copy reproduced electronically (PDF), to Computershare S.p.A. at the certified email address *bancobpm@pecserviziotitoli.it* provided that the delegating party, even if a legal entity, uses its own certified email address or, failing that, its own ordinary email address.
The original of the proxy, the voting instructions and a copy of the related documentation must be sent to Computershare S.p.A. (Ref. "Proxy Meeting Banco BPM S.p.A."), Via Nizza 262/73, 10126, Turin.
The proxy is effective only for those proposals in relation to which voting instructions have been given. The proxy and the voting instructions are revocable within the same deadline as above (by 16 April 2024 and – for submission by means of the online compilation method – by 12:00 noon on 17 April 2024) and in the same manner as for conferment;
(ii) be represented by Computershare S.p.A. as Appointed Representative pursuant to art. 135-*novies* TUF as an exception to art. 135-*undecies*, fourth paragraph, of the TUF, by means of proxy and/or sub-delegation, with voting instructions on all or some of the proposed resolutions on the items on the agenda, using the proxy/sub-delegation form available on Banco BPM's website *www.gruppo.bancobpm.it* (section "*Corporate Governance - Shareholders' Meeting*") to be sent to Computershare S.p.A, by the deadline indicated in the form itself, to the certified email address *bancobpm@pecserviziotitoli.it* provided that the delegating party, even if a legal entity, uses its own certified email address or, failing that, its own ordinary email address.

The Designated Representative will be available for clarification or information on +39-011-0923200.
Considering that attendance at the Shareholders' Meeting and the exercise of voting rights, by those entitled to vote, shall take place **exclusively** through the Designated Representative, to whom voting instructions shall be given on

all or some of the resolution proposals regarding the items on the agenda, and in consideration of the deadline for the submission by the Shareholders of any individual resolution proposals as set forth below, the proxy forms shall be made available, in the manner indicated above, as of 26 March 2024.
Please note that there are no plans to vote electronically or by correspondence.

ADDITIONS TO THE AGENDA AND PRESENTATION OF NEW RESOLUTION PROPOSALS

Shareholders who, also jointly, represent at least 1/40 of the share capital may request, **by 25 March 2024**, the integration of the list of items to be discussed at the Shareholders' Meeting (except for those items on which the Shareholders' Meeting resolves, pursuant to law, upon the proposal of the administrative body or on the basis of a project or a report prepared by the same, other than those indicated in Article 125-*ter,* paragraph 1, TUF), indicating in the request the additional items proposed, pursuant to Article 13.3. of the Articles of Association and Article 126-*bis* TUF.
The written application must be submitted to the Company by electronic communication to the certified mail address *soci@pec.bancobpmspa.it* or by registered mail (Group Corporate Affairs, Piazza Filippo Meda, 4 - 20121 Milan).
The entitlement to exercise the right (including the ownership of the minimum share of share capital indicated above) is attested by the filing of a copy of the notice issued by the authorised intermediary pursuant to Article 43 of the Joint Measure.
Shareholders requesting an addition to the list of items to be dealt with must prepare a report stating the reasons for the proposed resolutions on the new items they propose to deal with. The report shall be submitted to the board of directors by the deadline for submitting the request for supplementation indicated above. The board of directors shall make the report, accompanied by its own evaluations, if any, available to the public at the same time as the publication of the announcement of the integration of the agenda, in the manner provided for by the regulations in force.
Notice of any additions to the agenda will be given, in the same form prescribed for the publication of this notice **by 3 April 2024**.

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<u>*Individual proposals for deliberation*</u>
In relation to the fact that participation in the Shareholders' Meeting is envisaged exclusively through the Designated Representative, those with voting rights may, by **3 April 2024**, individually submit resolution proposals on the items on the agenda, by sending them by electronic communication to the certified mail address *soci@pec.bancobpmspa.it* or by registered mail (Group Corporate Affairs, Piazza Filippo Meda, 4 - 20121 Milan). Proposals must indicate the item on the agenda to which they refer and contain the text of the resolution. The legitimacy to formulate proposals shall be certified by the communication sent by the intermediary to the Company pursuant to Article 43 of the Joint Measure. Such proposals, if pertinent with respect to the items on the agenda and validly submitted, shall be made available to the public, by the Company, in the manner provided for by current regulations, by **5 April 2024**. The deadline for submitting said proposals, set to coincide with the deadline for the publication of requests for integration pursuant to Article 126-*bis,* paragraph 1, first sentence, of the Consolidated Law on Finance, allows those interested in submitting individual proposals to consider what has been published by the Company in relation to the items on the agenda and, at the same time, the Appointed Representative to adapt, where necessary, the proxy forms pursuant to Article 135-*undecies* and Article 135-*novies* of the Consolidated Law on Finance, so that those entitled to vote may, for the purpose of issuing voting instructions, evaluate, at the same time and in a timely manner, all requests and proposals submitted.

THE RIGHT TO ASK QUESTIONS ON ITEMS ON THE AGENDA

Those entitled to vote may ask questions on the items on the agenda only prior to the Shareholders' Meeting, by submitting them **by Tuesday, 9 April 2024**, by certified e-mail to *soci@pec.bancobpmspa.it*.
Applicants must send the Company - through their intermediary - the notices certifying their entitlement to exercise their right; if they have asked their intermediary for the notice to participate in the Shareholders' Meeting, it will be sufficient to include in the request the references of the notice or at least the name of the intermediary itself.
Questions will be answered, at the latest, by **Monday 15 April 2024**, by publication on the Company's website.
The Company may provide a single answer to questions with the same content. Please note that an answer will not be provided if the requested information is already available in a "question and answer" format in a specific section of the Company's website or when the answer is already published in the same section.

INFORMATION ON SHARE CAPITAL

As of the date of this notice, the Company's subscribed and paid-up share capital is equal to Euro 7,100,000,000.00 divided into 1,515,182,126 shares with no indication of par value. As at the date of this notice, the Company holds 7,863,970 treasury shares.

DOCUMENTATION

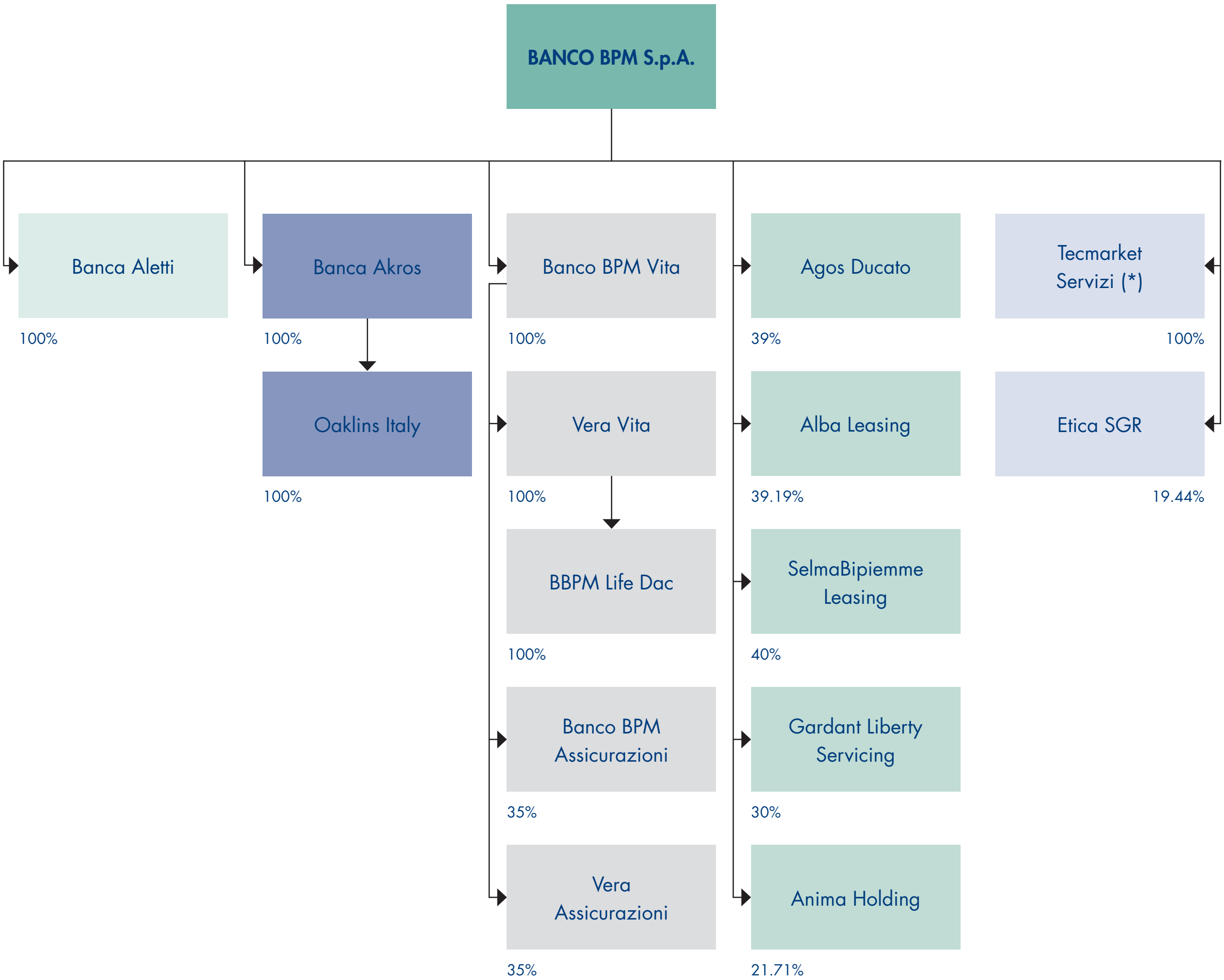
The illustrative reports of the Directors on each of the items on the agenda, including the proposed resolutions, as well as the other documentation for which publication is required prior to the Shareholders' Meeting, will be made available to the public at the registered office of Banco BPM S.p.A. and at Borsa Italiana S.p.A., as well as published on the Bank's website section *"Corporate Governance - Shareholders' Meeting"*) and on the website of the authorised storage mechanism *www.emarketstorage.it*, in accordance with the terms and procedures provided for by the regulations in force.
Once the deposit has been made, Shareholders are entitled to obtain a copy of the above documentation by sending a specific request to Banco BPM S.p.A. at the certified e-mail address *soci@pec.bancobpmspa.it*.
The Bank has also prepared (i) the Report on Corporate Governance and Ownership Structure pursuant to Article 123-*bis* of Legislative Decree No. 58/1998 (ii) the Consolidated Non-Financial Statement pursuant to Legislative Decree No. 254/2016 and Consob Resolution No. 20267 of 18 January 2018. The documents will be available to the public at the registered office of Banco BPM S.p.A. and at Borsa Italiana S.p.A., as well as published on the Bank's website (*www.gruppo.bancobpm.it*, section "*Corporate Governance*") and on the website of the authorised storage mechanism *www.emarketstorage.it* in accordance with the terms and procedures provided for by current regulations.
This notice - also made for the purposes of Article 84 of the Issuers' Regulations - is published, pursuant to Article 125-bis of the Consolidated Law on Finance and Article 13.4. of the Articles of Association, in the daily newspapers "***Il Sole 24 Ore***" and *"**MF**"* as well as in the other ways indicated above.
Further information on how to participate in the Shareholders' Meeting may be requested from Banco BPM S.p.A. (Affari Societari di Gruppo, Piazza Filippo Meda n. 4 - 20121 Milan) by sending a communication to the certified e-mail address *soci@pec.bancobpmspa.it*.
In compliance with the legislation on the protection of personal data (EU Regulation 2016/679 - GDPR), we inform you that the Data Controller is Banco BPM S.p.A.; the data will be processed for the sole purpose of executing the corporate contract to which the Member is a party and performing obligations or responding to requests arising from the role of Member of the Bank.
The complete information is available at *www.gruppo.bancobpm.it*, section '*Corporate Governance - Shareholders' Meetings*'.

Milan-Verona, 12 March 2024

For the BOARD OF DIRECTORS
The Chairperson
(Dr. Massimo Tononi)

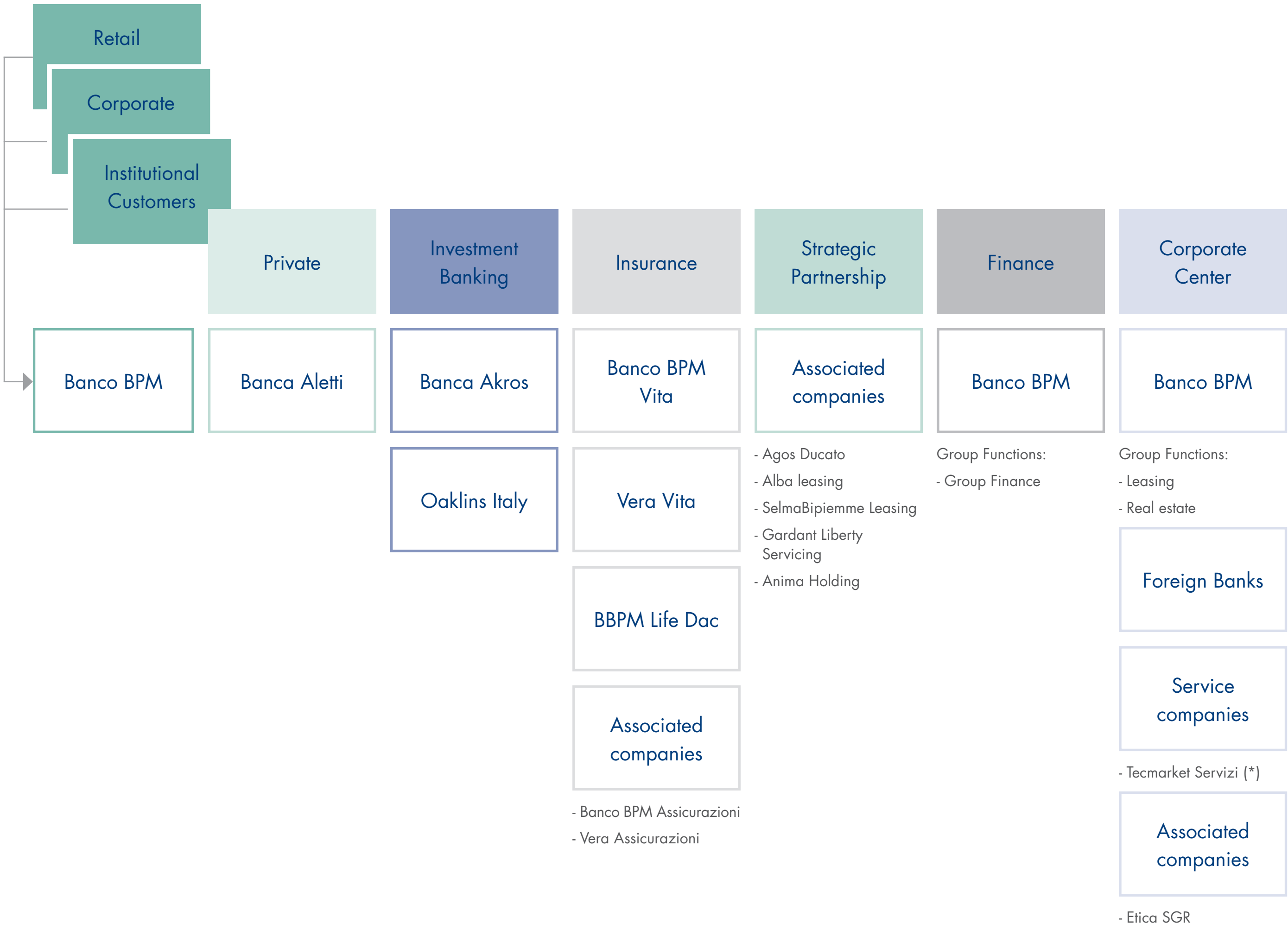
Reports on operations and consolidated financial statements for the year

GROUP STRUCTURE: MAIN COMPANIES



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

GROUP STRUCTURE: BUSINESS LINES



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

GROUP TERRITORIAL NETWORK

N° BRANCHES

NORTH	1,097
CENTRE	208
OUTH AND ISLANDS	131
TOTAL	1,436

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

Presence abroad

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

Group financial highlights and economic ratios

Highlights

The tables below provide the income statement and balance sheet highlights of the Group, calculated based on the reclassified financial statements. The underlying calculations for these are illustrated in the "Results" section of this Report.

Some economic and financial ratios are also provided, based on accounting data, corresponding to those used by the Company Management to analyse performance and consistent with the most widespread practices in the banking sector.

The definitions of the ratios and of the main balance sheet and income statement items commented on in this report are illustrated in the following section "Results", to which reference should be made for further details.

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

(millions of euro)	2023	2022 (*)	% Change
Income statement figures			
Financial margin	3,433.3	2,450.4	40.1%
Net fee and commission income	1,860.0	1,887.3	(1.4%)
Operating income	5,341.4	4,674.0	14.3%
Operating expenses	(2,571.2)	(2,530.4)	1.6%
Profit (loss) from operations	2,770.3	2,143.6	29.2%
Profit (loss) before tax from continuing operations	2,041.0	1,288.9	58.4%
Profit (loss) after tax from continuing operations	1,436.3	881.8	62.9%
Parent Company's profit (loss) for the year	1,264.5	685.0	84.6%

(*) The figures relating to the previous year have been restated following the retrospective application of IFRS 17 by the Group's insurance companies, as well as IFRS 9 for associates. For more details on data comparability, please refer to the "Results" section of this report.

(millions of euro)	31/12/2023	31/12/2022 (*)	% Change
Balance sheet figures			
Total assets	202,132.0	189,808.1	6.5%
Loans to customers (net)	105,426.7	109,455.0	(3.7%)
Financial assets and hedging derivatives	43,706.4	43,093.5	1.4%
Group shareholders' equity	14,038.1	13,015.8	7.9%
Customers' financial assets			
Direct bank funding	120,770.1	120,639.1	0.1%
Direct funding without repurchase agreements with certificates	*124,754.0*	*123,449.5*	*1.1%*
Indirect funding	110,772.7	95,029.1	16.6%
Indirect funding without protected capital certificates	*106,166.1*	*91,327.8*	*16.2%*
- Asset management	62,003.1	59,408.7	4.4%
- Mutual funds and SICAVs	41,927.2	39,916.6	5.0%
- Securities and fund management	4,369.3	3,969.4	10.1%
- Insurance policies	15,706.6	15,522.7	1.2%
- Administered assets	48,769.6	35,620.4	36.9%
- Administered assets without protected capital certificates	*44,163.0*	*31,919.1*	*38.4%*

(*) The figures relating to the previous year have been restated following the retrospective application of IFRS 17 by the Group's insurance companies, as well as IFRS 9 for associates. For more details on data comparability, please refer to the "Results" section of this report.

	31/12/2023	31/12/2022	Absolute change
Information on the organisation			
Average number of employees and other staff (*)	19,011	19,278	(267)
Number of bank branches	1,436	1,504	(68)

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

Financial and economic ratios and other Group figures

	31/12/2023	31/12/2022 (*)
Profitability ratios (%)		
Return on equity (ROE)	11.18%	6.26%
Return on tangible equity (ROTE)	12.43%	6.99%
Return on assets (ROA)	0.63%	0.36%
Financial margin / Operating income	64.28%	52.43%
Net fee and commission income / Operating income	34.82%	40.38%
Operating expenses / Operating income	48.14%	54.14%
Operational productivity figures (thousands of euro)		
Loans to customers (net) per employee (1)	5,545.5	5,677.6
Operating income per employee (euro) (1)	281.0	242.4
Operating expenses per employee (euro) (1)	135.2	131.3
Credit risk ratios (%)		
Net bad loans / Loans to customers (net)	0.59%	0.66%
Net unlikely to pay / Loans to customers (net)	1.11%	1.44%
Net bad loans / Shareholders' equity	4.46%	5.54%
Texas ratio	14.43%	19.82%
Other ratios		
Financial assets and hedging derivatives / Total assets	21.62%	22.70%
Total derivatives / Total assets	1.42%	2.34%
- trading derivatives / total assets	0.94%	1.44%
- hedging derivatives / total assets	0.48%	0.90%
Net trading derivatives / Total assets	0.06%	0.03%
Loan to deposit ratio (net loans/direct funding)	87.30%	90.73%
Regulatory capitalisation and liquidity ratios		
Common equity tier 1 ratio (CET1 capital ratio) (2)	14.16%	12.84%
Tier 1 capital ratio (2)	16.33%	15.16%
Total capital ratio (2)	19.00%	18.04%
Liquidity Coverage Ratio (LCR)	187%	191%
Leverage ratio	5.22%	4.75%
Banco BPM stock		
Number of outstanding shares	1,515,182,126	1,515,182,126
Official closing prices of the stock		
- Final	4.781	3.334
- Maximum	5.324	3.630
- Minimum	3.403	2.268
- Average	4.259	2.877
Basic EPS	0.836	0.452
Diluted EPS	0.836	0.452

(*) The figures relating to the previous year have been restated following the retrospective application of IFRS 17 by the Group's insurance companies, as well as IFRS 9 for associates. For more details on data comparability, please refer to the "Results" section of this report.

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

(2) The capital ratios as at 31 December 2023 were calculated by including the net result for the year 2023 net of the proposed dividends and other allocations of profit. The capital ratios as at 31 December 2022 were restated with respect to those published in the 2022 Annual Financial Report following the retrospective application of IFRS 17 by the Group subsidiary and associated insurance companies, and IFRS 9 for associates.

Group report on operations

ECONOMIC SCENARIO

The international scenario

2023 was characterised by moderate growth in the global economy, although higher than expectations at the beginning of the year, which had predicted a marked slowdown in the United States and in Europe, with the possibility of some quarters in recession. Instead, the USA is set to close the year with accelerating growth compared to 2022 and at levels close to potential. Europe managed the situation better than expected, although experienced a sharp slowdown, while China, after the interruption of lockdowns, sought to maintain a growth rate in line with the past, strengthening stimulus measures.
The main obstacles to a more sustained growth pace came from the still high inflation - although it fell rapidly in the second half of the year - and the high interest rates reflecting the restrictive monetary policies implemented in the main world economies, with the notable exception of China. The two factors - inflation and high rates - have in fact slowed down consumption and investments, in a large part of the main Western economies.
These factors were compounded by other events that at times affected the expectations of economic operators and the financial markets. At the beginning of March, a situation of tension arose in the banking markets, originating in the USA, with four medium-sized banks (including First Republic Bank) and a Swiss bank of global importance (Credit Suisse) as its epicentre. Although the crisis led to several bank failures (including Silicon Valley Bank) and the acquisition of Credit Suisse by UBS, thanks to the intervention of the US authorities, it was first buffered and, at the end of May, returned to normality. In the last quarter, on the geopolitical front, the Ukrainian conflict was superimposed by an acute Israeli-Palestine clash that rekindled the never-ending unresolved Middle Eastern crisis. The two conflicts affected the regular functioning of global supply chains and exerted a certain burden on the public finances of Western countries, especially in terms of support to Ukraine, already burdened by the prospect of a rising debt refinancing cost.
With regard to the fight against climate change, the outcome of the COP28 conference - held in Dubai at the beginning of December - despite the presence of several positive secondary results, did not clearly indicate a desire to make the "gradual reduction" in the use of fossil fuels mandatory for participating countries, reaching less binding conclusions along the road to decarbonisation.

Specifically, global GDP is expected to grow by 3.0% in 2023 (IMF), one of the lowest levels since the Great Financial Crisis of 2008/09 (except for the pandemic period), resulting from a more contained trend for the advanced economies (+1.5%) and a more lively one for emerging and newly industrialised economies (+4.0%).
In 2023, the US economy disappointed the expectations of those who had expected a recessionary phase, the so-called "hard landing": instead, it was characterised by a good pace of growth - albeit dotted with conflicting signals - driven by strong consumer spending (including discretionary services, such as entertainment), in turn supported by solid and constant growth in employment and rising real wages. Consumption also benefited from the residual savings accumulated in the pandemic period and from the tax measures adopted at the end of 2022 (for USD 1.7 trillion) but which entered into force for the most part ("Inflation Reduction Act") at the beginning of 2023. Lastly, some help was also provided by the multiple reshoring phenomena, which triggered a resumption of investments in new manufacturing facilities, in addition to the public investments made by the Biden-Harris administration in sectors that are critical to future growth, and the increased spending by state and local governments.
After two positive quarters (+2.2% annualised quarterly in the first and +2.1% in the second), in the third quarter, US GDP accelerated considerably, growing by 4.9%. This is the strongest growth since the fourth quarter of 2021. The year ended with an increase in GDP in the fourth quarter (preliminary flash estimate) of +3.3% annualised quarterly, which brought the overall increase for 2023 to +2.5%, an appreciable acceleration compared to 1.9% in 2022. The result of the fourth quarter is due, first and foremost, to the lively trend in consumer spending, which increased by +2.8% (3.1% in the third quarter) and a positive contribution from net exports; gross private investments, on the other hand, with an increase of +2.1%, recorded an adjustment compared to +10.0% in the third quarter.
The fight against inflation, and the slowdown of its uptrend, was the central theme in the economic events in the United States (and those of the other major Western economies). The inflation rate, which at the beginning of the year stood at 6.3%, also driven by monetary policy, continued along the path of recovery that started at the end of 2022 and, after reaching 3.1% in November (minimum of the previous five months), rose at the end of the year, in December, to 3.4%. In the meantime, core inflation fell to +3.9% in December, lower than the +4% of the previous period.

The labour market remained tense for most of the year. Wage growth was one of the main sources of concern for the monetary authorities engaged in the fight against inflation. The situation only started to resolve itself towards the end of the period: despite the fact that the US economy added 216,000 new non-agricultural jobs in December (+199,000 in November), it was the second consecutive month with a figure lower than the average monthly increase (approximately 240,000 units) observed in the last year.
In China, the lifting of zero-COVID restrictions freed up repressed demand for services in the first quarter of 2023, putting an end to supply chain disruptions and boosting revenues in the food service, tourism and entertainment industries. After a good start, Chinese economic activity, marked by a sharp decline in trade and by the difficulties of the real estate sector, then suffered a slowdown that eased towards the end of the year. The protracted crisis in the Chinese real estate sector worsened in 2023: real estate investments fell by 19%. This continued to slow down the economy, given the high weight of the sector on GDP, while the major Chinese real estate developers had to face a series of defaults. However, economic activity recorded a significant recovery in 2023 compared to the disappointing performance of the previous year, driven by the increase in demand for services, the resilience of manufacturing investments and those in public infrastructure.
Specifically, Chinese GDP grew by 1.3% QoQ in the third quarter of 2023, exceeding market expectations, supported by a series of monetary stimulus measures. Average annual growth for 2023 is estimated at 5.5%, in line with government targets. Chinese inflation, which has fallen steadily since the second half of 2022 - also due to the decline in some important food components of the CPI index - fell from a growth of +2.1% at the beginning of the year to negative values, -0.3% (-0.5% in November). Despite the deflationary context, the Chinese labour market maintained a positive tone: in November, the Chinese urban unemployment rate was 5% (the target set by the Government was 5.5%), the lowest level since November 2021.
In the Japanese economy, growth in the first half of the year was essentially driven by domestic demand, in particular by consumption supported by government measures and by savings accumulated during the pandemic. The contributions of capital investments and the recovery of incoming tourist demand were also positive.
In the third quarter, the growth rate of real GDP in Japan instead recorded a reversal of the trend: the aggregate decreased by -0.7% on a quarterly basis, in a context of high pressure on costs and the increasing headwinds of global demand. In particular, there were decreases in both private consumption (-2.3%) and public investments (-0.6%). Foreign trade also represented a drag on GDP. However, the data made available to date remains consistent with annual GDP growth estimated at 1.7%. Japanese inflation declined considerably during the year, from a peak of 4.3% in February to 2.6% in December (0.6% at the end of 2021). Also reflecting the positive growth trend, the unemployment rate stood at 2.5% in November, lower than the annual high recorded in April of 2.8%.
As regards some of the main emerging or newly industrialised economies, India’s GDP grew by 7.6% on an annual basis in the third quarter of 2023, exceeding forecasts of a 6.8% increase. For the whole of 2023, growth is expected at +7.0%.
Brazil reported unexpected growth of 0.1% quarterly in the third quarter of 2023, slowing down sharply after the strong expansion in the first half of the year. Growth is estimated at 3.1% over the year. The annual inflation rate fell to 4.6% in December 2023 from 4.7% in November.
World trade continued to be affected by geopolitical tensions, which also spread in the Middle East in the final part of the year, as well as the weakening of global demand and the still vigilant and restrictive monetary policies. The Monetary Fund recorded growth in global trade in goods and services in volume at +0.9%, a significant reduction compared to the +5.1% recorded in 2022 and well below the pre-pandemic trend. Global inflation, during the year and in particular towards the end, was positively affected by lower pressure from the price of raw materials, especially energy, which slowed down the growth of consumer prices in the majority of the economies, even if the prices of food and services continued to remain viscous. Core inflation therefore remains stubbornly high in many cases. The International Monetary Fund estimates a global inflation rate of +6.9% in 2023 (+8.7% in 2022) and a decline in commodity prices: -16.5% (+39.2% in 2022) average for crude oil and -6.3% and for non-energy commodities (+7.9%).

The economy in Europe and Italy

In the first half of the year, the Eurozone economy was influenced by opposing economic factors: on one hand, the Area managed to get through the winter avoiding both energy shortages and the recession feared by many, instead receiving a boost to growth from the fall in gas prices, which provided partial relief to consumers; on the other hand, it lost momentum due to high living costs, low external demand and money tightening policies, which negatively affected real disposable incomes of European households. However, in the second half of the year, inflationary tensions eased rapidly, leaving more room for consumption. Towards the end of the year, however, the negative

impact of the new geopolitical tensions in the Middle East came, while in Ukraine the conflict continued, still causing concern.
More specifically, the Eurozone GDP fell by -0.1% QoQ (unchanged YoY) in the third quarter of 2023, marking a reversal compared to the growth of 0.1% in the previous three months. This was the first decline in GDP since the last quarter of 2022, mainly attributed to a negative contribution of -0.3% resulting from the change in stock. In the meantime, fixed investments remained unchanged (compared to -0.1% in the second quarter) and net foreign demand made a neutral contribution to GDP. Household consumption increased by 0.3% (although down by 0.4% YoY), putting an end to three consecutive periods of downturn or stagnant growth, on a par with public spending (+0.3% compared to +0.2% in the second quarter).
The preliminary results for the fourth quarter show a zero quarterly change (+0.1% YoY) in the Eurozone GDP, which recorded an annual increase for 2023 of +0.5%. In the last quarter, the major economies recorded fairly different trends: positive for the main economies of Southern Europe, +0.8% QoQ for Portugal, +0.6% for Spain and +0.2% for Italy, negative for Germany, -0.3% and Ireland, -0.7%.
Inflation fell considerably during the year: the fall in the prices of energy products - down by -6.7% in December - and the restrictive action of the ECB - pushed the trend in the CPI from the highest values since the launch of the Euro, recorded in the last quarter of 2022 (9.2% in December 2022) to +2.4% in November 2023, with a natural rebound to 2.9% in December. Meanwhile, annual core inflation, which excludes energy, food, alcohol and tobacco prices, has cooled to 3.4%. The trend in employment continued to be favourable: in November, the unemployment rate fell to 6.4%, the lowest level since the introduction of the Euro, while that of young people (job seekers under 25 years old) fell to 14.5%. At the same time, wage trends continued to be fairly lively. The hourly cost of labour in the Eurozone rose by 5.3% on an annual basis in the third quarter of 2023, compared to the increase of 4.5% in the previous quarter. Wages and salaries per hour worked increased by 5.3%, marking an acceleration compared to 4.6% in the second quarter, while the non-wage component increased by 5.1%, after a rise of 4.2% in the second quarter.
In terms of fiscal policies to support growth, funding for Next Generation EU (NGEU) exceeded 360 billion. In February, this instrument was supplemented by the European plan for energy independence from Russia and green transition (REPowerEU), approved by the EU Council. The Recovery and Resilience Facility (RRF) - the main vehicle to support investments linked to the NGEU - was then strengthened during the year with further subsequent amendments, also to take the inflationary trend into account.
On 20 December, after four years of negotiations, EU Economy and Finance ministers reached an initial agreement on the new Fiscal Compact that will have to be approved by the European authorities. Compared to the old rules, the new ones are less stringent and outline more gradual and country-specific tax adjustment paths. However, to assess prospects and implications for growth and markets, it is necessary to wait for the application of the new rules.
In the Eurozone, according to the latest available data (end of October), the public deficit/GDP ratio fell from 5.2% in 2021 to 3.6% in 2022, while the public debt/GDP ratio fell from 94.7% at the end of 2021 to 90.9% at the end of 2022. The European Commission estimates an EU deficit/GDP ratio of -3.2% and a debt/GDP ratio of 83.0% for the whole of 2023 (from 93.1% in 2022).
In the Italian economy, like the Eurozone, the problems resulting from the conflict in Ukraine in terms of the cost and supply of energy sources, which risked depressing growth, were mitigated through the diversification of sources. However, after a very lively start, the economic trend slowed down. In the first quarter, in fact, GDP growth rebounded decisively, +0.6% on the previous quarter - a value at the top of the Eurozone - and +1.9% on an annual basis, thanks to a robust acceleration in household consumption and investments. In the following months, due to the fall in international demand and the elimination of part of the tax relief measures, this momentum of economic activity weakened. In the second quarter, in particular, GDP fell by 0.4% on the previous quarter, slowing growth to 0.4% YoY, and suffering a generalised decline in its components, in particular residential real estate investments, and the stagnation of household consumption. A modest recovery was recorded in the three summer months: GDP increased by 0.1% compared to the previous quarter. This change was linked to the positive contribution of net foreign demand, the result of a more marked decline in imports than exports, and a solid increase in household consumption (+0.4%). Fixed investments and public spending remained unchanged, while the decline in stock contributed negatively to GDP (-1.3%). On the production side, industry (+0.3%) and services (+0.1%) recorded modest increases, while the primary agricultural sector decreased by 1.2%. Preliminary estimates for the fourth quarter indicate growth of 0.2% QoQ, higher than expected, and 0.5% YoY. If confirmed, the data would correspond to GDP growth for the whole of 2023 of +0.7% (+3.9% in 2022).
The decline and subsequent stabilisation of the prices of energy commodities, in addition to the positive effects on economic activity, allowed a very rapid fall in inflation. Starting from very high levels at the beginning of the year of 11.8%, it closed the year at 0.6%, marking the lowest level since February 2021, also thanks to the substantial base effects and the ECB’s prolonged restrictive monetary policy period. Energy deflation accelerated compared to the

previous year, both for the non-regulated part (-22.5% vs -17.7%) and for the regulated part (-34.9% vs -31.7%). The rapid decline in inflation also occurred in conjunction with a particularly healthy labour market: in October the employment rate reached a record high of 61.6%, while the activity rate rose to 67.1%.
In the second quarter of 2023, after the renewal with amendments of some economic support measures (including residual Superbonus measures) at the turn of the year, the Government approved three further decrees containing mitigation measures, to combat high energy costs and the incidence of inflation on real disposable income. In May, the reduction of the tax wedge paid by workers was also increased and the increase in the threshold for fringe benefits (to 3 thousand euro) and vouchers (to 15 thousand euro) was confirmed.
Lastly, the NRRP was revised at EU level. On 19 September, the European Commission approved the new Plan for Italy - which increases total resources to 194.3 billion and introduces the new REPowerEU chapter, which includes incentives for businesses and new authorisation procedures aimed at streamlining bureaucracy with regard to renewable energy, to encourage faster implementation of investments. Currently, the ratio between allocated funds and investments made is around 14% and around 75% of the projects are significantly delayed. In 2023, disbursements amounted to only 2.5 billion, 7.4% of the planned amount.
With regard to public finance, preliminary estimates indicate a deficit of 5.3% of GDP for Italy, against a primary deficit estimated to fall to 1.5% of GDP (3.8% in 2022). Despite the increase in market rates, the Debt/GDP ratio is expected to improve to 140.4% (from 144.4% in 2022).

Monetary policy and the financial markets

The monetary policies of the major central banks in 2023 strengthened the markedly restrictive nature that they had already assumed in 2022. This orientation has contributed to containing the inflationary trend which, as mentioned in the previous pages, has significantly fallen at global level, by virtue of the recovery of some factors that had fuelled it, in particular energy prices and tensions in supply chains, and is expected to slow down further in 2024.
The monetary policy of the USA has moved in this restrictive direction, with the Federal Reserve, which up until August 2023 continued to increase the reference rates, albeit at a lower rate than that set in 2022, by applying 4 consecutive increases of 25 basis points each. Only starting from the September meeting, for the first time since March 2022, the FED interrupted the sequence, keeping the reference interest rates unchanged also in the subsequent meetings of the year: the target range for the Fed Funds rates therefore settled in the range between 5.25% and 5.50%, the highest since 2001. To complement the restrictive interest rate policy, the Federal Reserve also continued to pursue the quantitative tightening process that started in June 2022 throughout 2023, interrupting the reinvestment of maturing securities for a monthly maximum of around 60 billion dollars, and reducing overall balance sheet assets in 2023 by more than one trillion dollars.
However, at the December meeting, the expectations of the FED members on the future evolution of the Fed Funds, the so-called "Fed dots", were revised downwards, incorporating a rate cut of 75 basis points in 2024. Governor Jerome Powell simultaneously sent a message of caution, stating that the fight against inflation could not be considered over. The Fed therefore remains ready to further tighten monetary policy if necessary and will continue to assess macroeconomic data to calibrate decisions. The markets interpreted the new Fed Dots - the dot chart that represents the forecast on the interests of each individual head of the Fed - as pivot in the setting of monetary policies and, therefore, as being open to a reversal of interest rates in the following year.

The European Central Bank, for its part, in the first two meetings of 2023 approved two hikes of 50 basis points in official interest rates (in February and March) and continued its monetary tightening policy with more contained increases (25 basis points) in the four subsequent sessions of the year, for an overall increase of 200 basis points. The last increase in September was the tenth consecutive one since 2022. At the meeting held at the end of October, the Governing Council decided to keep the interest rates unchanged, as announced in the previous meeting, therefore settling in a range between 4.00% of the remuneration of deposits and 4.75% of the marginal refinancing rate, which remained unchanged for the rest of the year.
The restrictive approach of the European Central Bank was also confirmed with regard to liquidity in circulation. In fact, the policy of reducing the APP portfolio, announced by the ECB at the last meeting of 2022, was launched in March 2023 and continued until July at a rate of 15 billion per month, through the partial reinvestment of the principal redeemed on maturing securities; subsequently, the reinvestments were completely suspended. As part of the PEPP programme, however, the reinvestment of maturing securities continued throughout 2023 and the ECB's intention is to maintain this line of action in the first part of 2024, making a reduction in the second half of the year, ending reinvestments also under this programme at the end of 2024. In any case, the further reduction of the PEPP portfolio will be managed to avoid interference with adequate monetary policy.

Following the significant reduction in inflation in the Eurozone in the last quarter of the year, the financial markets ramped up bets on official interest rate cuts in 2024. However, the ECB's year-end projections indicate an average inflation rate for 2024 above the target level, which would be achieved in 2025. The Governing Council of the ECB therefore maintained a prudent approach until the end of the year, concerned in particular by the still lively trend of labour costs in the Eurozone, reiterating that future decisions will be "data driven" with the objective that inflation return to the 2% target in the medium term and to preserve the orderly functioning of the monetary policy transmission mechanism.

Following the period of crisis and widespread losses in all the main securities asset classes in 2022, the financial markets saw generalised increases in share and bond prices, although there were temporary negative shocks, such as that caused by the bankruptcy of the US Silicon Valley Bank in particular. The fate of the financial markets in 2023 was mainly driven by expectations on the outlook for the monetary policies of the main global central banks and the estimates of their potential effects on the performance of economic growth and inflation. Much of the rise in prices, both shares and especially bonds, in fact, accrued in the latter part of the year, thanks to the growing conviction of operators that central banks were now close to defeating the inflationary trend and to easing monetary policies in the near future both in the US and in Europe, in a context of soft landing of the developed economies. In the first few months of the year, on the other hand, the stock markets suffered from the aforementioned tensions on the US banking markets and their repercussions. Subsequently, during the summer, bond and share prices suffered the temporary brisk rise in interest rates caused by the expectations of further monetary tightening, which were forming at the time following the FED's hawkish statements and the surprisingly robust data in the US labour market.
Among the main global stock indices, the best performance was recorded by the Nasdaq composite, up by 43.4% over the year, which benefited in particular from the boom in shares with higher capitalisation (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla) which also drove the other listings in which they are present. One of the main issues on which investors have focused and which have pushed these mega caps to formidable increases, is the expectation for developments in artificial intelligence applications, a field in which these companies are considered to be among the main players. The rise in the shares of these securities offset the lower liveliness of the rest of the shares listed on the US markets, highlighted by the lower performance of the Standard & Poor's 500 index, which rose by 24.2% and the Dow Jones 30, up by 13.7%.

The European stock markets were also characterised by significant recoveries, with the Eurostoxx 50 index closing 2023 with a positive performance of 19.2%, despite fears over the prospects for economic growth in the Eurozone and the orientation of the ECB's policy monetary policy. Among the European stock exchanges, the Italian stock market stood out, with a rise of +28.0% since the beginning of the year, driven primarily by the "outperformance" of the banking sector, whose index recorded an increase of 42.3%.

The bond markets showed pronounced volatility during the year. Bond prices in the USA and in the Eurozone up until after the summer, between highs and lows, substantially continued the decline that started the previous year, affected by the continuous increases in official interest rates, the declarations of central bankers marked by great rigour and the persistence of "core" inflation, despite the decline in overall inflation, with a final stretch in October. From that moment on, the sudden drop in inflation data and the consequent expectations of a reversal of monetary policies triggered a powerful rally that continued until the end of the year which, in general, brought the performance of the main bond markets back to positive territory during the year.
In detail, the ten-year Bund yield fell from 2.56% at the beginning of the year to around 2.00% at the end of December, after reaching a peak of over 2.90% at the end of the summer, while that of the US T-bond of the same duration closed the year at around 3.80%, only marginally lower than at the beginning of January, but down significantly compared to the highs reached in mid-October in the area of 5%, the highest level in the last 16 years. Even the ten-year BTP yield, albeit with rather large and sudden fluctuations that pushed it to around 5.00% at the beginning of the autumn, at the end of December settled at levels lower than those at the beginning of the year (from 4.60% to around 3.50%). The BTP/Bund spread in the same period narrowed significantly, from over 200 basis points at the beginning of the year to 160 basis points at the end of December, also thanks to the promotion of the Italian outlook from "negative" to "stable" by Moody's in mid-November.
The slope of the US and EMU government rate curve remained inverted throughout the year; the 2-10 year spread in the USA reached record levels from a historical perspective in the summer months, and then narrowed at the end of December. On the shorter part of the curve of US government bonds, the volatility was similar to that of longer-term securities, while in the Eurozone the variability was slightly lower.

Domestic banking activity

The Eurozone banking sector continued to show solidity and resilience in 2023. The banks maintained solid capital and liquidity positions on average, well above regulatory requirements. Profitability returned to levels not observed for more than a decade, strengthening the ability to withstand external shocks, as shown by the results of the 2023 EU-wide stress test.

However, the weak macroeconomic outlook and the tightening of financing conditions continued to be a source of risk for European banks. The rapid increase in interest rates in the wake of the ECB's highly restrictive monetary policy contributed to boosting the overall profitability of banks but, at the same time, caused an increase in credit, valuation and liquidity risks. The turbulence in the US banking sector last March highlighted the importance for the sector of effective interest rate risk management.

The trend in lending by the Italian banking system showed a decline in loans to both households and businesses, in line with the slowdown in economic growth, which decreased demand for loans. The demand for credit by businesses decreased, reflecting the increase in the level of interest rates, the fall in the requirements for spending in fixed investments and the greater use of self-financing. Similarly, the demand for loans from households decreased, both for the purchase of homes and for consumption purposes. In both cases, the higher level of interest rates and increasingly lower levels of confidence made a negative contribution.

In particular, in December 2023, total bank loans to households and businesses for the year were down. This evidence emerges on the basis of the initial estimates of the SI-ABI: total loans to residents in Italy (private sector plus public administrations net of repurchase agreements with central counterparties) in December 2023 stood at 1,669.6 billion, with an annual change of -3.9% (1,742.7 billion in December 2022).

Loans to residents in Italy in the private sector amounted to 1,428 billion, down 3.2% compared to December 2022 (1,479.1 billion), while loans to households and non-financial companies were 1,296 billion, with an annual change of -2.2% (1,328.0 billion in December 2022).

On the credit quality front, the data recorded was satisfactory, despite a certain increase in bad loans following the rise in interest rates and the slowdown in the economy. In fact, it should be noted that net bad loans (i.e. net of write-downs and provisions already made by the banks with their own resources) in November 2023, the latest figure available, amounted to 17.7 billion, up slightly compared to the previous month (17.5 billion) and approximately 1.6 billion higher (+9.7%) than a year earlier. The ratio of net bad loans to total loans in November 2023 stood at 1.05% (0.92% in November 2022).

On the funding side, it should be noted that bank funding in December 2023 was down, with a negative trend in technical forms on demand and an increase in the stock of time deposits and bonds.

According to initial estimates by the SI-ABI, in December 2023, total direct funding (deposits from resident customers and bonds) amounted to 2,028.4 billion, down by 1.5% compared to a year earlier (the difference in December 2022 was 0.4% YoY), but recovering from the levels reached in October and November 2023.

In detail, deposits from resident customers in the same month amounted to 1,779.4 billion and fell by 3.8% YoY (-0.5% in December 2022). Medium and long-term funding, through bonds, for an amount of 249 billion, rose compared to a year earlier (+19.1%; -0.1% in December 2022).

The rise in official interest rates was naturally transmitted to lending and borrowing rates. In particular, the average rate on the total stock of funding (households and non-financial companies) in December 2023 was 1.16% (0.61% in December 2022). The rate on total deposits in euro was 0.96% (0.45% in December 2022) while that on current account deposits alone was 0.53% (0.15 in December 2022) and 2.72% (2.12 in December 2022) for bonds.

On the other hand, analysing the data relating only to new transactions, it should be noted that the rate applied to deposits with a fixed duration (certificates of deposits and term deposits) in December 2023 rose to 3.91% (2.16% in December 2022). Instead, as regards the yield on new issues of fixed-rate bank bonds, in December 2023 it was 3.15%, with an increase of 184 basis points compared to June 2022, when it had reached 1.31%.

Similarly, there was a parallel increase in interest rates both on the amounts of loans and on new loans to households and businesses. In particular, in December 2023 the weighted average rate on total loans to households and non-financial companies was 4.76% (3.20% in December 2022). The average rate on new loans only in euro to households for the purchase of homes was 4.42% (3.01% in December 2022), while that relating to new loans in euro to non-financial companies rose to 5.69% from 3.55% in December 2022.

The banking spread was therefore 360 bps in December 2023, up compared to 259 bps in December 2022. As a result, the mark-down - the difference between the rate on total funding from households and non-financial companies and the 3M Euribor - rose significantly and stood at 280 bps in December 2023 (146 in December 2022), while the mark-up on loans - the difference between the rate on total loans to households and non-financial companies and the 3M Euribor - decreased to 80 bps (113 bps in December 2022).

Indirect funding (investments in securities held with banks both under management and held directly by customers) showed a strong increase, which was accompanied by a significant increase in direct purchases of bonds by customers, based on the growth in yields. In November 2023, the latest figure available, it amounted to approximately 1,431.3 billion (an increase of 207.5 billion with respect to one year earlier: +17.2%).
With regard to the assets of open-ended Italian and foreign funds, in November 2023 it rose by 2.8% compared to the previous month, standing at around 1,100.8 billion (+30.5 billion), while it rose by 0.5% against November 2022. The significant imbalance towards foreign funds, which account for 77.9%, remains.
With regard to the breakdown of assets by type of funds, it is noted that, in the last year, the share of equity funds rose from 30.8% to 32.6%, that of bond funds from 33.3% to 35.3%, that of flexible funds from 18.7% to 16.3%, that of balanced funds from 13.2% to 11.8% and that of hedge funds from 0.2% to 0.1%. The share of monetary funds remained at 3.9%.

SIGNIFICANT EVENTS DURING THE YEAR

2023 was characterised by a more reassuring macroeconomic scenario in terms of growth compared to the forecasts at the end of 2022; however, the recent tensions related to the conflict in the Middle East have introduced new elements of concern and uncertainty due to the possible repercussions on the international economic system.

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

Integration of the insurance business

During the year, the Group continued with the process of integrating the insurance business started in 2022 with the acquisition of control of the companies Banco BPM Vita and Banco BPM Assicurazioni, and with the finalisation of an agreement with Crédit Agricole Assurances S.A. for the launch of a commercial partnership in the Non-Life/Protection business segment.

In particular, on 14 December, Banco BPM Group completed the internalisation of the Life business through the acquisition from Generali Italia, paying a total consideration of 392.4 million:

- of 65% of the share capital of Vera Vita S.p.A., which in turn holds 100% of the share capital of Vera Financial Dac (which at the same time changed its company name to BBPM Life Dac);
- of 65% of the share capital of Vera Assicurazioni S.p.A.

The deferred price component will be added to the price paid to Generali Italia, which will be settled in 2024, proportional to 65% of the profits accrued by the companies from 1 January 2023 to 14 December 2023.

On the same date, the Group completed the sale to Crédit Agricole Assurances, for a total consideration of 243.6 million, of shares representing 65% of the share capital of Vera Assicurazioni (which holds 100% of the share capital of Vera Protezione) and 65% of the share capital of Banco BPM Assicurazioni, previously held by Banco BPM and Banco BPM Vita respectively.

This price will be subject to adjustment in favour of Banco BPM Group on the basis of the final values of the Own Funds of the companies as at 31 December 2023. In addition, this price will be subject to possible adjustments by way of earn-out and claw-back in the event of situations of "Overperformance" or "Underperformance" of the production levels, respectively, within the terms and conditions set forth in the agreements between the parties.

Given the above, taking into account further intercompany transfer transactions completed on 15 December 2023, and which led to the completion of the above-mentioned reorganisation, Banco BPM, through the subsidiary Banco BPM Vita, holds i) 100% of the share capital of Vera Vita, which in turn holds 100% of BBPM Life DAC; ii) as part of the partnership with Crédit Agricole Assurances S.A., 35% of the share capital of Vera Assicurazioni S.p.A., which in turn holds 100% of Vera Protezione S.p.A, and 35% of the share capital of Banco BPM Assicurazioni S.p.A..

The acquisition of control of Vera Vita and BBPM Life DAC represents a business combination whose definitive recognition in the accounts will be carried out within 12 months, in compliance with the provisions of IFRS 3.

The overall economic impact related to the reorganisation in question, net of the related tax effects, was a negative 22.2 million. In order to simplify the illustration and guarantee a more immediate comparison of the results on a like-for-like basis, in the reclassified income statement, the economic impacts are shown in an ad hoc item called "Bancassurance impacts net of taxes".
For further details on the impacts of the single transactions of the reorganisation project, please refer to Part G – Business combinations regarding companies or divisions in the Notes to the consolidated financial statements.

The internalisation of the Life insurance business will allow the Group to propose an integrated Wealth Management offer for its customers (Asset Management, Life Insurance, Pension Plan) and a strengthened and standardised Life product range for customers, with important synergies between the product factories and the growth in Life insurance volumes attributable to the financial conglomerate Banco BPM.

In this regard, note that, with its communication dated 7 March 2023, the European Central Bank recognised Banco BPM Group's status as a financial conglomerate pursuant to Directive 2002/87/EC, on the same basis as the main Italian and European financial groups operating in both the banking/investment services and insurance sectors.
This recognition represented the condition for being able to submit the request for the application of Art. 49 (1) of Regulation (EU) no. 575/2013 (CRR), and to access the benefits of the prudential treatment of the equity investment resulting from the application of the so-called "Danish Compromise", whose authorisation was received on 3 November 2023, with effect from the supervisory reports referring to 31 December 2023[1].

The new 2023-2026 Strategic Plan

At the meeting of 11 December 2023, the Banco BPM Board of Directors approved the Group's 2023-2026 Strategic Plan.
The new Strategic Plan reflects the outcome of a path of growth and innovation that Banco BPM has undertaken in recent years and which has strengthened its profitability, consolidated its capital position, improved its overall risk profile and transformed its commercial operations through the wider adoption of digital channels, enhanced the business model and achieved increasing sustainability integration.

The Plan incorporates the new macroeconomic prospects and developments in the regulatory context and was developed by leveraging the Group's distinctive strengths, in particular:
- excellent geographical positioning with a presence concentrated in the wealthiest regions of Italy;
- a solid business model that makes use of significant equity interests in leading product factories in asset management, consumer credit, bancassurance and e-money, as well as the full ownership of highly specialised banks (Banca Akros and Banca Aletti);
- significant growth in profitability and capital solidity;
- progressive digitalisation of the service model, characterised by increasing operations through digital channels, higher than the physical one in the branch;
- integration of ESG aspects, also demonstrated by important awards from rating agencies.

The ambition of the new Plan is to significantly increase the remuneration for shareholders, exploiting the financial and industrial levers that will further boost the growth of total revenues and overall profitability.
With regard to net interest income, the higher cost of funding will be partially offset by a "replacement effect" of new assets at higher rates than the maturing stock, by volume trends and by the active balance sheet management, increasing hedging on deposits.
The results will also benefit from the rise in fee and commission income, thanks to greater commercial effectiveness, acceleration in the wealth management area as well as the effects of the internalisation process and partnerships with the main product factories.
As regards the trend in costs, the continuation of the rationalisation of the distribution network, the simplification of the operating model and the personnel exit plan will make it possible to offset the inflationary effect and enable higher investments to support growth.
The Plan also provides for the continuation of deleverage and derisking activities, which will make it possible to achieve a gross NPE ratio of around 3.0% and a cost of risk of 45 bps in 2026, thanks to the further strengthening of credit granting strategies and the workout capacity, the consolidation of the safeguards for the prevention of defaults, as well as better recovery performance, to which the state guarantees covering a significant portion of the exposures currently in the portfolio will contribute positively.
The achievement of the objectives described will allow the Group to create significant value, with a 2023-2026 cumulative net profit of approximately 6 billion and a remuneration for shareholders of 4 billion over the plan horizon (equal to 5 times the distribution of the last 4 years and more than 50% of the market capitalisation at the date of approval of the Plan), maintaining a solid capital position, with a CET 1 ratio of approximately 14% by 2026.

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[1] The application of the Danish Compromise allows Banco BPM not to have to deduct the book value of the investment held in Banco BPM Vita from CET 1 Capital, as it is considered an exposure to credit risk to be weighted in accordance with the provisions of the CRR.

The Plan is based on seven key pillars to support customers and the community, which can be summarised as follows:

1. consolidation of Banco BPM's leadership in the Corporate and Investment Banking segment and in the Business segment, through a series of initiatives focused on the evolution of the service model and the strengthening of customer coverage, also through dedicated managers. Particular attention is paid to supporting the green transition, especially for smaller companies, with a set of solutions ranging from ESG training and consulting to the offer of products and solutions aligned with the EU Taxonomy to accompany companies in the different phases of the process;
2. strengthening of wealth management and life insurance by reinforcing the path already undertaken to increase market share in the indirect funding segment, by redefining the products and services offered to customers as a result of the internalisation of the Life segment;
3. maximisation of the value of non-life and e-money bancassurance, thanks to the partnership with Crédit Agricole and the start of activities with the new partner BCC Pay, which will support cross-selling and up-selling developments also through joint marketing actions;
4. further expansion of omnichannel, through a programme to accelerate digital sales and customer activation, which will be able to count on the completion of a new marketing automation platform, the enhancement of digital marketing activities, the further development of the online product catalogue, as well as the evolution of advisory services with an omnichannel approach, by offering advisory services also off-site. In this context, support for digital/omnichannel transformation initiatives will also be ensured through artificial intelligence solutions;
5. strengthening of technological innovation, thanks to new IT investments with a focus on high value-added initiatives aimed at guaranteeing the full digitalisation of the offer to customers, the improvement of service quality and high operational efficiency. Thanks to the new investments, the Plan will achieve an important evolution of the IT infrastructure through various technological transformation initiatives, the strengthening of IT security and the development of artificial intelligence, also thanks to the inclusion of new highly specialised staff. Particular attention will be paid to containing costs both through automation, simplification and process review initiatives, and through the disposal of some non-operating properties. Further progress is also expected in the reduction of the environmental impacts of the operating model of Banco BPM Group, with a decrease in electricity consumption, confirming a supply deriving from 100% renewable sources and the achievement of Carbon Neutrality (scope 1 & 2) by 2024;
6. further strengthening of the Group's capital profile. Over the horizon of the plan, Banco BPM intends to continue the derisking process launched in 2016 towards alignment with the main market peers with a reduction in the NPE ratio and the cost of risk. A series of initiatives will be implemented to ensure an increasing focus to preventing the default of new loans, the evolution of the operating platform for credit management and the completion of the process of active management of non-performing loans.

   On the funding front, the Plan envisages new issues of securities, net of maturities, for 8.3 billion and the maintenance of the net positive position with the European Central Bank, also thanks to the benefits in terms of lower costs deriving from the investment grade status of Banco BPM. The Bank will also consolidate its leadership role as issuer of green, social and sustainability bonds through the new ESG emissions framework fully aligned with the EU Taxonomy.

   Lastly, with regard to capital management, the further strengthening of the Group's capital profile will be pursued thanks to the expected economic results and the implementation of capital management actions, in particular through the use of synthetic securitisations. The capital ratios will also benefit from the application of the Danish Compromise in the context of the financial conglomerate Banco BPM;
7. attention to employees and the community in line with the social vocation of the Group: the new Plan will focus on change management initiatives, women empowerment and on personalised professional development paths, encouraging exchange between generations and generational turnover, through sustainable and inclusive approaches. As part of the interventions in support of the community, initiatives are planned to promote economic and financial culture, also in favour of schools, and support through corporate volunteering, sponsorships and donations has been confirmed.

Other events in the period

Derisking activities

During the year, the Group continued the derisking process through the sale of portfolios of bad loans and unlikely to pay loans, with a consequent benefit on the stock of non-performing loans and on credit quality indicators.
In greater detail, during the 2023 financial year, the Board of Directors raised the targets for the large-scale sale of non-performing loans by a further 0.85 billion, compared to the target of approximately 0.55 billion set at the beginning of the year. Taking into account the sales completed in 2023 or in the process of being finalised, amounting to approximately 0.7 billion, the target at the end of the year amounted to approximately 0.7 billion, in line with the Strategic Plan approved at the end of 2023. The revision of the sales targets entailed a charge to the income statement of value adjustments totalling 91.7 million, determined on the basis of a "multi-scenario" probabilistic model.

Important funding and capital transactions completed

In January 2023, the Parent Company successfully completed an issue of Green Senior Preferred securities, with a four-year maturity for an amount of 750 million. The security, which envisages a fixed coupon of 4.875%, is reserved to institutional investors.
In June 2023, Banco BPM concluded a further Green Senior Non Preferred issue, reserved to institutional investors, with a five-year maturity and with the possibility of early redemption in June 2027, for an amount of 750 million and a fixed coupon of 6%.
In addition, on 22 November 2023, an issue of Social Senior Preferred securities was finalised, directed to institutional investors, for an amount of 500 million, with a four-year maturity and a fixed coupon of 4.625%.

The above transactions are part of the Euro Medium Term Notes Programme, and are aimed at financing and/or refinancing Eligible Green Loans and Eligible Social Loans as defined in the Bank's Green, Social and Sustainability Bond Framework.
The Framework integrates with Banco BPM's ESG strategy and represents the effective implementation of the environmental and social sustainability objectives that are increasingly guiding and characterising the Group's various business areas.
In this regard, it should be noted that on 7 November 2023, Banco BPM published the new Green, Social & Sustainability Bonds Framework, after the previous inaugural Framework published in July 2021. The Framework has been updated according to the most recent market standards, including the EU Green Taxonomy[1].
The objective of the 2023 update, in line with Banco BPM's commitment and strategy to tackle climate change and provide a positive social result in its business conduct, was to align with best market practices, cover a wider range of activities[2] and include alignment with the European taxonomy for some eligible assets[3].

In 2023, Banco BPM also concluded two issues of European Covered Bonds (Premium)[4] under its Covered Bonds programme: the first in June for an amount of 750 million and maturing in 5 years and the second in the month of September for an amount of 750 million and maturing in 3 years.

Lastly, with the aim of optimising the structure of own funds, in November Banco BPM issued an Additional Tier 1 perpetual instrument for an amount of 300 million, reserved to institutional investors. The securities, issued at par, may be called by the issuer from the fifth year following issue; the fixed six-monthly coupon, non-cumulative, was set at 9.5% and the payment of the same is fully discretionary and subject to certain limitations.
Furthermore, it should be noted that, together with the AT1 issue of November, the Bank made a public repurchase offer relating to the Additional Tier 1 security XS1984319316 for a maximum amount equal to the nominal value of

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[1] The standards taken into consideration are as follows: ICMA Green Bond Principles (June 2021 with June 2022 appendix), ICMA Social Bond Principles (June 2023), ICMA Sustainability Bond Guidelines (June 2021) and EU Green Taxonomy.
[2] New categories of eligible loans were added, such as Loans with green guarantees, Manufacture of organic basic chemicals and Sustainable agriculture loans among the green categories and Sustainability loans and Residential mortgages among social activities.
[3] The alignment of the European taxonomy concerns real estate activities, renewable energy and the production of basic organic chemicals.
[4] The bonds in question were issued in compliance with Directive (EU) no. 2019/2162 adopted on 30 March 2023 and Regulation (EU) no. 2019/2160. For further details, please refer to the paragraph "Amendments to the Supervisory Provisions on Covered Bonds and adjustment of the CB Programmes to the new regulatory framework" in Part E of the Notes to the consolidated financial statements.

300 million. At the end of the offer period, Banco BPM fully accepted the offers received, repurchasing 223.3 million of the security (approximately 74.45%).

It should also be noted that during the year, Banco BPM repaid the TLTRO operations that matured in June, September and December 2023, for a total residual debt of 11 billion. As at 31 December 2023, the balance of long-term financing operations with the European Central Bank amounted to a nominal 15.7 billion.

Launch of the e-money business enhancement project

Following the resolution of the Board of Directors of the Parent Company on 18 April 2023 regarding the launch of an e-money business enhancement project, through the development of a potential partnership with a leading market operator, on 14 July 2023, Banco BPM, BCC Iccrea Group and FSI signed a binding agreement for the establishment of a strategic partnership aimed at developing a new Italian and independent entity in the digital payments sector. With a specific framework agreement signed between the parties on 24 December 2023, the terms and conditions for the execution of the transaction considered as a whole (the "Agreement") were regulated. The initiative will be able to count on strong development with a view to digital/fintech innovation of the range of products and services provided to customers, and calls for the expansion of the customer base to other banks and financial operators in the domestic market. The single technological platform will generate significant economies of scale in terms of investments as well.
The Agreement calls for the transfer to the joint venture BCC Pay S.p.A. (which will be rebranded) of the e-money activities of Banco BPM[1], with the payment of mixed consideration in cash and shares issued by the vehicle Pay Holding, which in turn controls the entire share capital of BCC Pay S.p.A. After the transaction, Pay Holding will be owned roughly 43% by FSI and around 28.6% each by Banco BPM and Iccrea Banca. The Agreement also calls for the signing of a multi-year distribution contract for the company's services on the Banco BPM network as well, which will distribute the issuing and acquiring offer catalogue of the joint venture, while maintaining full control of the commercial policy and pricing with its customers. Banco BPM will be able to maintain the current e-money commission margins, fully benefiting from their growth in a sector with high development potential, as well as the contribution of profits expected from the joint venture in addition to potential increases in the value of its interests in associates and joint ventures, and see a positive impact on capital ratios.
Following the transfer of Banco BPM's e-money activities, the joint venture will represent the second largest national operator with an e-money market share of more than 10%, with approximately 9 million cards, 400 thousand POSs and roughly 110 billion of intermediated transactions.
As a result of the transaction, Banco BPM will receive an immediate consideration of 500 million for the assets transferred, with an upfront cash component of approximately 200 million, in addition to the deferred price components for a further amount of up to 100 million, which may lead to 600 million in value.
The Agreement calls for some preparatory activities for the finalisation of the transaction, as usual, with the aim of completing the closing within the first half of 2024, a Banco BPM lock-up until 2026 and the usual exit mechanisms for this transaction type. The closing is subject, as usual, to the approval of the competent Authorities.

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

On 4 July 2023, Banco BPM Invest SGR S.p.A., an asset management company operating in the closed-end reserved alternative investment fund sector, established in June and wholly-owned by the Parent Company Banco BPM, was registered with the Companies' Register.
The company, which enters the Group's line-by-line consolidation scope, is awaiting authorisation from the Bank of Italy to carry out its business.

Streamlining of the Group structure

During the year, the partial demerger of Tecmarket Servizi to Banco BPM was finalised; it regarded the assignment of a business unit relating to the activities carried out by the subsidiary on the technology platform for the You Business Web service, intended for entities and companies that are customers of Banco BPM, as well as technological services, functional to specific businesses of Banco BPM for its customers. The activities related to the management of terminals and technical assistance to customers for POS and Mobile POS services, which were

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

subsequently the subject of the project to enhance the e-money business, as described in the previous paragraph, were excluded from the scope of sale.
The partial demerger, carried out with a simplified procedure pursuant to Articles 2505 and 2506-ter of the Italian Civil Code, is effective, also for accounting and tax purposes, from 1 January 2023.

Furthermore, on 29 May 2023, the Boards of Directors of the Parent Company and the subsidiary Banca Akros approved the project for the partial demerger, pursuant to Arts. 2506 bis and 2501 ter of the Italian Civil Code, which envisages the assignment by Banca Akros to Banco BPM of the business unit consisting of the set of assets and resources organised for the performance of the "Proprietary Finance" activities of Banca Akros and includes the related financial assets and liabilities, of a 20% equity interest in Vorvel SIM, relations with custodian banks, brokers and counterparties, in addition to employment contracts with 60 employees.
Since the share capital of Banca Akros is, at the effective date, entirely held by Banco BPM, the Demerger was implemented in a simplified form, pursuant to the combined provisions of Articles 2506 - ter, fifth paragraph, and 2505, first paragraph, of the Italian Civil Code and, therefore, without determining any exchange ratio.

Following the issue on 22 September 2023 of the ECB's authorisation pursuant to Art. 57 of Italian Legislative Decree no. 385/1993, the next stages of the corporate demerger process were carried out, the last of which was the signature of the demerger deed on 18 December 2023.
The demerger took effect from 1 January 2024.

Liquidation of investee companies

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

These transactions did not produce any effects on the balance sheet or income statement of the Group as at 31 December 2023.

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

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

Furthermore, on 8 December 2023, the European Central Bank (ECB) notified Banco BPM of the SREP decision containing the outcomes of the annual Supervisory Review and Evaluation Process (SREP). As a result of said decision, the minimum requirements that Banco BPM is required to meet for 2024, are as follows:

- CET 1 ratio: 9.07%;
- Tier 1 ratio: 11.00%;
- Total Capital ratio: 13.56%.

Extraordinary tax calculated on the increase in net interest income

Art. 26 of Italian Decree Law no. 104 of 10 August 2023 (known as the "Asset decree"), converted, with amendments into Law no. 136 of 9 October 2023 - containing "Urgent provisions for the protection of users, regarding economic and financial activities and strategic investments" - introduced an extraordinary tax to be paid by banks for FY 2023, proportional to the increase in net interest income. At the time of the conversion of the aforementioned decree, paragraph 5-bis was introduced, which allows banks, in place of the payment of the tax by 30 June 2024, to allocate, at the time of approval of the financial statements for the year prior to the current one, as at 1 January 2024, an amount not less than two and a half times the tax to a non-distributable reserve identified for this purpose.
In light of the above, the Board of Directors of Banco BPM, since the meeting of 7 November 2023, considered it convenient to undertake to propose to allocate a portion of the profit for FY 2023, equal to two and a half times the amount of the extraordinary tax, to a specific reserve, thus maintaining within the Group the financial resources that

would otherwise have to be paid to the State Tax Authorities by 30 June 2024. Taking into account that the extraordinary tax at Group level amounts to approximately 152 million (151 million relating to the Parent Company), the reserves thus established at Group level amount to 381 million (378 million relating to the Parent Company).
For further details, please refer to "Section 5 - Other aspects" in Part A of these Notes to the financial statements and in the "Proposed allocation of the profit for the year" contained in the Parent Company's report on operations.

Inclusion of ESG aspects in Group strategy

The consideration of Environmental Social & Governance (ESG) aspects, in particular with regard to climate and environmental issues, represents an important area of focus in the strategy pursued by the Group, which is aware of being able to play a leading role in the action against climate change, through initiatives to reduce the direct impact, but even more so, given the role of Banco BPM, through loans, asset management and financial advisory services. ESG issues also include aspects linked to governance and social sustainability, meaning the ability to effectively govern sustainability planning, management and reporting and to integrate components linked to the social sphere such as human rights, gender equality, sustainable supply chain management, etc.
In fact, sustainability is one of the pillars of the Group's 2021-2024 strategic plan, the pursuit of which requires the increasing integration and dissemination of ESG elements in the Group's operations, which has sometimes exceeded some ESG targets a year in advance of the Plan (as in the case of the issue of green and social bonds, the share of hiring young people under 30, ESG training hours for employees, total energy consumption and contribution to the community in terms of social sponsorships, donations, social and environmental initiatives, corporate volunteering and creation of financial and ESG awareness). In continuity with that already achieved, the 2023-2026 Strategic Plan was approved during the year, which highlights further ESG integration in the Group's strategy, business and activities.

In the environmental sphere, in particular, the Group's ambition is to support customers in the transition process through consulting and its commercial offer, paving the way for a Net Zero strategy, strengthening the management and monitoring of climate and environmental risks and continuing to reduce the environmental impact of our activities.
In particular, Banco BPM resolved to join the NZBA in March 2023 and, following careful analyses and evaluation, identified five priority areas for the communication of its targets 18 months after the original membership: Oil & Gas, Power generation, Cement, Automotive and Coal. In the new 2023-2026 Strategic Plan, the Group is committed to defining its targets in priority sectors by the third quarter of 2024 and in all other sectors by 2026.

In the social sphere, with reference to human capital, the Group aims to further improve its People Strategy, generational turnover, female empowerment and work-life balance. In addition, the Group intends to strengthen its leadership position as lender in the Third Sector and intends to establish itself as a top Community Bank with a strong impact on communities (with a focus on schools and educational issues).

With regard to governance aspects, on the other hand, the short and long-term incentive plans for managers and employees in line with ESG objectives were confirmed. In addition, the Group intends to support its digital transformation, with a strong focus on privacy and IT security. With regard to risk management, it intends to conduct further work on ESG risk measurement systems, in line with the evolution of external regulations and risk materiality. Lastly, with regard to the definition of policies, the Group intends to work on sustainable finance policies, in the area of proprietary investments and funding, in order to channel financial resources towards sustainable companies and initiatives.
With a view to transversal ESG, the Group intends to improve the range of ESG products and strengthen ESG consulting also in the areas of wealth management and life bancassurance.

As also highlighted in the 2023-2026 Strategic Plan, Banco BPM launched a new ESG Action Plan at the end of 2023, in order to further strengthen sustainability governance, by rationalising the previous 7 workstreams into 4 interconnected ESG working groups (WS 1 - Risk Management; WS 2 - Credit; WS3 Finance and Wealth Management; WS 4 - Disclosure, community and inclusion), supported by the control, data governance and IT functions and supervised by the ESG Committee and the Chief Executive Officer. The key initiatives of the new ESG Action Plan include further consolidation of internal climate risk measurement, scenario analysis, stress tests and risk reporting, including their disclosure to the public; the improvement of the coverage of social and governance risks; the development of credit policies for the Net Zero strategy; the development of the ESG strategy in terms of finance and wealth management; the strengthening of ESG controls, processes and organisational policies, in line with the new directive on corporate sustainability reporting (CSRD), as specified in more detail below; internal and external strengthening of ESG and financial awareness.

For further details on the ESG commercial initiatives, on the investments made by the Group with ESG characteristics and on raising resources for sustainable projects, please refer to the section dedicated to "Results by business segment" in this Report, as well as to the Consolidated non-financial statement of the Group.

Corporate Sustainability Reporting Directive (CSRD)

The new rules on corporate sustainability reporting were introduced by the European Union through the Corporate Sustainability Reporting Directive (CSRD), applicable from 1 January 2024 for companies with more than 500 employees, which will have to publish the data by the end of 2025.

To this end, Banco BPM has launched a project aimed at implementing the indications set forth in the new regulations, which are detailed in the guidelines defined by ESRS (European Sustainability Reporting Standards).

In greater detail, Banco BPM has set up a working group to coordinate all activities needed to align, starting from 2024, the disclosure with the ESRS standards (cross-cutting standards common to all companies and thematic standards relating to specific business sectors) contained in the relative Commission Delegated Regulation supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards.
In particular, in 2023 the working group conducted a gap analysis to identify the ESRS data and information to be reported in the next Sustainability Statement.
The gap analysis was conducted starting from the last materiality analysis carried out by Banco BPM, comparing the ESRS requirements (both mandatory and those concerning materiality) with the data and information published in the Group's current sustainability report. An in-depth analysis is underway, which will continue in 2024, with the aim of:

- identifying the ESRS data and information which, although not published in the current sustainability reporting, are already available in company information systems;
- identifying the ESRS data and information that are not currently available and identifying the relative internal owners, in order to share the need for disclosure, to assign and/or implement roles and responsibilities in data and information management/reporting, as well as all the actions needed to prepare the disclosure (e.g. adjustments of processes and policies, planning of objectives, etc.) with the internal owner structures;
- preparing 2024 data collection activities according to ESRS requirements;
- updating the process rules and the data collection procedure manual.

The activities presented above will also take into account the 2024 materiality analysis according to the dual materiality perspective, which could partially modify/supplement the disclosure requests.

Banco BPM is also working on the definition of the Model relating to the Internal Control System for sustainability reporting, in particular on defining the responsibilities and methods for verifying the presence and soundness of the information identified for reporting purposes. In this regard, it should be noted that already during the two-year period 2022/2023 the Risk function (ERM - Risk Data Quality & Aggregation) carried out appropriate assessments on the DCNFs to verify the consistency between the data collected and the content of the Methodological Manual relating to non-financial data and information, as well as to carry out in-depth analyses on data sources, on data processing rules and on the controls carried out by the company structures that manage the data. This activity will also continue in 2024 with regard to adjustments to meet CSRD and ESRS requirements.
Work was also completed on the assessment and definition of the IT application for data collection and the production of the Sustainability Statement.

The main changes introduced by the CSRD and the expected impacts for Banco BPM Group are described below.

Double materiality

In order to identify the sustainability issues that will be reported in the Sustainability Statement, Banco BPM is examining the dual materiality guidelines, currently still in draft form, in order to align the materiality analysis with

regulatory requirements. In this regard, it should be noted that already in 2023, Banco BPM worked to improve the process of identifying material topics with reference to Impact materiality, in line with the GRIs.
With regard to financial materiality, following the in-depth analysis of the guidelines, a process consistent with the ESRS standards will be defined, also taking into account that relating to Risk Identification, which has supplemented the analysis of ESG variables for some years now.

Due diligence

Banco BPM is working to structure a process aimed at improving the identification, prevention, mitigation and reporting of negative impacts, actual and potential, on the environment and on people, related to the Bank's activities. Already in the current sustainability report, evidence is provided of actions taken to mitigate negative impacts within the impact materiality analysis.

Value chain

Pending the publication of further standards or guidelines for financial institutions by EFRAG, the working group is preparing its initial considerations with a view to identifying the impacts, risks and significant opportunities related to the company through its direct and indirect commercial relationships in the value chain upstream and/or downstream, first of all starting with the identification of the relevant parties in the value chain.

Time horizons

The Group has already adopted a definition of short, medium and long-term time horizons consistent with its business. This definition is aligned with the content of the Delegated Act.

Preparation and presentation of information on sustainability (comparisons, estimates, errors ...)

The final objective of the Working Group is to prepare a document that complies with the general requirements that the ESRS standards require for the preparation and presentation of sustainability information.

Structure of the sustainability statement

The final objective of the working group is to prepare the document following the outline indicated by the standards to ensure correct and effective integration of the document in the report on operations and correct ESEF tagging (when it will be required by the regulations).

Links with other corporate disclosures and related information

Banco BPM's objective is to provide information that allows users of its sustainability statement to understand the links between the different information contained in the statement and additional information that the Bank discloses in other parts of its corporate reports.

Transitional provisions

Banco BPM is aware that in reporting the sustainability issues covered by the ESRS, a progressive approach is envisaged, which will evolve over time with the definition of more specific disclosure obligations.
In particular, when prioritising and reporting the indicators, the transitional measures specified in the Delegated Act will be considered.

Programme to purchase own shares

In implementing the resolution of the Ordinary Shareholders' Meeting of 7 April 2022 and by virtue of the authorisation issued by the European Central Bank, in February 2023, the Parent Company launched a programme for the purchase of own shares to support existing short- and long-term incentive plans.
The programme was carried out in the period 28 February - 6 March 2023 with the purchase of 2,418,855 own shares (equal to 0.16% of outstanding ordinary shares) at the average unit price of 4.13 euro, for a total equivalent value of 10 million.

As a result of the above transactions, Banco BPM, taking into account the assignments taking place during the year and the other own shares already in the portfolio, directly holds 6,958,684 own shares, equal to 0.46% of the share capital.

Renewal of the National Collective Labour Agreement

On 23 November 2023, an agreement was signed between ABI, Intesa SanPaolo and the trade unions for the renewal of the National Collective Labour Agreement for managers and staff of professional areas, employees of credit, financial and instrumental companies (so-called CCNL), which will be valid until 31 March 2026.
This is an agreement, reached as a result of a complex negotiation process, launched on 6 July 2023 with the presentation, by the trade unions to ABI, of a platform accompanied by significant claims also in terms of economic treatment.
The main contents of the agreement that Banco BPM Group also contributed to defining, are illustrated below.
Firstly, a wage increase of 435.00 euro gross per month has been envisaged (based on the figure of the third professional area, fourth level), which will be recognised in the period 2023-2026.
A first significant tranche, equal to 250.00 euro gross, was disbursed with the December 2023 wage, together with a further 250.00 euro gross for the thirteenth month and arrears from 1 July 2023. This will be followed by a second tranche of 100.00 euro gross in September 2024, a third of 50.00 euro gross in June 2025 and a fourth of 35.00 euro gross in March 2026.
Also with effect from 1 July 2023, the full basis for calculating provisions for employee severance pay, previously reduced in 2012, was also restored.
In addition, the reduction of the weekly working hours by 30 minutes was agreed, starting from 1 July 2024. The working week will therefore be distributed over 37 hours, with equal pay.
The central role of training was confirmed, as a tool to guarantee the development and professional growth and employability of people, also as part of the digitalisation process underway. In addition, the parties agreed to promote, for companies, an effective use of the economic resources available at the Employment Fund and the Sector Solidarity Fund, also to encourage new hires, as well as generational turnover.
Lastly, the provisions of the National Collective Labour Agreement on the protection of maternity and illness, transfers, missions and commercial policies were revised. With a view to greater flexibility in the organisation of work, full substitutability within the category of managers was confirmed and specific attention was given to the issue of digital banking, as a natural evolution of the banking sector in the future.

Agreements with the Trade Unions

With reference to collective bargaining, note that on 17 February 2023, the complex and detailed negotiations started with the trade unions in the second half of 2022 on numerous issues were concluded. The main agreements reached concerned the welfare services for staff, the management of the repercussions on staff resulting from the rationalisation of the commercial network, also utilising the extraordinary resources of the Sector Solidarity Fund, commercial policies and policies relating to the organisation of work, the training courses of the Joint Interprofessional Fund (Banks and Insurance Companies Fund) and the agreements on remote working and voluntary suspension of work.

In addition, with the agreement of 6 July 2023, specific solutions were identified regarding the financial conditions reserved for Group employees in order to mitigate the impact of the increase in interest rates on workers.
The financial conditions reserved to Group employees on each occasion, were also extended, with a specific agreement, to employees of Banco BPM Vita and Banco BPM Assicurazioni, following the entry of these companies into the Group.

For more details, please refer to the “Supervisory, control and support activities - Human resources” section of this Report.

Change in corporate bodies

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

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

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

In 2023, new claims were limited both in number and in total additional relief (equal to approximately 2.7 million). As at 31 December 2023, due to settlements reached by negotiation or final rulings, claims and disputes for total relief figure of roughly 663.1 million were settled against claims that on the same date amounted to a total of around 721.1 million.
In relation to the preventive seizure decree notified on 19 February 2019[1], in 2023 the Verona and Rome Public Prosecutors ordered the release of 83.8 million in favour of the Bank.

For further details, please refer to section "10. Provisions for risks and charges – Item 100" contained in "Part B – Information on the consolidated balance sheet" of these Notes to the consolidated financial statements.

Inspections and proceedings of the Supervisory Authorities

During its standard business activities, the Group is subject to inspections conducted by the Supervisory Authorities. More specifically, within the European system of banking supervision (Single Supervisory Mechanism), the Group is subject to the prudential supervision of the European Central Bank (ECB); with regard to specific matters, supervision is the direct responsibility of the Bank of Italy and CONSOB and, following acknowledgement of the status of financial conglomerate, pursuant to Directive 2002/87/EC on 8 March 2023, of IVASS.
Supervisory activities entail making ordinary and recurring inspections at the offices of the Parent Company ("on/off-site inspection"), accompanied by "remote" inspections, conducted through structured and continuous exchanges of information, as opposed to specific requests for documentation and in-depth examination of specific areas.
With regard to the inspections of the Supervisory Authorities, with reference to 2021, 2022 and 2023, the same concerned the following areas: combating money laundering, transparency regarding payment services, consumer protection and risk of over-indebtedness, automated devices for cash recirculation, ECAF (Eurosystem Credit Assessment Framework), product governance and adequacy of the transactions ordered by customers, capital adequacy, ICAAP process, assessments of internal models used to calculate own funds requirements (market and credit), also with reference to Specialised Lending classes of exposure, assessment of the regulatory compliance of the framework for the implementation of IFRS 9 and the associated credit quality (Credit Quality Review), cybersecurity, internal governance and risk management, and, lastly, climate and environmental risk.

Most of the inspection activities have already been concluded with the release of the Final follow up letters or Final decisions, through which the ECB communicates the corrective actions required in relation to the areas for improvement identified. If the inspections regarded aspects with a potential impact on capital, the observations made as well as the information acquired during the entire process were duly considered within the valuation of the company's assets/liabilities. If the inspections have identified areas for improvement as regards the processes examined, the Group has prepared specific corrective action plans.

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

<u>Inspections by the ECB</u>

a) on "climate and environmental risks". The inspection, which began on 4 December 2023 and was conducted on site, is currently underway;
b) with regard to the application sent by the Bank for the extension of the internal model for the purposes of calculating the prudential requirements of credit risk to the Specialised Lending exposure classes and the

[1] The sums seized originally amounted to 84.6 million, which was then reduced to 83.8 million due to an initial partial release and the confiscation issued by the Judge of the preliminary hearing in Milan as part of the sentence of application of the penalty requested on 8 April 2022.

use of the slotting criteria approach. The inspection, which began on 25 September 2023 and was conducted on site, was completed on 17 November 2023;

c) on "internal governance and risk management". The inspection, which began on 25 September 2023 and was conducted on site, was completed on 6 December 2023;
d) for the assessment of IT security (Cybersecurity) risk management. The inspection, conducted with hybrid methods (on site/off site), started on 30 January 2023 and was completed on 14 April 2023;
e) on credit and counterparty risk for the assessment of the regulatory compliance of the framework for the implementation of IFRS 9 and the examination of the credit risk management methods (policies, methodologies, procedures and governance) with reference to portfolios of assets specifically identified and subject to qualitative review (Credit Quality Review). The on-site inspection phase began on 17 October 2022 and ended on 17 February 2023;
f) on capital adequacy to assess the ICAAP management process. The on-site inspection phase began on 26 September 2022 and ended on 24 November 2022; on 11 December 2023, the Bank received the Final Decision which contains qualitative recommendations relating to technical and methodological aspects in the determination of economic capital; these recommendations are addressed in the action plan, which envisages the completion of the related activities by 31 March 2025;
g) with regard to the substantial change in the model of the methodology for calculating the IRC (Incremental Risk Charge) market risk parameter, requested for both Banco BPM and Banca Akros, for the completion of the action plan relating to the inspection carried out in the course of 2019. The on-site inspection began on 5 September 2022 and ended on 28 October 2022. On 11 January 2023, the Bank received the Final IMI Decision authorising the requested change, allowing the removal of the add-on on the IRC and requesting two corrective measures, of limited scope, completed according to the deadline;
h) on internal models used to calculate credit risk requirements for the following exposure classes: Corporate - Other; Corporate - SME; Retail - Other non-SME; Retail - Other SME; Retail - Qualifying revolving; Retail - Secured by real estate non-SME; Retail - Secured by real estate SME. The inspection follows an application made by Banco BPM to the ECB for the approval of the request for material changes to the internal models used to calculate capital requirements for credit risk, made also following the transposition of the new regulatory requirements on the topic (EBA - IRB Repair programme), which became effective on 1 January 2022. In particular, the material changes subject to the request for approval, included in the scope of the inspection investigations, also include those aimed at complying with the obligations still pending deriving from the investigations on internal models conducted from 2018 until 2020. The inspection phase, conducted off-site, began on 14 February 2022 and ended on 20 May 2022; on 15 December 2023, the Bank received the Final Decision with which it was authorised to apply the new internal models, which guarantee the full implementation of the EBA guidelines, with an impact on the CET1 ratio, estimated on the basis of recent updates, of around -141 bps already starting from the fourth quarter of 2023. The Bank has prepared the relative action plan, which details the manner in which the various obligations envisaged therein will be met, in compliance with the deadlines defined, overall by December 2025;
i) with regard to the adequacy of the first pillar capital requirement calculation; the on-site inspection phase started on 25 October 2021 and ended on 23 December 2021. On 4 August 2022, the ECB sent the Follow-Up letter and on 30 September 2022, Banco BPM sent the corrective action plan, which was concluded in accordance with the deadlines;
j) on credit and counterparty risk to review asset quality, with reference to the Commercial Real Estate ("CRE") portfolio, and the assessment of the credit risk management procedures and control and governance systems ("Credit and counterparty risk – Credit Quality Review of CRE portfolio and assess selected credit risk processes"). The inspection phase, conducted off-site, began on 26 April 2021 and ended on 5 November 2021. The inspection concerned credit risk management methods with reference to the portfolio under investigation, in particular the criteria for granting new credit and forbearance measures to exposures within the scope, the identification of "specialised lending" categories, the quality of appraisals, the process of classifying and evaluating real estate loans and foreclosed assets and the existing regulations in this regard. On 21 April 2023, the Bank received the final decision containing qualitative "requirements" and "recommendations" mostly attributable to organisational interventions and relating to the process for the granting and monitoring of loans for commercial properties, the framework for the valuation of commercial properties pledged as collateral and the internal control and credit risk management system connected to commercial property loans. In particular, with reference to exposures in the commercial real estate area, in its final decision the ECB asked the Bank to strengthen the decision-making process for granting and monitoring credit, adequate prudential treatment for "specialised lending & speculative lending" exposures and the updating of procedures in order to provide a more complete and

updated set of information to the appraisers that carry out property valuations. In addition, a review of the unlikely to pay indicators for CRE counterparties was requested, as well as the strengthening of the framework of internal controls on the portfolios in scope and the integration of internal regulations on the management and monitoring of these exposures. On 29 May 2023, the Bank sent the ECB its corrective action plan, which provides for 16 remedial actions, currently underway and expected to be completed by 31 December 2024.

Inspections by the Bank of Italy

a) with regard to the use of the IRB system, in particular the static pools (data and management procedures) and the operation and monitoring of the credit assessment systems within the ECAF (Eurosystem Credit Assessment Framework). The on-site inspection began on 18 December 2023 and ended on 20 December 2023;
b) aimed at verifying, in the context of consumer credit and real estate credit to consumers, the adequacy of the organisational and control structures, policies and procedures on the issue of loans, for the protection of consumers in difficulty and prevention of the risk of over-indebtedness. The on-site inspection began on 21 November 2023 and ended on 2 February 2024;
c) aimed at verifying the compliance of the automatic devices used by cashiers for the recirculation of banknotes at some branches in Emilia-Romagna. The inspection began on 6 June 2023 and ended on 16 June 2023;
d) aimed at verifying the compliance of the automatic devices used by cashiers for the recirculation of banknotes at some branches in Sicily. The inspection phase began on 18 October 2022 and ended on 26 October 2022; the Bank of Italy did not send any communication in this regard;
e) on the subject of combating money laundering in the private banking sector of the subsidiary Banca Aletti, particularly with reference to the services offered to customers with significant assets. The on-site phase began on 28 February 2022 and ended on 14 April 2022. On 14 September 2022, Banca Aletti received the outcome of the inspection, which did not result in compliance findings, and on 14 October 2022 sent the corrective action plan, which was concluded in accordance with the deadlines;
f) as regards transparency, with a view to assessing fulfilment of the obligations deriving from the implementing provisions of Directive 2014/92/EU "Payment Accounts Directive". The off-site inspection started on 11 November 2021, and from 22 November 2021 continued on-site at several Bank branches and was completed on 21 January 2022. On 7 June 2022 Banco BPM received the outcome of the inspection which highlighted anomalies that pertain to issues relevant to customer protection and require corrective actions, some of which involve compensation. On 21 October 2022, Banco BPM sent the corrective action and compensation plan, which was concluded in accordance with the deadlines;
g) as regards the prevention of money laundering, with a view to ascertaining compliance with the obligations envisaged by Italian Legislative Decree no. 231/2007, with specific reference to the cash operations of cooperative banks, also through an assessment of the legislative, procedural and control structure at the Verona offices. The inspection phase (initially on-site) started on 4 October 2021, ended in off-site mode on 21 December 2021, the date on which the conclusion of the procedure was announced. On 18 August 2022, Banco BPM received the outcome of the inspection, which highlighted some areas of weakness in the area of due diligence and in the process of active collaboration with regard to the management of relations pertaining to the cooperatives under analysis. On 29 December 2022, Banco BPM sent the corrective action plan, which was concluded in accordance with the deadlines.

RESULTS

Introduction

The balance sheet and income statement shown below are presented in reclassified format, according to operating criteria, in order to promptly provide information on the general performance of the Group, based on economic-financial data that can be quickly and easily understood.
These statements were prepared on the basis of the financial statements set forth in Bank of Italy Circular no. 262/2005 and subsequent updates, following the same aggregation and classification criteria applied in the preparation of the consolidated financial statements as at 31 December 2022, with the additions needed to reflect the application of IFRS 17 "Insurance contracts" and to highlight the impacts resulting from the reorganisation of the bancassurance segment.
More specifically, with the entry into force of IFRS 17 "Insurance contracts", an accounting standard to be applied on a retrospective basis, the balances relating to the previous year were recalculated with respect to the originally published amount. For information on the impacts relating to the first-time application of IFRS 17, for insurance subsidiaries and associates, please refer to the specific paragraph entitled "Impacts of the transition to IFRS 17 Insurance contracts" in "Section 5 - Other Aspects".

Instead, with regard to the impacts resulting from the reorganisation of the bancassurance business, as illustrated in the section dedicated to significant events during the year in this Report, in December 2023, the Group completed the reorganisation of its bancassurance business, which involved, among other things, acquiring control of Vera Vita and of BBPM Life, already 35% owned, and losing control of Banco BPM Assicurazioni.
Therefore, for the purposes of comparability of the data as at 31 December 2023 with those referring to the previous year, it should be noted that:

- as at 31 December 2023, the consolidated balance sheet figures of Vera Vita and BBPM Life reflect the "line-by-line" contribution; as at 31 December 2022, the aforementioned interests, held for a stake of 35%, were included in item "Interests in associates and joint ventures";
- the economic contribution of Vera Vita and BBPM Life for 2023, considering that the date of acquisition of control is conventionally established as 31 December 2023, is represented by the effects of the valuation of the stake previously held (35%) using the equity method, and is shown, as in the previous year, in the item "Gains (losses) on interests in associates and joint ventures carried at equity"[1];
- the investment held in the former subsidiary Banco BPM Assicurazioni as at 31 December 2023 is shown under the item "Interests in associates and joint ventures", qualifying as an interest in an associate; as at 31 December 2022, it was included among assets and liabilities held for sale;
- the economic contribution of Banco BPM Assicurazioni for 2023, considering that the date of loss of control is conventionally established as 31 December 2023, is represented "line by line", as the case envisaged by IFRS 5 of discontinued operations does not apply; for 2022, the contribution was reflected on a line-by-line basis only from the date of 1 July 2022, i.e. from the date of acquisition of control, while the contribution of the first half of 2022, when the company was held for 19%, was shown in the item "Gains (losses) on interests in associates and joint ventures carried at equity".

In order to be able to appreciate the effects of the consolidation of the companies subject to business combinations, part "G - Business combinations regarding companies or divisions" provides an illustration of the identifiable net assets acquired, based on the provisions of the Purchase Price Allocation (PPA) process. In addition, for a more immediate understanding of the changes in the balance sheet items resulting from the aforementioned business combination, the annexes to the financial statements provide evidence of the contribution of the aforementioned companies on the balance sheet as at 31 December 2023, constructed on the basis of the PPA values, net the elimination of intercompany transactions and other consolidation adjustments.
Lastly, it should be noted that the disclosure relating to the previous year was not provided on a pro-forma basis as the economic contribution of Vera Vita and Banco BPM Life referring to 2023 is included in gains (losses) on interests in associates, in line with the representation followed in the previous year, considering that the

[1] To ensure an accurate comparison of the relative balances, note that the contribution of the subsidiary Banco BPM Vita, recognised on a "line by line" basis in the income statement for 2023, was only reflected consistently from 1 July 2022, namely from the date of acquisition of control; instead, the contribution in the first half of 2022, relating to the 19% interest held, was shown under item "Gains (losses) on interests in associates and joint ventures carried at equity".

aforementioned companies joined the Group in December 2023; in addition, for the balance sheet, the contribution is limited to specific items relating to insurance assets and liabilities.

Reclassified accounting statements

Reclassified consolidated balance sheet

(thousands of euro)	31/12/2023	31/12/2022 Restated (*)	Change	
Cash and cash equivalents	18,297,496	13,130,815	5,166,681	39.3%
Loans at AC	109,568,359	113,632,853	(4,064,494)	(3.6%)
- Loans to banks	4,141,630	4,177,893	(36,263)	(0.9%)
- Loans to customers (**)	105,426,729	109,454,960	(4,028,231)	(3.7%)
Other financial assets and hedging derivatives	43,706,381	43,093,541	612,840	1.4%
- At FV through Profit and Loss	7,391,989	8,206,881	(814,892)	(9.9%)
- At FV through OCI	10,692,718	9,380,520	1,312,198	14.0%
- At AC	25,621,674	25,506,140	115,534	0.5%
Financial assets pertaining to insurance companies	15,345,008	5,892,769	9,452,239	160.4%
Interests in associates and joint ventures	1,454,249	1,652,549	(198,300)	(12.0%)
Property, plant and equipment	2,857,953	3,034,689	(176,736)	(5.8%)
Intangible assets	1,257,425	1,255,124	2,301	0.2%
Tax assets	4,201,154	4,585,484	(384,330)	(8.4%)
Non-current assets and disposal groups held for sale	468,685	195,792	272,893	139.4%
Other asset items	4,975,263	3,334,518	1,640,745	49.2%
Total assets	**202,131,973**	**189,808,134**	**12,323,839**	**6.5%**
Direct bank funding	120,770,064	120,639,083	130,981	0.1%
- Due to customers	101,861,964	107,679,408	(5,817,444)	(5.4%)
- Securities and financial liabilities designated at FV	18,908,100	12,959,675	5,948,425	45.9%
Direct funding from insurance business and insurance liabilities	15,039,762	5,742,601	9,297,161	161.9%
- Financial liabilities pertaining to insurance companies measured at fair value	2,800,121	1,459,075	1,341,046	91.9%
- Insurance liabilities	12,239,641	4,283,526	7,956,115	185.7%
Due to banks	21,690,773	32,635,805	(10,945,032)	(33.5%)
Lease payables	670,773	627,921	42,852	6.8%
Other financial liabilities designated at fair value	25,697,583	13,597,650	12,099,933	89.0%
Other financial liabilities pertaining to insurance companies	72,561	439	72,122	0.0%
Liability provisions	894,841	988,852	(94,011)	(9.5%)
Tax liabilities	453,929	267,873	186,056	69.5%
Liabilities associated with assets classified as held for sale	212,011	25,821	186,190	721.1%
Other liability items	2,591,516	2,265,592	325,924	14.4%
Total liabilities	**188,093,813**	**176,791,637**	**11,302,176**	**6.4%**
Non-controlling interests	68	720	(652)	(90.6%)
Group shareholders' equity	14,038,092	13,015,777	1,022,315	7.9%
Consolidated shareholders' equity	**14,038,160**	**13,016,497**	**1,021,663**	**7.8%**
Total liabilities and shareholders' equity	**202,131,973**	**189,808,134**	**12,323,839**	**6.5%**

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

Reclassified consolidated income statement

(thousands of euro)	2023	2022 Restated (*)	Change
Net interest income	3,289,228	2,314,409	42.1%
Gains (losses) on interests in associates and joint ventures carried at equity	144,097	135,983	6.0%
Financial margin	**3,433,325**	**2,450,392**	**40.1%**
Net fee and commission income	1,860,019	1,887,322	(1.4%)
Other net operating income	81,276	71,554	13.6%
Net financial result	(79,029)	242,983	
Profit (loss) on insurance business	45,851	21,702	111.3%
Other operating income	**1,908,117**	**2,223,561**	**(14.2%)**
Operating income	**5,341,442**	**4,673,953**	**14.3%**
Personnel expenses	(1,671,952)	(1,602,406)	4.3%
Other administrative expenses	(652,393)	(648,249)	0.6%
Net value adjustments to property, plant and equipment and intangible assets	(246,818)	(279,736)	(11.8%)
Operating expenses	**(2,571,163)**	**(2,530,391)**	**1.6%**
Profit (loss) from operations	**2,770,279**	**2,143,562**	**29.2%**
Net adjustments to loans to customers	(558,594)	(682,281)	(18.1%)
Fair value gains (losses) on property, plant and equipment	(146,847)	(108,347)	35.5%
Net adjustments to securities and other financial assets	(1,986)	(9,106)	(78.2%)
Net provisions for risks and charges	(22,189)	(57,214)	(61.2%)
Gains (losses) on interests in associates and joint ventures and other investments	342	2,258	(84.9%)
Profit (loss) before tax from continuing operations	**2,041,005**	**1,288,872**	**58.4%**
Taxation charge related to profit or loss from continuing operations	(604,751)	(407,031)	48.6%
Profit (loss) after tax from continuing operations	**1,436,254**	**881,841**	**62.9%**
Charges related to the banking system, net of taxes	(126,577)	(151,887)	(16.7%)
Impact of the realignment of tax values to book values	8,802	-	
Bancassurance impacts net of taxes	(22,245)	-	
Goodwill impairment	-	(8,132)	(100.0%)
Change in own credit risk on Certificates issued by the Group, net of taxes	(3,463)	4,818	
Purchase Price Allocation net of taxes	(28,340)	(42,379)	(33.1%)
Profit (loss) for the year attributable to non-controlling interests	22	786	(97.2%)
Parent Company's profit (loss) for the year	**1,264,453**	**685,047**	**84.6%**

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

Reclassified consolidated income statement – Quarterly changes

Reclassified income statement items ***(thousands of euro)***	**2023**				**2022 (*)**			
	Q4	**Q3**	**Q2**	**Q1**	**Q4**	**Q3 (**)**	**Q2**	**Q1**
Net interest income	867,655	868,673	809,926	742,974	723,957	551,319	527,591	511,542
Gains (losses) on interests in associates and joint ventures carried at equity	49,350	34,140	24,295	36,312	38,355	39,460	15,729	42,439
Financial margin	**917,005**	**902,813**	**834,221**	**779,286**	**762,312**	**590,779**	**543,320**	**553,981**
Net fee and commission income	451,810	460,006	469,549	478,654	447,262	473,197	486,771	480,092
Other net operating income	28,713	19,146	16,503	16,914	19,486	20,375	15,028	16,665
Net financial result	(13,760)	(22,777)	(8,356)	(34,136)	(8,951)	75,138	48,863	127,933
Profit (loss) on insurance business	13,113	8,158	14,969	9,611	13,104	8,598	-	-
Other operating income	**479,876**	**464,533**	**492,665**	**471,043**	**470,901**	**577,308**	**550,662**	**624,690**
Operating income	**1,396,881**	**1,367,346**	**1,326,886**	**1,250,329**	**1,233,213**	**1,168,087**	**1,093,982**	**1,178,671**
Personnel expenses	(461,548)	(402,150)	(402,858)	(405,396)	(391,917)	(397,285)	(405,342)	(407,862)
Other administrative expenses	(150,516)	(165,053)	(166,630)	(170,194)	(170,411)	(159,635)	(162,650)	(155,553)
Net value adjustments to property, plant and equipment and intangible assets	(49,083)	(68,084)	(65,191)	(64,460)	(84,553)	(69,886)	(64,059)	(61,238)
Operating expenses	**(661,147)**	**(635,287)**	**(634,679)**	**(640,050)**	**(646,881)**	**(626,806)**	**(632,051)**	**(624,653)**
Profit (loss) from operations	**735,734**	**732,059**	**692,207**	**610,279**	**586,332**	**541,281**	**461,931**	**554,018**
Net adjustments to loans to customers	(175,043)	(124,832)	(121,264)	(137,455)	(184,691)	(193,909)	(152,553)	(151,128)
Fair value gains (losses) on property, plant and equipment	(102,698)	(11,774)	(30,469)	(1,906)	(59,992)	(7,510)	(39,609)	(1,236)
Net adjustments to securities and other financial assets	(2,114)	(1,041)	488	681	(538)	(3,028)	(2,346)	(3,194)
Net provisions for risks and charges	(8,343)	(17,164)	868	2,450	(28,220)	(16,260)	(4,608)	(8,126)
Gains (losses) on interests in associates and joint ventures and other investments	267	309	(388)	154	515	277	(60)	1,526
Profit (loss) before tax from continuing operations	**447,803**	**577,557**	**541,442**	**474,203**	**313,406**	**320,851**	**262,755**	**391,860**
Taxation charge related to profit or loss from continuing operations	(104,676)	(182,956)	(169,683)	(147,436)	(85,589)	(90,423)	(92,599)	(138,420)
Profit (loss) after tax from continuing operations	**343,127**	**394,601**	**371,759**	**326,767**	**227,817**	**230,428**	**170,156**	**253,440**
Charges related to the banking system, net of taxes	698	(69,646)	(351)	(57,278)	(49)	(77,271)	-	(74,567)
Impact of the realignment of tax values to book values	8,802	-	-	-	-	-	-	-
Bancassurance impacts net of taxes	(22,245)	-	-	-	-	-	-	-
Goodwill impairment	-	-	-	-	-	-	(8,132)	-
Change in own credit risk on Certificates issued by the Group, net of taxes	(2,063)	1,168	(5,845)	3,277	(20,513)	(323)	25,478	176
Purchase Price Allocation net of taxes	(6,847)	(7,260)	(6,830)	(7,403)	(10,248)	(16,468)	(7,173)	(8,490)
Profit (loss) for the period attributable to non-controlling interests	(412)	97	373	(36)	628	49	66	43
Parent Company's profit (loss) for the period	**321,060**	**318,960**	**359,106**	**265,327**	**197,635**	**136,415**	**180,395**	**170,602**

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

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

Note on methodology

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

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

- the aggregate "Loans at amortised cost" is represented by item 40 "Financial assets at amortised cost" with the exclusion of debt securities, included in "Other financial assets and hedging derivatives" and of the financial assets at amortised cost pertaining to insurance companies, shown in the aggregate "Financial assets pertaining to insurance companies" of the reclassified balance sheet. In addition, the sub-item "Loans to customers" includes the amount of senior securities deriving from the sale of non-performing loans;
- the aggregate "Other financial assets and hedging derivatives" is made up of items 20, 30 and 50, with the exception of senior securities deriving from the sale of non-performing loans, included in loans to customers, and of financial assets pertaining to insurance companies, also included in the aggregate

"Financial assets pertaining to insurance companies" of the reclassified balance sheet; it also includes the amount of debt securities at amortised cost mentioned above;
- the aggregate "Financial assets pertaining to insurance companies" includes the financial assets attributable to insurance operations (asset items: "20. Financial assets at fair value through profit and loss", "30. Financial assets measured at fair value through other comprehensive income", "40. Financial assets at amortised cost", "50. Hedging derivatives");
- the aggregate "Other asset items" consists of the residual items 60 "Fair value change of financial assets in macro fair value hedge portfolios (+/-)" and 130 "Other assets". Technical reserves of reinsurers are also included (item 80 of balance sheet assets).

The main balance sheet liability items were instead subject to the following reclassifications:
- the aggregate "Direct bank funding" is made up of items 10.b) "Financial liabilities at amortised cost: due to customers", with the exclusion of lease payables due to customers (shown in the item of the same name in the reclassified balance sheet), and of amounts due to customers pertaining to insurance companies (shown in item "Direct funding from insurance business and technical reserves" of the reclassified balance sheet); 10.c) "Financial liabilities at amortised cost: debt securities in issue" and 30 "Financial liabilities designated at fair value", net of protected capital certificates, included in the aggregate "Other financial liabilities designated at fair value" and of financial liabilities designated at fair value of insurance companies, shown in item "Direct funding from insurance business and technical reserves";
- the aggregate "Direct funding from insurance business and insurance liabilities" includes the liabilities of the insurance companies for policies underwritten by customers. In particular, these are liability items "30. Financial liabilities designated at fair value", for unit-linked policies and "110. Technical reserves", for the remaining insurance products;
- the item "Due to banks" refers to item 10.a) "Financial liabilities at amortised cost: due to banks", with the exception of lease payables due to banks (shown in the item of the same name in the reclassified balance sheet) and of amounts due to banks pertaining to insurance companies (shown in item "Direct funding from insurance business and insurance liabilities" of the reclassified balance sheet);
- the item "Lease payables" includes the liabilities at amortised cost to banks and customers relating to leasing transactions, as previously described;
- the aggregate "Other financial liabilities designated at fair value" includes items 20. "Financial liabilities held for trading", increased by the amount of the protected capital certificates as described above, and 40. "Hedging derivatives";
- the item "Other financial liabilities pertaining to insurance companies" includes amounts due to banks and to customers of insurance companies, not related to commitments to policyholders, recognised under liability item "10. Financial liabilities at amortised cost";
- the aggregate "Liability provisions" includes items 90. "Provisions for employee severance pay" and 100. "Provisions for risks and charges";
- the aggregate "Other liability items" consists of the residual items 50 "Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)" and 80 "Other liabilities";
- the aggregate "Group shareholders' equity" is represented by items 120. "Valuation reserves", 140. "Equity instruments", 150. "Reserves", 170. "Share capital", 180. "Own shares (-)" and 200. "Profit/Loss for the year".

Finally, as regards the reclassified income statement, the following main reclassifications were made:
- the portion of the economic results pertaining to investee companies carried at equity (included in item 250) has been stated in a specific item, which represents, together with the "Net interest income", the aggregate defined as the "Financial margin";
- the item "Profit (loss) on insurance business" includes the items specifically attributable to the insurance business represented by net premiums (item 160) and the balance of income and expenses from insurance activities (item 170), which includes the net change in technical reserves, claims for the period, as well as other income and expenses from insurance activities. In addition, this aggregate includes the economic components (interest, dividends, realised gains/losses, gains/losses from valuation) relating to the portfolios of financial assets and liabilities held by insurance companies ("10. Interest income", "20. Interest expense", "70. Dividends", "80. Net trading income", "90. Fair value gains/losses on hedging derivatives", "100. Gains (losses) on disposal or repurchase", "110. Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss", "130. Net credit impairment losses/recoveries"). It should also be noted that, in the reclassified income statement, placement fees paid

by insurance companies to the banking distribution network of Banco BPM, even if consolidated using the line-by-line method, are recognised as open balances. The item "Net fee and commission income" therefore includes fee and commission income received from the distribution network, while the item "Profit (loss) on insurance business" includes fee and commission expense paid by the insurance companies. The aim of this presentation method is to allow the contributions of the various operating segments that generate the economic result to be represented, in line with the requirements of accounting standard IFRS 8;
- dividends on shares classified under financial assets at fair value through profit and loss and measured at fair value through other comprehensive income (included in item 70) were re-attributed to the "Net financial result";
- the income relating to the issue of liabilities held for trading represented by Group certificates, which in the income statement drawn up based on Circular no. 262 is shown in item "80. Net trading income", was partially re-attributed to the reclassified income statement item "Net fee and commission income". In greater detail, with an operating outlook, net fee and commission income includes the portion of product profitability that remunerates the placement activities performed by the Group. Moreover, fee and commission expense relating to placement services carried out by third party networks are included in the net trading income;
- recoveries of taxes and duties and other expenses (included in item 230) were applied as a direct decrease in "Other administrative expenses", where the related cost is recorded, instead of being indicated in the reclassified aggregate of Other net operating income";
- gains and losses on disposal of loans, not represented by debt securities (included in item 100) and gains (losses) from contractual modification without derecognition (booked to item 140), were added, together with net credit impairment losses/recoveries, to the item "Net adjustments to loans to customers";
- ordinary and extraordinary charges introduced for banks due to the single and national resolution funds (SRF and NRF) and the deposit guarantee scheme (DGS) were recognised, net of relative tax effects, in a separate item "Charges related to the banking system, net of taxes", rather than in "Other administrative expenses" and "Taxation charge related to profit or loss from continuing operations";
- the impact of exercising the option to realign the tax values to the book values of the real estate for the Group's use, recognised under "Taxation charge related to profit or loss from continuing operations" was re-attributed to an ad hoc item of the reclassified income statement named "Impact of the realignment of tax values to book values";
- the overall economic impacts related to the reorganisation of bancassurance activities are shown in an ad hoc item called "Bancassurance impacts net of taxes", which includes the relative tax effects;
- the economic impact of a change in own credit risk related to the issue of certificates classified in the portfolio of "Financial liabilities held for trading" is included in the ad hoc item "Change in own credit risk on Certificates issued by the Group, net of taxes". This decision derives from the need to isolate the economic effects of the volatility of said own credit risk, as, with an operating outlook, they are not deemed expressive of actual profitability of the Group;
- the impacts arising from Purchase Price Allocations made following aggregation transactions have been grouped into a single separate item in the reclassified income statement called "Purchase Price Allocation net of taxes". This item groups together the impacts that in the income statement format are recognised in interest income (reversal effect of the fair value measurement of loans), amortisation of intangible assets recognised in item 220 (amortisation of so-called "client relationships" and of the so-called "value of business acquired"), in the gains/losses on interests in associates and joint ventures and other investments (effect of the remeasurement at fair value of the 19% share held in Banco BPM Vita prior to the acquisition of control) and in the item "Taxation charge related to profit or loss from continuing operations".

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

In addition to the financial information prepared on the basis of IAS/IFRS international accounting standards, this report contains some alternative performance measures (APMs) identified in order to facilitate the understanding of the economic and financial performance of Banco BPM Group operations.
The aforementioned measures are based on the guidelines of the European Securities and Markets Authority (ESMA) of 5 October 2015 (ESMA/2015/1415), incorporated in CONSOB Communication no. 0092543 of 3 December 2015.

In particular, it should be noted that alternative performance measures:

- are based exclusively on historical data and are not indicative of future performance;
- are not determined on the basis of the IFRS accounting standards and are not subject to audit;
- are calculated on the basis of the reclassified financial statements, unless otherwise specified, and must be read together with the financial information of the Group contained in this report;
- since not all companies calculate APMs in the same way, the measures used by Banco BPM may not be consistent with similar parameters used by other companies;
- are calculated consistently and in the same way for the periods to which the financial information in this Report refers.

A list of the main APMs contained in this report is provided below, with an indication of the calculation methodology[1]:

- **core operating income**: includes net interest income, gains (losses) on interests in associates and joint ventures carried at equity, net fee and commission income and profit (loss) on insurance business;
- **direct bank funding**: includes funding from customers represented by demand and term deposits and current accounts, bonds issued, certificates of deposit and other securities, debts and protected capital certificates relating to the Group's banking activities. Short-term repurchase agreements and funding relating to insurance companies are excluded;
- **core direct funding: funding from customers relating only to current accounts and deposits;**
- **direct funding from insurance business and insurance liabilities**: includes the forms of funding classified under insurance liabilities and financial liabilities pertaining to insurance companies;
- **indirect funding**: management figure that includes funding from assets under management and under custody, net of funding underlying protected capital certificates, included in direct funding;
- **Core net performing loans**: aggregate consisting of mortgages and other loans, current accounts, credit cards and personal loans;
- **Gross NPE ratio**: ratio of gross non-performing exposures to total exposures relating to the balance sheet item "Loans to customers measured at amortised cost";
- **Net NPE ratio**: Ratio of net non-performing exposures to total net exposures relating to the balance sheet item "Loans to customers at amortised cost";
- **cost of credit or cost of risk**: calculated as the ratio of net value adjustments on loans to customers to total on-balance sheet exposures to customers measured at amortised cost, net of value adjustments;
- **coverage ratio of non-performing loans**: calculated as the ratio of net value adjustments on non-performing loans to gross non-performing loans;
- **coverage ratio of non-performing loans including write-offs**: calculated as the ratio of net value adjustments on non-performing loans to gross non-performing loans (including write-offs in both items);
- **bad loan coverage ratio**: calculated as the ratio of net value adjustments on bad loans to gross bad loans;
- **bad loan coverage ratio including write-offs**: calculated as the ratio of net value adjustments on bad loans to gross bad loans (including write-offs in both items);
- **unlikely to pay coverage ratio**: calculated as the ratio of net value adjustments on unlikely to pay loans to gross unlikely to pay loans;
- **coverage ratio of past due exposures**: calculated as the ratio of net value adjustments on past due exposures to gross past due exposures;
- **coverage ratio of performing exposures**: calculated as the ratio of net value adjustments on total performing exposures to total gross performing exposures;
- **net bad loans/loans to customers (net)**: calculated as the ratio of net bad loans to total net exposures;
- **net unlikely to pay/loans to customers (net)**: calculated as the ratio of net unlikely to pay loans to total net exposures;
- **net bad loans/shareholders' equity**: calculated as the ratio of net bad loans to shareholders' equity;
- **Texas ratio**: calculated as the ratio of the net value of non-performing loans to the Group's tangible shareholders' equity (net of related tax effects);

[1] Alternative performance measures relating to loans refer, unless otherwise specified, to the aggregate of loans to customers recognised under financial assets at amortised cost.

- **tangible shareholders 'equity**: the difference between shareholders' equity pertaining to the Group and intangible assets (net of the related deferred tax effects);
- **financial assets and hedging derivatives/total assets**: calculated as the ratio of aggregate financial assets and hedging derivatives inferred from the reclassified balance sheet to total assets;
- **derivative assets/total assets**: calculated as the ratio of aggregate trading and hedging derivatives shown in the balance sheet assets to total assets;
- **trading derivative assets/total assets**: calculated as the ratio of trading derivatives shown in the balance sheet assets to total assets;
- **hedging derivative assets/total assets**: calculated as the ratio of hedging derivatives shown in the balance sheet assets to total assets;
- **net trading derivatives/total assets**: calculated as the ratio of the aggregate net trading derivatives (corresponding to the mismatch, in absolute terms, between the derivatives included under the balance sheet item 20 a) of assets, "Financial assets at fair value through profit and loss - held for trading", and item 20 of liabilities, "Financial liabilities held for trading") to total assets;
- **loan to deposit ratio** (net loans/direct funding): calculated as the ratio of net loans to customers to aggregate direct funding from customers;
- **cost/income ratio**: calculated as the ratio of operating expenses to operating income resulting from the reclassified Income Statement;
- **ROE**: calculated as the ratio of net profit (loss) for the year to shareholders' equity (excluding the profit (loss) for the year and AT1 equity instruments);
- **ROTE**: calculated as the ratio of net profit (loss) for the year to shareholders' equity, determined by excluding the profit (loss) for the year, AT1 equity instruments and intangible assets, net of the related tax effects, from shareholders' equity;
- **ROA**: calculated as the ratio of net profit (loss) for the year to total assets;
- **financial margin/operating income**: calculated as the ratio of aggregate financial margin to aggregate operating income taken from the reclassified income statement;
- **net fee and commission income/operating income**: calculated as the ratio of net fee and commission income to operating income taken from the reclassified income statement;
- **loans to customers (net) per employee**: calculated as the ratio of net loans to customers to the average number of employees;
- **operating income per employee**: calculated as the ratio of operating income to the average number of employees;
- **operating expenses per employee**: calculated as the ratio of operating expenses to the average number of employees;
- **adjusted result**: result net of the non-recurring components described in the following paragraph.

The regulatory capitalisation and liquidity ratios contained in this report are calculated by applying the specific legislative and regulatory provisions.

Non-recurring components of the reclassified consolidated income statement

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

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

debits/credits by Resolution Funds and the Interbank Deposit Guarantee Fund, effects associated with legislative changes, exceptional results, etc.);

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

Conversely, the following are usually considered to be recurring:

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

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

- the item "Personnel expenses" includes the allocation relating to the charges that are expected to be incurred in relation to the agreements with the Trade Unions regarding the early retirement of personnel, totalling 10.2 million, net of the releases of liabilities recognised in previous years of 20.8 million. The net effect on the item in question totalled +10.6 million;
- the item "Net value adjustments to property, plant and equipment and intangible assets" includes a positive effect of 16.9 million, considered non-recurring, as it is related to the settlement of several anomalies in the recognition of lease contracts in previous years, which had entailed charging higher depreciation mainly attributable to rental contracts;
- the item "Net adjustments to loans to customers" includes the impacts deriving from the increase in the targets for the sale of non-performing loans as a result of the change in the strategy for managing non-performing loans, totalling -91.7 million;
- in the item "Fair value gains (losses) on property, plant and equipment", net value adjustments of -146.8 million are recognised; this amount represents the negative economic effect deriving from the valuations as at 31 December 2023 of the Group's real estate assets, which takes into account both the update of the appraisals, and the presumed sale values inferred from ongoing negotiations;
- the item "Net provisions for risks and charges" includes the allocation of 19.4 million relating to the estimate of charges for certain contractual commitments;
- the item "Gains (losses) on interests in associates and joint ventures and other investments" includes the positive impact of +0.3 million, deriving from the sale of property, plant and equipment;
- the "Taxation charge related to profit or loss from continuing operations" includes the tax impacts of the aforementioned non-recurring items amounting to +75.7 million;
- the item "Impact of the realignment of tax values to book values" includes the effect, equal to +8.8 million, deriving from the expiry of the so-called recapture period envisaged by the regulations on the realignment of tax values to the book values of properties, a realignment carried out in previous years;
- the item "Bancassurance impacts net of taxes" includes the effects, for a total of -22.2 million, attributable to the extraordinary transactions finalised in December as part of the reorganisation of the bancassurance business.

Overall, the impact of non-recurring items on the net result for 2023 was negative and equal to -168.0 million.

The following non-recurring items were recognised in the income statement of the previous year:

- the items "Net financial result" and "Net adjustments to loans to customers" included the impacts, equal to 4.7 million and 112.7 million respectively, deriving from the increase in the sale targets of non-performing loans following the amendment of the NPL management strategy approved by the Parent Company's Board of Directors;

- the item "Personnel expenses" included expenses relating to extraordinary payments made to employees during the year and the positive impact deriving from the release of excess provisions made in previous years relating to the redundancy fund. The total net effect was +11.9 million;
- "Net value adjustments to property, plant and equipment and intangible assets" included write-downs of 7.1 million relating to impairment of software;
- "Fair value gains (losses) on property, plant and equipment" included net value adjustments of -108.3 million, deriving from the fair value measurement of owned properties;
- "Net provisions for risks and charges" included allocations relating to the estimated charges for the rationalisation and for certain contractual commitments totalling 26.8 million;
- the item "Gains (losses) on interests in associates and joint ventures and other investments" included the positive impact of +2.3 million, deriving from the sale of property, plant and equipment;
- the item "Goodwill impairment" showed the impact of the impairment test which led to the recognition of value adjustments of 8.1 million on the goodwill allocated to the Bancassurance CGU;
- the "Taxation charge related to profit or loss from continuing operations" included the tax impacts of the aforementioned non-recurring items amounting to +80.6 million;
- the item "Purchase Price Allocation (PPA), net of taxes" included the effect of the remeasurement at fair value of the share previously held in Banco BPM Vita, equal to 10.7 million.

Overall, non-recurring components for 2022 were a negative -183.7 million.

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

The main balance sheet and income statement items as at 31 December 2023 are illustrated below.

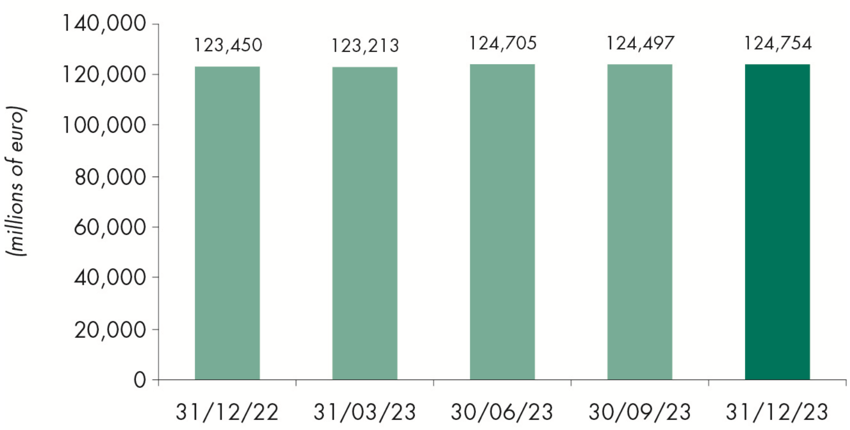
Consolidated balance sheet figures

Loan brokering activities

Direct funding

(thousands of euro)	31/12/2023	% impact	31/12/2022	% impact	Abs. Change	% Change
Current accounts and deposits	**98,833,348**	**81.8%**	**103,699,276**	**86.0%**	**(4,865,928)**	**(4.7%)**
- current accounts and demand deposits	98,587,817	81.6%	103,410,941	85.7%	(4,823,124)	(4.7%)
- fixed-term deposits and other restricted current accounts	245,531	0.2%	288,335	0.2%	(42,804)	(14.8%)
Securities	**18,889,805**	**15.6%**	**12,941,380**	**10.7%**	**5,948,425**	**46.0%**
- bonds and liabilities at fair value	18,886,862	15.6%	12,933,380	10.7%	5,953,482	46.0%
- certificates of deposit and other securities	2,943	0.0%	8,000	0.0%	(5,057)	(63.2%)
Repurchase agreements	**1,290,049**	**1.1%**	**1,460,568**	**1.2%**	**(170,519)**	**(11.7%)**
Loans and other payables	**1,756,862**	**1.5%**	**2,537,859**	**2.1%**	**(780,997)**	**(30.8%)**
Direct funding	**120,770,064**	**100.0%**	**120,639,083**	**100.0%**	**130,981**	**0.1%**
Direct funding without repurchase agreements	**119,480,015**		**119,178,515**		**301,500**	**0.3%**
Other funding (Protected capital certificates)	**5,273,943**		**4,270,993**		**1,002,950**	**23.5%**
Total direct funding without repurchase agreements with certificates	**124,753,958**		**123,449,508**		**1,304,450**	**1.1%**

Direct funding

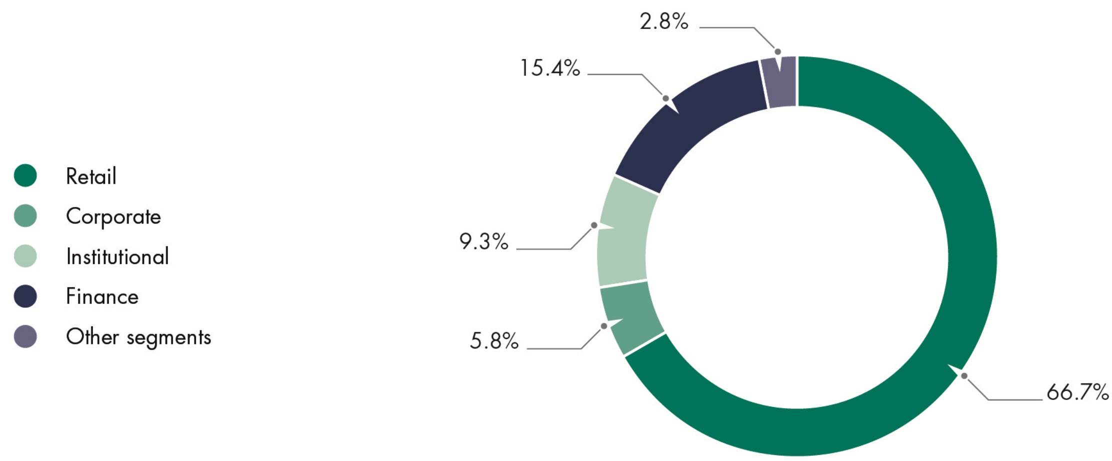


As at 31 December 2023, **direct bank funding**[1] totalled 124.8 billion, showing an increase of 1.1% compared to 31 December 2022.
More specifically, there was a decrease of 4.9 billion in the core component represented by current accounts and deposits (-4.7%). As regards bonds issued, the stock as at 31 December 2023 came to 18.9 billion, marking increase of 6.0 billion (+46.0%) compared to 31 December 2022, due to new issues during the year, which exceeded the redemptions of securities that had matured.
As at 31 December 2023, the funding guaranteed by the stock of certificates with unconditional capital protection totalled 5.3 billion, up by 23.5% compared to the 4.3 billion as at 31 December 2022.

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

(thousands of euro)	31/12/2023	% impact	31/12/2022 restated (*)	% impact	31/12/2022	Abs. change on restated balances	% Change
Retail	83,262,030	66.7%	86,189,947	69.8%	86,389,032	(2,927,917)	(3.4%)
Corporate	7,199,097	5.8%	7,554,654	6.1%	7,516,615	(355,557)	(4.7%)
Institutional	11,555,352	9.3%	11,078,524	9.0%	11,047,043	476,828	4.3%
Private	2,107,453	1.7%	3,001,082	2.4%	2,871,378	(893,629)	(29.8%)
Investment Banking	2,276,176	1.8%	2,858,602	2.3%	2,858,602	(582,426)	(20.4%)
Finance	19,228,439	15.4%	13,631,140	11.0%	13,631,140	5,597,299	41.1%
Corporate Centre	(874,589)	(0.7%)	(864,441)	(0.7%)	(864,302)	(10,148)	1.2%
Total direct funding	**124,753,958**	**100.0%**	**123,449,508**	**100.0%**	**123,449,508**	**1,304,450**	**1.1%**

(*) Keeping the total of the item unchanged, the figures of the previous year were restated to reflect the changes introduced to the breakdown of operating segments and to guarantee a like-for-like comparison with the profiling criteria used for 2023. For more details on the methods for restating the balances of the previous year, please refer to the next section "Results by business segment" of this Report on operations.

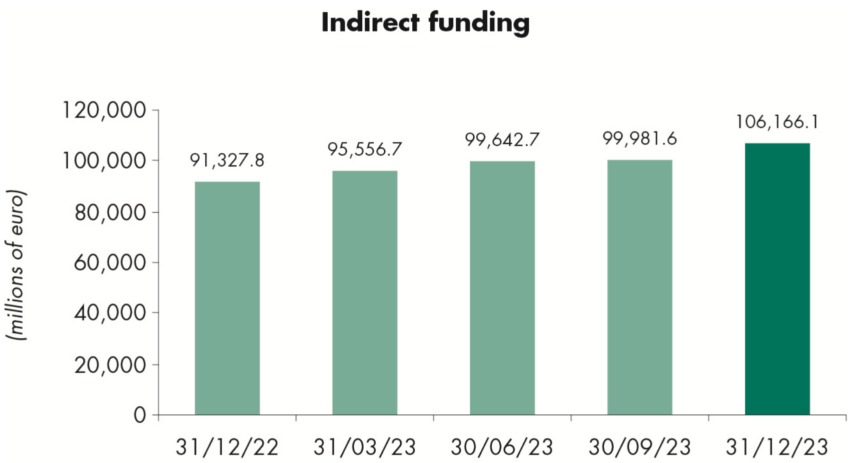


In terms of sector of economic activity, the Commercial Network (referring to the Retail, Corporate, Institutional and Private segments), as a whole, fell by 3.7 billion. This decline was mainly concentrated in the Retail segment, where the current account component decreased by 1.9 billion. In fact, the rise in interest rates led to the outflow of assets towards administered deposits.
Funding in the Finance business line rose, due to the return to issues in the institutional market, also to cope with the gradual reduction of TLTRO III. 7.1 billion of bonds were placed with institutional investors (including repurchase agreements with underlying Group securities), of which 2 billion with ESG characteristics. In addition, there were 850 million of repurchase agreements with underlying retained ABS.

Direct funding from insurance business and insurance liabilities, which include the aggregate comprised by financial and insurance liabilities of insurance companies, amounted to15.0 billion and included the contribution of Banco BPM Vita and Vera Vita. As at 31 December 2022, the item in question amounted to 5.7 billion, referring only to the contribution of Banco BPM Vita.

Indirect funding

(thousands of euro)	31/12/2023	% impact	31/12/2022	% impact	Abs. Change	% Change
Managed assets	**62,003,096**	**56.0%**	**59,408,707**	**62.5%**	**2,594,389**	**4.4%**
- mutual funds and SICAVs	41,927,159	37.8%	39,916,578	42.0%	2,010,581	5.0%
- securities and fund management	4,369,295	3.9%	3,969,419	4.2%	399,876	10.1%
- insurance policies	15,706,642	14.2%	15,522,710	16.3%	183,932	1.2%
Administered assets	**48,769,600**	**44.0%**	**35,620,438**	**37.5%**	**13,149,162**	**36.9%**
Total indirect funding	**110,772,696**	**100.0%**	**95,029,145**	**100.0%**	**15,743,551**	**16.6%**
Underlying funding for protected capital certificates	4,606,563		3,701,323		905,240	24.5%
Total indirect funding without certificates	**106,166,133**		**91,327,822**		**14,838,311**	**16.2%**



Indirect funding net of protected capital certificates[1] amounted to 106.2 billion, up by 16.2% compared to 31 December 2022.

The managed assets component amounted to 62.0 billion, up compared to the figure of 59.4 billion as at 31 December 2022 (+4.4%). The increase is mainly concentrated in the fund and SICAV segment, which showed an increase of over 2 billion; funding relating to asset management and the bancassurance segment also increased.

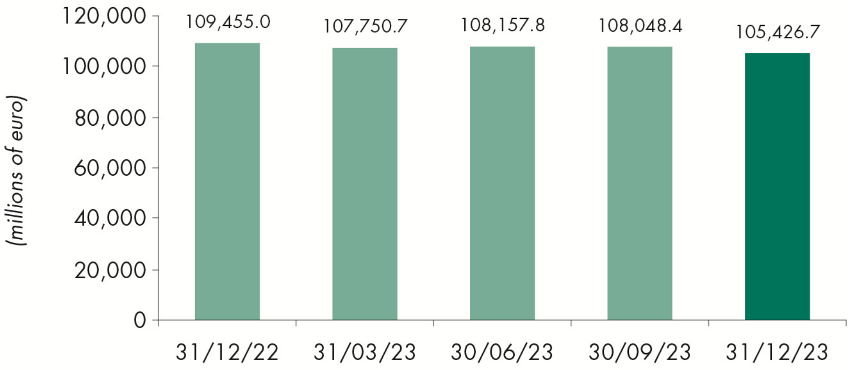
Administered assets reached 48.8 billion, an increase of 13.1 billion (+36.9%) compared to the end of 2022.

Loans to customers

(thousands of euro)	31/12/2023	% impact	31/12/2022	% impact	Abs. Change	% Change
Mortgage loans	78,346,183	74.3%	82,019,769	74.9%	(3,673,586)	(4.5%)
Current accounts	7,597,611	7.2%	8,571,864	7.8%	(974,253)	(11.4%)
Repurchase agreements	4,833,466	4.6%	1,883,322	1.7%	2,950,144	156.6%
Finance leases	518,682	0.5%	780,186	0.7%	(261,504)	(33.5%)
Credit cards, personal loans and salary-backed loans	666,206	0.6%	967,941	0.9%	(301,735)	(31.2%)
Other transactions	12,050,508	11.4%	13,298,151	12.1%	(1,247,643)	(9.4%)
Senior securities from sales of non-performing loans	1,414,073	1.3%	1,933,727	1.8%	(519,654)	(26.9%)
Total net loans to customers	**105,426,729**	**100.0%**	**109,454,960**	**100.0%**	**(4,028,231)**	**(3.7%)**

[1] For consistency with the criteria for the representation of operating results, the aggregate of indirect funding is represented net of the underlying funding for protected capital certificates.

Net loans to customers



Net loans to customers[1] totalled 105.4 billion as at 31 December 2023, down by 4.0 billion compared to the figure of 31 December 2022. The decrease refers to both performing exposures (-3.3%) and non-performing exposures (-21.0%).
During the year, the volume of new loans amounted to 14.9 billion[2]. The quality of the "core" loan portfolio, characterised by a high percentage of secured positions (58%[3]), concentrated mainly in Northern Italy (75.3%[4]), was confirmed.

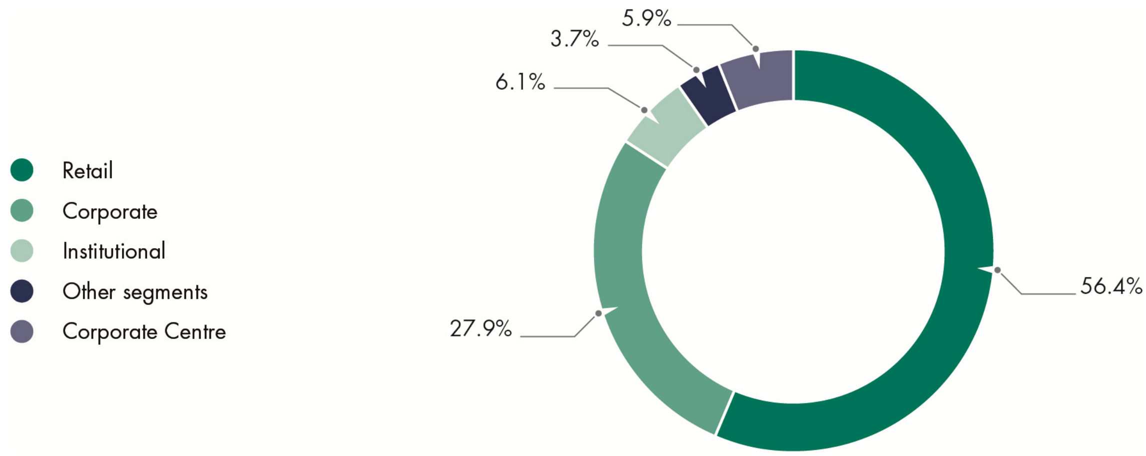
The disclosure relating to loans disbursed with ESG characteristics is provided in the Group's Consolidated Non-Financial Statement, to which reference is made for further details.

Information on direct and indirect risks with customers residing in countries involved in the Russia-Ukraine and Middle-East conflicts is provided in Part A - Accounting policies, Section 5 - Other aspects, Impacts of the Russia-Ukraine and Middle-East conflicts, to which reference is made for further details.

(thousands of euro)	31/12/2023	% impact	31/12/2022 restated (*)	% impact	31/12/2022	Abs. change on restated balances	% Change
Retail	59,417,979	56.4%	63,090,530	57.6%	63,164,637	(3,672,551)	(5.8%)
Corporate	29,439,419	27.9%	31,038,075	28.4%	31,092,530	(1,598,656)	(5.2%)
Institutional	6,464,184	6.1%	6,837,905	6.2%	6,704,832	(373,721)	(5.5%)
Private	598,968	0.6%	542,734	0.5%	542,448	56,234	10.4%
Investment Banking	296,151	0.3%	1,773,022	1.6%	1,773,022	(1,476,871)	(83.3%)
Finance	6,235,777	5.9%	2,403,909	2.2%	2,403,909	3,831,868	159.4%
Corporate Centre	2,974,251	2.8%	3,768,785	3.4%	3,773,582	(794,534)	(21.1%)
Total net loans	**105,426,729**	**100.0%**	**109,454,960**	**100.0%**	**109,454,960**	**(4,028,231)**	**(3.7%)**

(*) Keeping the total of the item unchanged, the figures of the previous year were restated to reflect the changes introduced to the breakdown of operating segments and to guarantee a like-for-like comparison with the profiling criteria used for 2023. For more details on the methods for restating the balances of the previous year, please refer to the next section "Results by business segment" of this Report on operations.

[1] The aggregate does not include loans to customers which, following the application of IFRS 9, are mandatorily measured at fair value. Those loans, amounting to 0.5 billion, are included under financial assets at fair value.
[2] Management figure.
[3] Management figure.
[4] Management figure.



In terms of sector of economic activity, the decrease in loans was observed in the Commercial Network segments (regarding the Retail, Corporate, Institutional and Private sectors), in particular in the medium/long-term loans component of Retail (-3.7 billion), mainly due to the interest rate trend. The decrease in Corporate loans was decidedly more contained (1.6 billion).
The Finance business line increased by 3.8 billion as a result of the repurchase agreement component with institutional counterparties.
The Corporate Centre recorded a decrease (0.8 billion), mainly due to the run-off of leasing and consumer credit loans.

Credit quality

Loans to customers at amortised cost

(thousands of euro)	31/12/2023		31/12/2022		Abs. Change	% Change
	Net exposure	% impact	Net exposure	% impact		
Bad loans	626,229	0.6%	720,582	0.7%	(94,353)	(13.1%)
Unlikely to pay	1,168,283	1.1%	1,574,841	1.4%	(406,558)	(25.8%)
Non-performing past-due exposures	67,146	0.1%	60,084	0.1%	7,062	11.8%
Non-performing loans	**1,861,658**	**1.8%**	**2,355,507**	**2.2%**	**(493,849)**	**(21.0%)**
Performing loans	102,150,998	96.9%	105,165,726	96.1%	(3,014,728)	(2.9%)
Senior securities from sales of non-performing loans	1,414,073	1.3%	1,933,727	1.8%	(519,654)	(26.9%)
Performing exposures	**103,565,071**	**98.2%**	**107,099,453**	**97.8%**	**(3,534,382)**	**(3.3%)**
Total loans to customers	**105,426,729**	**100.0%**	**109,454,960**	**100.0%**	**(4,028,231)**	**(3.7%)**

(thousands of euro)	31/12/2023				31/12/2022			
	Gross exposure	Total value adjustments	Net exposure	Coverage	Gross exposure	Total value adjustments	Net exposure	Coverage
Bad loans	1,601,345	(975,116)	626,229	60.9%	2,047,001	(1,326,419)	720,582	64.8%
Unlikely to pay	2,055,750	(887,467)	1,168,283	43.2%	2,639,481	(1,064,640)	1,574,841	40.3%
Non-performing past-due exposures	93,467	(26,321)	67,146	28.2%	82,190	(22,106)	60,084	26.9%
Non-performing loans	**3,750,562**	**(1,888,904)**	**1,861,658**	**50.4%**	**4,768,672**	**(2,413,165)**	**2,355,507**	**50.6%**
of which: forborne	***1,432,184***	***(632,584)***	***799,600***	***44.2%***	***2,082,727***	***(885,947)***	***1,196,780***	***42.5%***
Performing loans (*)	**103,991,345**	**(426,274)**	**103,565,071**	**0.41%**	**107,520,221**	**(420,768)**	**107,099,453**	**0.39%**
of which: Stage 1	*91,794,438*	*(105,916)*	*91,688,522*	*0.1%*	*96,657,964*	*(153,013)*	***96,504,951***	*0.2%*
of which: Stage 2	*12,196,907*	*(320,358)*	*11,876,549*	*2.6%*	*10,862,257*	*(267,755)*	***10,594,502***	*2.5%*
of which: forborne	***1,729,812***	***(65,341)***	***1,664,471***	***3.8%***	***2,803,391***	***(95,342)***	***2,708,049***	***3.4%***
Total loans to customers	**107,741,907**	**(2,315,178)**	**105,426,729**	**2.1%**	**112,288,893**	**(2,833,933)**	**109,454,960**	**2.5%**

(*) Includes senior securities from sales of non-performing loans for an amount of 1,414.1 million (of which 1,416.3 million in gross exposure and 2.2 million in value adjustments).

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

As illustrated in more detail in the paragraph entitled "2.3 Measurement methods for expected losses" in Part E of the Notes to the consolidated financial statements, in 2023, the Group continued with the process of revising and fine-tuning the current models, with a view to more accurately reflecting the expected losses of performing exposures, also as a consequence of the economic disruption caused by the situation of international political instability. This process moreover envisaged a series of post model managerial adjustments, in order to factor in certain measurement elements not adequately intercepted by current models.
Furthermore, some changes were made to the criteria used to assess any Significant Increase in Credit Risk (SICR).

Net non-performing loans (bad loans, unlikely to pay and non-performing past due and/or overdue) amounted to 1.9 billion as at 31 December 2023.
An examination of the components of the aggregate shows the following dynamics:

- net bad loans of 0.6 billion, with a decrease of 13.1% compared to 31 December 2022;
- net unlikely to pay loans of 1.2 billion, down by 25.8% compared the start of the year;
- net past due exposures amounting to 67 million (60 million as at 31 December).

The percentage of non-performing exposures out of total loans, gross of value adjustments came to 3.5%, down compared to 4.2% at the start of the year. Even net of value adjustments, there was a decrease from 2.2% as at 31 December 2022 to 1.8% at the end of 2023.

The coverage rate for the entire non-performing loans aggregate was 50.4% (50.6% as at 31 December 2022).
More specifically, as at 31 December 2023, the coverage ratio was as follows:

- bad loans 60.9%;
- unlikely to pay 43.2%;
- past due exposures 28.2%.

The coverage ratio of performing loans came out at 0.41%, up compared to 0.39% as at 31 December 2022.

Financial assets

(thousands of euro)	31/12/2023	% impact	31/12/2022	% impact	Abs. Change	% Change
Debt securities (*)	36,524,638	83.6%	34,940,905	81.1%	1,583,733	4.5%
Equity instruments	2,306,267	5.3%	1,821,452	4.2%	484,815	26.6%
UCIT units	1,460,186	3.3%	1,220,222	2.8%	239,964	19.7%
Total securities portfolio	**40,291,091**	**92.2%**	**37,982,579**	**88.1%**	**2,308,512**	**6.1%**
Derivative trading and hedging instruments	2,872,831	6.6%	4,441,214	10.3%	(1,568,383)	(35.3%)
Loans	542,459	1.2%	669,748	1.6%	(127,289)	(19.0%)
Total financial assets	**43,706,381**	**100.0%**	**43,093,541**	**100.0%**	**612,840**	**1.4%**

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

Financial assets from the banking segment were equal to 43.7 billion, up by 1.4% compared to 43.1 billion as at 31 December 2022; the increase was mainly concentrated in debt securities (+1.6 billion) and, in particular, in the segments of securities measured at fair value through other comprehensive income. As at 31 December 2023, the aggregate in question consisted of debt securities for 36.5 billion, equity instruments and UCITS units for 3.8 billion, derivative instruments and other loans for 3.4 billion. Exposures in debt securities issued by sovereign states amounted to 30.4 billion, of which 11.0 billion represented by Italian government securities. Investments in Italian government securities are classified under financial assets at amortised cost for 8.7 billion, in the portfolio of financial assets measured at fair value through other comprehensive income for 2.1 billion and under financial assets at fair value through profit and loss for 0.1 billion.

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

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

(thousands of euro)	31/12/2023	% impact	31/12/2022	% impact	Abs. Change	% Change
Debt securities	486,865	6.6%	340,093	4.1%	146,772	43.2%
Equity instruments	2,029,648	27.5%	1,535,604	18.7%	494,044	32.2%
UCIT units	1,460,186	19.8%	1,220,222	14.9%	239,964	19.7%
Total securities portfolio	**3,976,699**	**53.8%**	**3,095,919**	**37.7%**	**880,780**	**28.4%**
Financial and credit derivatives	2,872,831	38.9%	4,441,214	54.1%	(1,568,383)	(35.3%)
Loans	542,459	7.3%	669,748	8.2%	(127,289)	(19.0%)
Overall total	**7,391,989**	**100.0%**	**8,206,881**	**100.0%**	**(814,892)**	**(9.9%)**

Financial assets measured at fair value through other comprehensive income

(thousands of euro)	31/12/2023	% impact	31/12/2022	% impact	Abs. Change	% Change
Debt securities	10,416,099	97.4%	9,094,672	97.0%	1,321,427	14.5%
Equity instruments	276,619	2.6%	285,848	3.0%	(9,229)	(3.2%)
Total	**10,692,718**	**100.0%**	**9,380,520**	**100.0%**	**1,312,198**	**14.0%**

Financial assets at amortised cost

(thousands of euro)	31/12/2023	% impact	31/12/2022	% impact	Abs. Change	% Change
Debt securities (*)	25,621,674	100.0%	25,506,140	100.0%	115,534	0.5%
Total	**25,621,674**	**100.0%**	**25,506,140**	**100.0%**	**115,534**	**0.5%**

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

Exposure to sovereign risk

The table below provides details of the total exposure in sovereign debt securities as at 31 December 2023, relating to the banking segment, broken down by country (amounts in thousands of euro):

Countries	Financial assets at fair value through profit and loss	Financial assets measured at fair value through other comprehensive income	Financial assets at amortised cost	Total debt securities	of which: Parent Company
Italy	125,659	2,104,817	8,737,138	10,967,614	10,624,967
Spain	6,323	1,436,401	3,628,397	5,071,121	5,071,121
Germany	1	934,251	2,710,863	3,645,115	3,645,114
France	29,023	1,570,779	4,577,996	6,177,798	6,177,798
Austria	-	-	276,971	276,971	276,971
Ireland	3	-	19,846	19,849	19,846
Other EU countries	6	72,146	222,932	295,084	295,078
Total EU countries	**161,015**	**6,118,394**	**20,174,143**	**26,453,552**	**26,110,895**
USA	1	1,633,607	2,112,729	3,746,337	3,746,336
Chile	-	12,942	2,040	14,982	14,982
China	-	57,456	42,056	99,512	99,512
Mexico	-	4,708	18,032	22,740	22,740
Hong Kong	-	20,220	-	20,220	20,220
Other countries	30	48,580	4,563	53,173	53,168
Total other countries	**31**	**1,777,513**	**2,179,420**	**3,956,964**	**3,956,958**
Total	**161,046**	**7,895,907**	**22,353,563**	**30,410,516**	**30,067,853**

Exposure is mainly concentrated within the Parent Company Banco BPM, which as at 31 December 2023 held a total of 30,067.9 million, of which 10,625.0 million relates to Italian government bonds.

Investments in sovereign debt securities are classified at 73.5% in the portfolio of financial assets at amortised cost, 26% in the portfolio of financial assets measured at fair value through other comprehensive income and 0.5% in the portfolio of financial assets at fair value through profit and loss as they are held for trading.
Out of this exposure, about 87% refers to securities issued by member states of the European Union; notably about 36.1% by Italy.
The Group has no exposures to debt securities of Russian or Ukrainian issuers. On the other hand, there are outstanding exposures of a nominal amount of 45 million in securities of Israeli issuers, as reported in "Section 5 - Other Aspects - Impacts of the Russia-Ukraine and Middle East conflicts" of part A.1 of these Notes to the Financial Statements.

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

Financial assets at fair value through profit and loss

Status	Maturing by 2024	Maturing between 2025 to 2029	Maturing between 2030 to 2034	Maturing beyond 2034	Total fair value as at 31/12/2023	Total fair value by hierarchy		
						LEVEL 1	LEVEL 2	LEVEL 3
Italy	64,635	53,997	3,940	3,087	125,659	125,659	-	-
Spain	-	6,323	-	-	6,323	6,323	-	-
France	-	29,023	-	-	29,023	29,023	-	-
Other EU countries	-	3	1	6	10	10	-	-
Total	**64,635**	**89,346**	**3,941**	**3,093**	**161,015**	**161,015**	**-**	**-**
of which Parent Company	46,642	61,790	3,300	-	111,732	111,732	-	-

Financial assets measured at fair value through other comprehensive income

Status	Maturing by 2024	Maturing between 2025 to 2029	Maturing between 2030 to 2034	Maturing beyond 2034	Total fair value as at 31/12/2023	Net reserve at FVTOCI	Value adjustments	Total fair value by hierarchy		
								LEVEL 1	LEVEL 2	LEVEL 3
Italy	290,910	228,766	1,267,145	317,996	2,104,817	(57,453)	-	2,104,817	-	-
Spain	-	491,778	944,623	-	1,436,401	(46,577)	-	1,436,401	-	-
France	-	-	1,570,779	-	1,570,779	(131,965)	-	1,570,779	-	-
Germany	-	138,563	795,688	-	934,251	(96,126)	-	934,251	-	-
Other EU countries	4,641	25,714	41,791	-	72,146	(1,248)	-	72,146	-	-
Total	**295,551**	**884,821**	**4,620,026**	**317,996**	**6,118,394**	**(333,369)**	**-**	**6,118,394**	**-**	**-**
of which Parent Company	4,641	884,821	4,620,024	317,996	5,827,482	(329,552)		5,827,482	-	-

Financial assets at amortised cost

Status	Maturing by 2024	Maturing between 2025 to 2029	Maturing between 2030 to 2034	Maturing beyond 2034	Total book value as at 31/12/2023	Total fair value	Total fair value by hierarchy		
							LEVEL 1	LEVEL 2	LEVEL 3
Italy	**1,373,633**	**5,692,237**	**1,485,177**	**186,091**	**8,737,138**	**8,739,278**	**8,739,278**	-	-
Spain	**-**	**2,336,903**	**1,291,494**	**-**	**3,628,397**	**3,562,342**	**3,562,342**	-	-
France	**-**	**3,557,423**	**1,020,573**	**-**	**4,577,996**	**4,485,174**	**4,485,174**	-	-
Ireland	**-**	**19,846**	**-**	**-**	**19,846**	**19,543**	**19,543**	-	-
Germany	**-**	**1,112,687**	**1,598,176**	**-**	**2,710,863**	**2,662,374**	**2,662,374**		
Other EU countries	**-**	**303,390**	**196,513**	**-**	**499,903**	**482,771**	**482,771**	-	-
Total	**1,373,633**	**13,022,486**	**5,591,933**	**186,091**	**20,174,143**	**19,951,482**	**19,951,482**	**-**	**-**
of which Parent Company	1,371,172	13,022,486	5,591,932	186,091	20,171,681	19,949,019	19,949,019	-	-

The item **financial assets pertaining to insurance companies** includes the contribution as at 31 December 2023 of the insurance companies Banco BPM Vita and Vera Vita for a total of 15.3 billion (5.9 billion as at 31 December 2022, relating to Banco BPM Vita only) and include financial assets at fair value through profit and loss of 6.3 billion and financial assets measured at fair value through other comprehensive income of 9.0 billion.

Net interbank position

Loans to banks

(thousands of euro)	31/12/202	% impact	31/12/202	% impact	Abs.	% Change
Loans to central banks	**933,326**	**22.5%**	**1,297,716**	**31.1%**	**(364,390)**	**(28.1%)**
Loans to other banks	**3,208,304**	77.5%	**2,880,177**	68.9%	**328,127**	**11.4%**
Fixed-term deposits	277,434	6.7%	113,414	2.7%	164,020	144.6%
Repurchase agreements	798,375	19.3%	792,744	19.0%	5,631	0.7%
Other loans	2,132,495	51.5%	1,974,019	47.2%	158,476	8.0%
Total loans (A)	**4,141,630**	**100.0%**	**4,177,893**	**100.0%**	**(36,263)**	**(0.9%)**

Due to banks

(thousands of euro)	31/12/202	% impact	31/12/202	% impact	Abs.	% Change
Due to central banks	**17,042,57**	**78.6%**	**26,332,41**	**80.7%**	**(9,289,838**	**(35.3%)**
Refinancing operations	17,042,573	78.6%	26,332,411	80.7%	(9,289,838)	(35.3%)
Due to other banks	**4,648,200**	**21.4%**	**6,303,394**	**19.3%**	**(1,655,194**	**(26.3%)**
Current accounts and demand deposits	219,038	1.0%	250,742	0.8%	(31,704)	(12.6%)
Fixed-term deposits	155,836	0.7%	279,818	0.9%	(123,982)	(44.3%)
Repurchase agreements	3,767,949	17.4%	4,526,453	13.9%	(758,504)	(16.8%)
Other payables	505,377	2.3%	1,246,381	3.8%	(741,004)	(59.5%)
Total payables (B)	**21,690,77**	**100.0%**	**32,635,80**	**100.0%**	**(10,945,03**	**(33.5%)**
Mismatch loans/payables (A) - (B)	**(17,549,14**		**(28,457,91**		**10,908,76**	**(38.3%)**
Due to central banks: refinancing	**(17,042,57**		**(26,332,41**		**9,289,838**	**(35.3%)**
Interbank balance (excl. refinancing	**(506,570)**		**(2,125,501**		**1,618,931**	**(76.2%)**
Mismatch towards central banks (excl.	**933,326**		**1,297,716**		**(364,390)**	**(28.1%)**
Interbank balance towards other banks	**(1,439,896**		**(3,423,217**		**1,983,321**	**(57.9%)**

Net interbank exposure as at 31 December 2023 amounted to -17,549.1 million, compared to the balance of -28,457.9 million at the end of last year.

Amounts due to central banks came to 17,042.6 million, and mainly refer to TLTRO III long-term refinancing operations with the European Central Bank. As at 31 December 2023, the book value of the latter loans amounted to 16,070.8 million, equal to the sum of the residual debt of 15,700 million and the accrued interest expense of 370.8 million. The evolution of the aggregate is influenced by the repayments of the TLTRO operations, which matured in June, September and December 2023, for a total residual debt of 11,000 million. For further details on the loans in question and the relative remuneration conditions, please refer to "Section 5 - Other aspects" of Part A of these Notes to the financial statements.

If net exposures to central banks are not considered (in reality linked to the minimum reserve), the net interbank balance towards other banks is negative, and amounts to -1,439.9 million (-3,423.2 million as at 31 December of last year).

Interests in associates and joint ventures

Interests in companies subject to significant influence as at 31 December 2023 amounted to 1,454.2 million, compared with 1,652.5 million as at 31 December 2022.

The decrease recorded during the year, equal to -198.3 million, includes in detail:

- the portions pertaining to the results recorded by investee companies during the year totalling +144.1 million;

- the effects of the reduction in the equity, following the distribution of dividends of Agos Ducato (-72.1 million), Anima Holding (-15.7 million), Vera Assicurazioni (-7.4 million), Gardant Liberty Servicing (-2.1 million), Etica SGR (-1.5 million) and SelmaBipiemme Leasing (-9.5 million);
- the net changes pertaining to the Group of valuation reserves and other reserves of associates (7.9 million);
- the exit of Vera Vita from interests in associates and joint ventures as it was consolidated on a line-by-line basis from 31 December 2023 (-227.3 million);
- the overall effects that affected the investee Vera Assicurazioni (-37.4 million) following the purchase of 65% from Generali and the simultaneous sale to Credit Agricole Assurance;
- the entry into interests in associates and joint ventures of Banco BPM Assicurazioni from 31 December 2023 (22.9 million) following the sale of control to Credit Agricole Assurance.

Property, plant and equipment

(thousands of euro)	31/12/2023	31/12/2022	Abs. Change	% Change
Property, plant and equipment used in operations	**2,035,759**	**2,079,406**	**(43,647)**	**(2.1%)**
- at cost	762,595	714,887	47,708	6.7%
- at fair value	1,273,164	1,364,519	(91,355)	(6.7%)
Property, plant and equipment held for investment purposes	**822,194**	**955,283**	**(133,089)**	**(13.9%)**
- at fair value	822,194	955,283	(133,089)	(13.9%)
Total property, plant and equipment (item 90)	**2,857,953**	**3,034,689**	**(176,736)**	**(5.8%)**
Property, plant and equipment held for sale (item 120)	**158,911**	**132,993**	**25,918**	**19.5%**
Total property, plant and equipment	**3,016,864**	**3,167,682**	**(150,818)**	**(4.8%)**

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

Property, plant and equipment used in operations (thousands of euro)	At cost	At fair value	31/12/2023	31/12/2022
Owned assets	**67,849**	**1,273,164**	**1,341,013**	**1,438,905**
- land	-	889,908	889,908	994,246
- buildings	-	330,300	330,300	317,304
- other	67,849	52,956	120,805	127,355
Rights of use acquired through leases	**694,746**	**-**	**694,746**	**640,501**
- buildings	665,667	-	665,667	605,978
- other	29,079	-	29,079	34,523
Total	**762,595**	**1,273,164**	**2,035,759**	**2,079,406**

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

Property, plant and equipment held for investment purposes (thousands of euro)	At cost	At fair value	31/12/2023	31/12/2022
Owned assets	**-**	**822,194**	**822,194**	**955,283**
- land	-	473,944	473,944	670,863
- buildings	-	348,250	348,250	284,420
Total	**-**	**822,194**	**822,194**	**955,283**

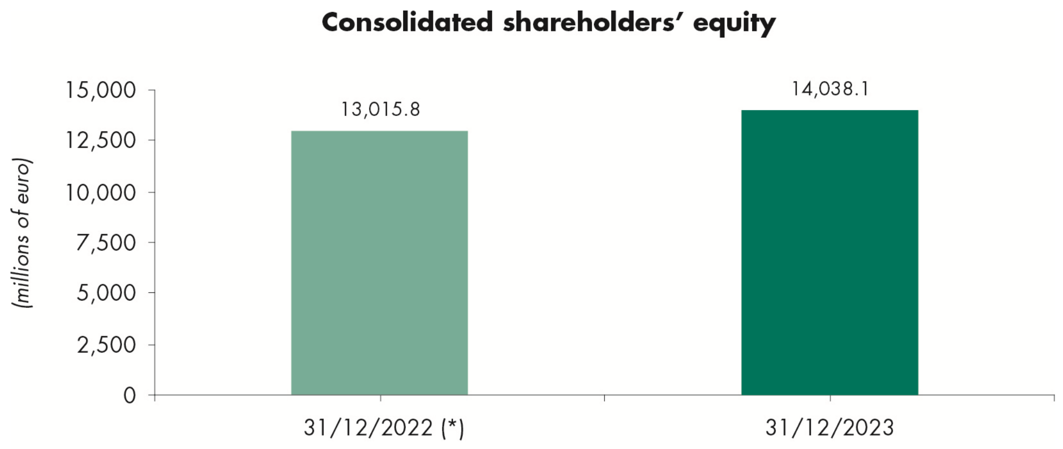
As at 31 December 2023, the total property, plant and equipment held by the Group amounted to 3,016.9 million (3,167.7 million last 31 December) and included assets held for sale of 158.9 million (133.0 million as at 31 December 2022), referring to properties for which sales agreements were defined.
The fair value measurement of properties as at 31 December 2023 led to a negative adjustment of 146.8 million. Said adjustment is attributable to the valuation process carried out annually on properties and mainly refers to properties held for investment purposes.

Liability provisions

As at 31 December, liability provisions amounted to 894.8 million (988.9 million last 31 December) and included the provisions for employee severance pay of 246.2 million (258.5 million at the end of last year), pension funds of 91.7 million (99.3 million as at 31 December 2022), allocations against commitments and guarantees given of 133.8 million (144.2 million at the end of the previous year) and other provisions of 423.1 million (486.9 million at the end of 2022).
The latter included provisions for personnel expenses of 230.6 million (263.5 million as at 31 December 2022), mainly related to the charges envisaged for the use of the extraordinary provisions of the Solidarity Fund and for early retirement incentives, and provisions for legal and tax disputes of 68.6 million (83.7 million at the end of last year).

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

Shareholders' equity and solvency ratios



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

The Group's consolidated shareholders' equity as at 31 December 2023, including valuation reserves and profit (loss) for the year, amounted to 14,038.1 million, compared to the figure at the end of 2022, restated to provide a like-for-like comparison, of 13,015.8 million.
The change, positive by 1,022.3 million, derives, for -349.5 million, from the allocation of the result for 2022 approved by the Shareholders' Meeting of 20 April 2023, for -70.1 million from the payment of coupons on Additional Tier 1 instruments, for -10.0 million, from the purchase of own shares by the Parent Company to cover employee incentive plans and, for +76.0 million, from the change recorded in equity instruments due to the issue of a nominal 300 million of new Additional Tier 1 instruments and the partial repurchase of another AT1 instrument for a nominal 223.3 million. Lastly, other positive changes were recorded for a total of 1,375.9 million mainly referring to the contribution of the comprehensive income recorded in the year. The latter is positive by 1,353.0 million due to the net profit for the year of 1,264.5 million and the positive change in valuation reserves of +88.5 million, referring in particular to the valuation reserve relating to financial assets measured at fair value through other comprehensive income, as a result of financial market trends observed during the year, and that relating to costs and revenues of a financial nature relating to insurance contracts issued by the Group's insurance companies.
For more details, please refer to the statement of changes in consolidated shareholders' equity contained in the consolidated financial statements.

The following table shows the breakdown of valuation reserves:

(thousands of euro)	31/12/2023	31/12/2022 (*)
Financial assets measured at fair value through other comprehensive income	(530,957)	(712,267)
Property, plant and equipment	321,213	375,712
Foreign investment hedges	(2,806)	(1,475)
Cash flow hedges	(20,481)	(27,655)
Exchange rate differences	19,450	16,369
Financial liabilities designated at fair value through profit and loss (changes to its own credit risk)	(43,107)	(13,977)
Actuarial gains/(losses) on defined benefit pension plans	(58,468)	(60,315)
Share of valuation reserves related to interests in associates and joint ventures carried at equity	2,532	(32,906)
Revenues or costs of a financial nature relating to insurance contracts issued	36,246	66,484
Total	**(276,378)**	**(390,030)**

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

For more details, please refer to the statement of changes in consolidated shareholders' equity contained in the consolidated financial statements.

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

(thousands of euro)	Shareholders' equity	Net profit (loss) for the year
Balance as at 31/12/2023 as per the Parent Company's financial statements	**13,802,433**	**1,447,274**
Impact of the valuation at equity of associated companies	271,799	149,362
Cancellation of dividends received during the year by associated companies	-	(100,358)
Other consolidation adjustments	(36,140)	(231,825)
Balance as at 31/12/2023 as per the consolidated financial statements	**14,038,092**	**1,264,453**

Solvency ratios - reference legislation and standards to follow

With its communication of 25 November 2022, the Bank of Italy confirmed Banco BPM Banking Group as an Other Systemically Important Institution (O-SII) for 2023. The O-SII reserve amounts to 0.25% of regulatory requirements. On 21 November 2023, the Bank of Italy confirmed the Banco BPM Banking Group as a systemically important institution 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.

With its communication of 22 September 2023, the Bank of Italy confirmed the Countercyclical Capital Buffer ratio for exposures to Italian counterparties at zero percent also for the fourth quarter of 2023.

On 8 December 2023, the European Central Bank (ECB) informed Banco BPM of the SREP decision for the year 2024, bringing the Pillar 2 capital requirement (P2R) to 2.52%, an improvement compared to that of the previous year (2.57%).

Therefore, also considering the countercyclical capital buffer established by the competent national authorities for exposures to the countries in which the Group operates, (equal to 0.04%), the minimum requirements that Banco BPM is required to meet for 2024 until further notice, are as follows[1]:

- CET 1 ratio: 9.07%;

[1] These requirements are set as follows:

- the Pillar 1 minimum requirement equal to 8% (of which 4.5% CET 1, 1.5% in terms of AT 1 and 2% in terms of Tier 2);
- the P2R requirement communicated by the ECB equal to 2.52% to be met by CET 1 for 1.53% (consisting of 0.27% for the "calendar provisioning shortfall" and 56.25% for the remaining 2.25%), with AT 1 for 0.42% and with Tier 2 for 0.56%;
- a capital conservation buffer equal to 2.50%, to be met entirely by CET 1;
- the O-SII buffer equal to 0.50% to be met entirely by CET 1;
- the countercyclical capital buffer equal to 0.04% to be met entirely by CET 1.

- Tier 1 ratio: 11.00%;
- Total Capital ratio: 13.56%.

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

The Common Equity Tier 1 ratio stood at 14.2%, against 12.8% as at 31 December 2022. The increase is due to the rise in regulatory capital (mainly due to the increase in valuation reserves of financial assets measured at fair value through other comprehensive income and other valuation reserves, as well as the effect of the application of the so-called "Danish compromise", authorised by the European Central Bank on 3 November 2023, which made it possible not to deduct the value of the interest in Banco BPM Vita from regulatory capital), only partially offset by the increase recorded by risk-weighted assets (linked in part to the effect of the "Danish compromise" on the weighting of equity interests not deducted from regulatory capital and in part to the anticipation of the effects linked to the new internal models on credit risk).

The Tier 1 ratio was 16.3% against 15.2% as at 31 December 2022, while the Total Capital ratio was 19.0% against 18.0% as at 31 December 2022.

Liquidity position and leverage

On 1 October 2015, Delegated Regulation (EU) no. 61/2015 entered into force, which requires that banks maintain a specific level of liquidity measured with regard to a short-term time horizon (Liquidity Coverage Ratio, "LCR"). As at 31 December 2023, Banco BPM Group had a consolidated LCR of 187% with respect to the regulatory limit of 100%.

Effective from 30 June 2021, the NSFR, the regulatory structural liquidity indicator, which measures the ratio of stable sources of funding and stable financing requirements, constitutes a regulatory requirement with a minimum of 100%. As at 31 December 2023, Banco BPM Group had a NSFR index of 129%.[1]

Lastly, as regards the leverage ratio, the value as at 31 December 2023 was 5.22%.

[1] Management figure.

Consolidated income statement figures

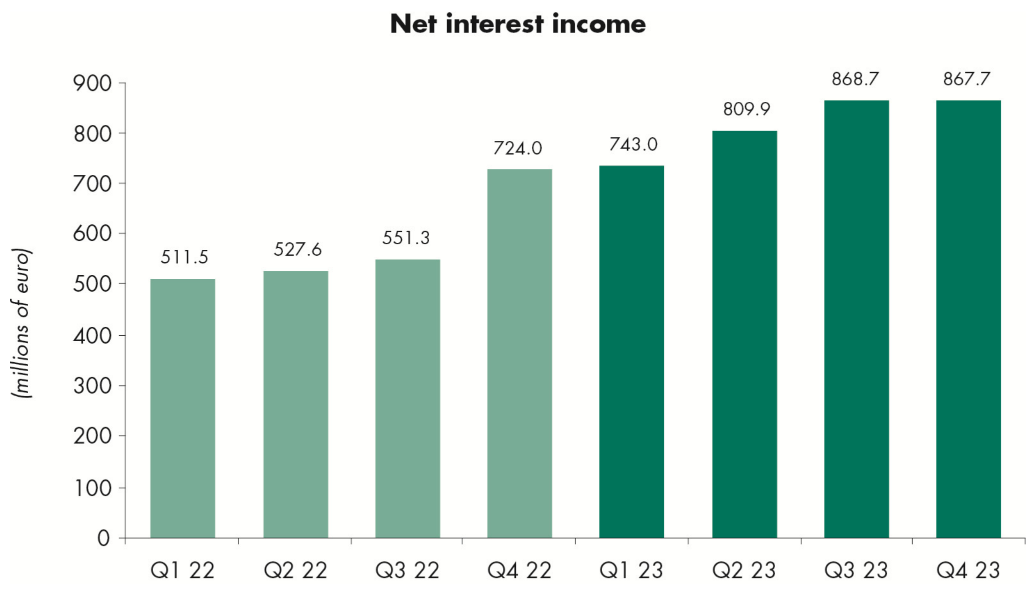
The main income statement items for 2023 are illustrated below.

Operating income

Net interest income

(thousands of euro)	2023	2022	Abs. Change	% Change
Financial assets (securities)	783,494	413,529	369,965	89.5%
Net interest due to customers	3,356,521	1,939,065	1,417,456	73.1%
Net interest due to banks	579	58,548	(57,969)	(99.0%)
Securities issued and other financial liabilities at fair value	(426,552)	(253,759)	(172,793)	68.1%
Hedging derivatives (net balance) (*)	68,981	1,715	67,266	0.0%
Net interest on other assets/liabilities	(493,795)	155,311	(649,106)	
Total	**3,289,228**	**2,314,409**	**974,819**	**42.1%**

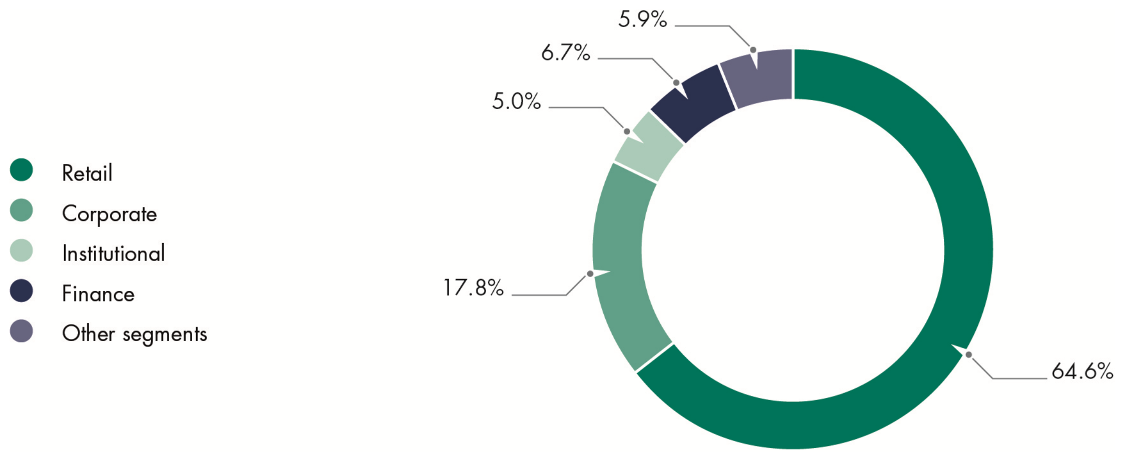
(*) The item includes the spreads pertaining to the year on derivative contracts hedging financial assets (securities held) and financial liabilities issued.



Net interest income amounted to 3,289.2 million, up by 42.1% compared to the 2022 figure (equal to 2,314.4 million), mainly due to the increase in the commercial spread, following the rise in interest rates.

(thousands of euro)	2023	2022 restated (*)	2022	Reclassifications	Abs. change on restated balances	% Change
Retail	2,126,138	1,172,820	1,183,947	(11,127)	953,318	81.3%
Corporate	584,789	476,551	474,250	2,301	108,238	22.7%
Institutional	163,820	95,420	94,552	868	68,400	71.7%
Private	37,583	4,545	4,091	454	33,038	726.9%
Investment Banking	47,798	56,509	56,509	-	(8,711)	(15.4%)
Insurance	(95)	(39)	(39)	-	(56)	143.6%
Strategic Partnerships	(1,764)	(1,961)	(1,961)	-	197	(10.0%)
Finance	220,196	536,187	536,187	-	(315,991)	(58.9%)
Corporate Centre	110,763	(25,623)	(33,127)	7,504	136,386	
Total	**3,289,228**	**2,314,409**	**2,314,409**	**-**	**974,819**	**42.1%**

(*) Keeping the total of the item unchanged, the figures of the previous year were restated to reflect the changes introduced to the breakdown of operating segments and to guarantee a like-for-like comparison with the profiling criteria used for 2023. For more details on the methods for restating the balances of the previous year, please refer to the next section "Results by business segment" of this Report on operations.



In terms of sector of economic activity, the net interest income trend is largely attributable to the business lines relating to the Commercial Network, where the Retail segment recorded growth of 953.3 million compared to 2022. In detail, the positive trend in question is primarily the result of the slower repricing of funding (in particular current accounts and demand deposits) compared to that of loans, following the rise in market rates. Secondly, the increase in rates, despite having caused a lower disbursement of financing and therefore a decrease in loans, especially with reference to Retail customers, also pushed the latter towards other forms of funding, in particular administered assets, in the form of certificates issued by the Group and issues of government bonds. The decrease in direct funding in the Retail segment, therefore, more than offset the decrease in loans, thus contributing to the positive performance of net interest income during 2023. Lastly, it should be noted that, in the first half of 2022, the Commercial Network had recorded the positive contribution of part of the benefit deriving from TLTRO III (94.7 million), due to the so-called "special interest period".

The Investment Banking margin, represented by Banca Akros, stood at 47.8 million, down by 8.7 million compared to the previous year, due to the increase in rates, which increased the cost of funding, mitigated only in part by the benefit recorded on the securities portfolio.

With reference to the Finance business unit, a significant decrease (-316 million) was recorded, due, in particular, to the trend in the securities portfolio, whose cost of funding was only partially offset by the rise in interest income. In addition, the ECB's monetary policy decisions obviously affected the decline in the contribution of the TLTRO, which fell from +181.4 million in 2022 to -703.5 million in 2023, only partially offset by interest income collected on the Deposit Facility and on the Minimum Reserve, the remuneration of which, in any case, was zeroed starting from 20 September 2023. Lastly, also in view of the gradual elimination of the use of the TLTRO, the renewed use of institutional issues made a negative contribution to net interest income, with placements of 7.1 billion, in a scenario of rising rates.

With reference to the Corporate Centre, operations linked to tax receivables (in particular Ecobonus) made a positive contribution, rising from 32.8 million last year to 70.1 million, as did margins and intercompany relations with subsidiaries.

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

(thousands of euro)	2023	2022 (*)	Abs. Change	% Change
Agos Ducato	76,648	104,754	(28,106)	(26.8%)
Anima Holding	29,513	35,192	(5,679)	(16.1%)
Vera Vita	19,279	(23,005)	42,284	
Vera Assicurazioni	9,161	5,676	3,485	61.4%
Banco BPM Vita	-	1,227	(1,227)	
Other investee companies	9,496	12,139	(2,643)	(21.8%)
Total	**144,097**	**135,983**	**8,114**	**6.0%**

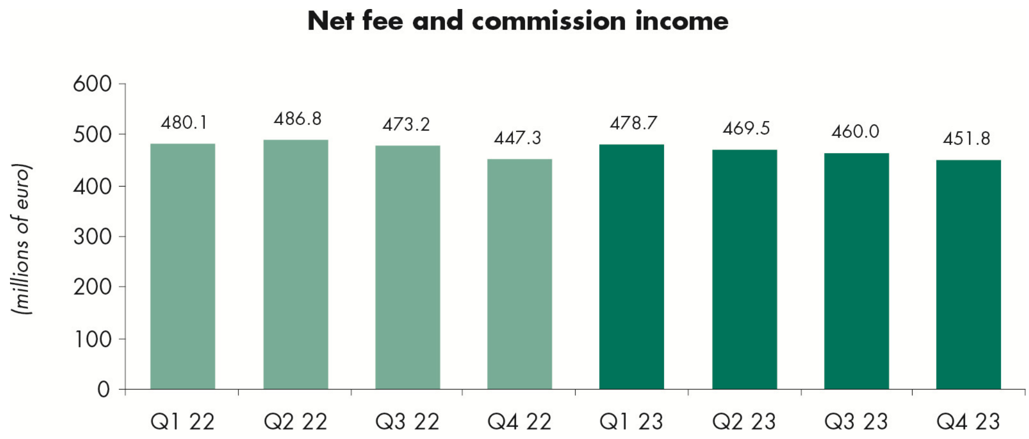
(*) The figures for the previous year were restated following the retrospective application of IFRS 17 and IFRS 9 for associated insurance companies. The impact on the item in question amounted to a total of -21.5 million.

Gains on interests in associates and joint ventures carried at equity were equal to 144.1 million, compared to the figure of 136.0 million last year.

In terms of sector of economic activity, the trend of the item in question is essentially attributable to the Strategic Partnerships business line, where Agos Ducato fell from 104.8 million in 2022 to 76.6 million in 2023, while Anima Holding fell from 35.2 million to 29.5 million.
The contribution of the Insurance business line increased from -16.1 million to +28.4 million, due to the positive performance of Vera Vita, mainly due to the recovery of the financial markets, which allowed a benefit on the performance of the segregated funds.
The contribution of the other interests in associates and joint ventures that are part of the Corporate Centre was substantially stable.

Net fee and commission income

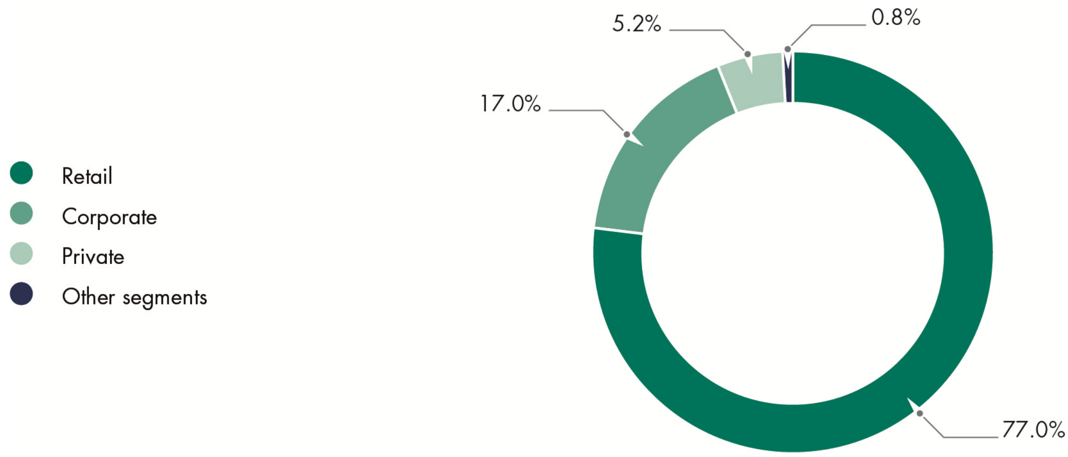
(thousands of euro)	2023	2022	Abs. Change	% Change
Management, brokerage and advisory services	864,400	892,743	(28,343)	(3.2%)
Savings products and policies	668,730	703,170	(34,440)	(4.9%)
- Placement of financial instruments	59,970	37,026	22,944	62.0%
- Distribution and portfolio management	475,419	528,825	(53,406)	(10.1%)
- Bancassurance	133,341	137,319	(3,978)	(2.9%)
Consumer credit	44,146	48,965	(4,819)	(9.8%)
Credit cards	61,847	69,697	(7,850)	(11.3%)
Trading of securities and currencies and order collection	83,348	60,905	22,443	36.8%
Other	6,329	10,006	(3,677)	(36.7%)
Keeping and management of current accounts and loans	653,670	656,161	(2,491)	(0.4%)
Collection and payment services	243,186	183,644	59,542	32.4%
Guarantees given and received	18,227	49,642	(31,415)	(63.3%)
Other services	80,536	105,132	(24,596)	(23.4%)
Total	**1,860,019**	**1,887,322**	**(27,303)**	**(1.4%)**



Net fee and commission income in 2023 totalled 1,860.0 million, down by 1.4% compared to the previous year. The management, brokerage and advisory services segment decreased by 3.2%, mainly due to the placement of funds and SICAVs, partially offset by the growth in commissions relating to the placement of certificates and custody services. The commercial banking services segment grew by 0.1% thanks to the contribution of collection and payment services, despite the higher charges associated with synthetic securitisation transactions (-37.2million) and to the revision of the conditions applied to customers for managing current accounts and for liquidity management (with a negative impact of around -45[1] million against 2022).

(thousands of euro)	2023	2022 restated (*)	2022	Reclassifications	Abs. change on restated balances	% Change
Retail	1,432,851	1,441,553	1,442,055	(502)	(8,702)	(0.6%)
Corporate	315,747	277,854	278,601	(747)	37,893	13.6%
Institutional	46,533	50,575	50,118	457	(4,042)	(8.0%)
Private	96,797	97,951	97,177	774	(1,154)	(1.2%)
Investment Banking	59,274	50,237	50,237	-	9,037	18.0%
Finance	(4,549)	1,013	1,013	-	(5,562)	
Corporate Centre	(86,634)	(31,861)	(31,879)	18	(54,773)	171.9%
Total	**1,860,019**	**1,887,322**	**1,887,322**	**-**	**(27,303)**	**(1.4%)**

(*) Keeping the total of the item unchanged, the figures relating to the previous year have been restated to reflect the changes introduced to the breakdown of operating segments and to guarantee a like-for-like comparison with the profiling criteria used for 2023. For more details on the methods for restating the balances of the previous year, please refer to the next section "Results by business segment" of this Report on operations.



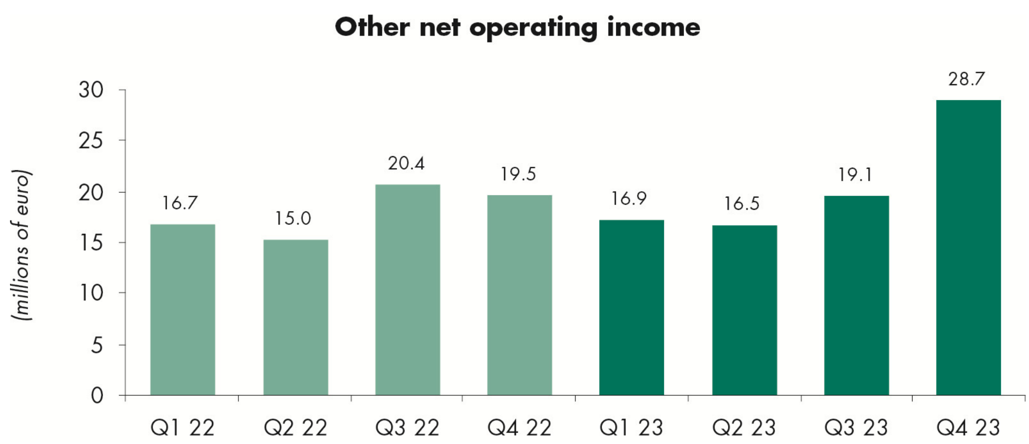
[1] Management figure.

In terms of sector of economic activity, the decrease recorded in net fee and commission income, compared to the previous year, mostly refers to the Corporate Centre, where the new synthetic securitisation transactions, given the benefit of a reduction in risks for the Group, impacted the item in question by approximately 62.2 million, compared to 25 million in 2022. The Finance business unit also recorded a decrease of 5.6 million, due to the lower contribution of securities lending.
The Investment Banking business line grew (+9 million), thanks to the structuring of the certificates issued by the Group.
With reference to the Commercial Network, the Retail segment was negatively affected by the trend in fee and commission income from assets under management (-53.7 million), not entirely absorbed by the growth in those on transactional banking services (+20.7 million), services to businesses (+13.7 million) and those related to insurance protection (+5.6 million). The performance of the Corporate business line was significant (+37.9 million), which rose due to commissions for services to businesses.
Lastly, it should be noted that, common to the various segments of the Commercial Network, from the second quarter of 2023, a revision was made of the conditions applied to customers for the management of current accounts and liquidity, with a negative impact of approximately 45 million compared to 2022.

Other net operating income

(thousands of euro)	**2023**	**2022 (*)**	**Abs. Change**	**% Change**
Income on current accounts and loans	6,466	6,398	68	1.1%
Rental income	39,156	36,878	2,278	6.2%
Expenses on leased assets	(12,859)	(14,343)	1,484	(10.3%)
Other income and charges	48,513	42,621	5,892	13.8%
Total	**81,276**	**71,554**	**9,722**	**13.6%**

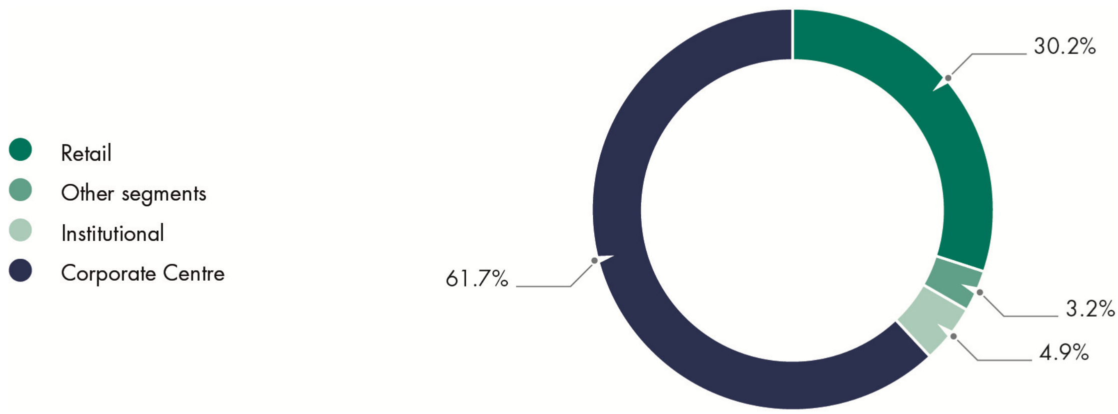
(*) The figures relating to the previous year have been restated following the retrospective application of IFRS 17 by the Group's insurance Companies, as well as IFRS 9 for associates.



Other net operating income totalled 81.3 million, compared to 71.6 million in FY 2022.

(thousands of euro)	2023	2022 restated (*)	2022	Reclassifications/ Restatements	Abs. change on restated balances	% Change
Retail	24,578	5,962	5,965	(3)	18,616	312.2%
Corporate	627	58	58	-	569	981.0%
Institutional	2,170	3,473	3,470	3	(1,303)	(37.5%)
Private	5	5	5	-	-	0.0%
Investment Banking	(225)	962	962	-	(1,187)	Not indicated
Insurance	3,955	1,171	1,219	(48)	2,784	237.7%
Corporate Centre	50,166	59,923	59,923	-	(9,757)	(16.3%)
Total	**81,276**	**71,554**	**71,602**	**(48)**	**9,722**	**13.6%**

(*) The figures for the previous year have been recalculated following the retrospective application of IFRS 17 and IFRS 9 for associated insurance companies held by the Group; in addition, they were also restated to reflect the changes introduced in the composition of the operating segments and to guarantee a like-for-like comparison with the profiling criteria used for FY 2023. For more details on the methods for restating the balances of the previous year, please refer to the next section "Results by business segment" of this Report on operations.



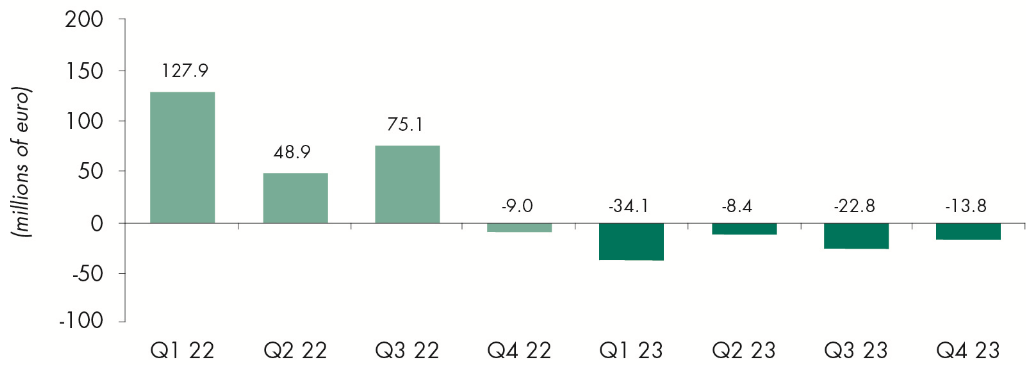
In terms of sector of economic activity, the growth recorded by the Retail segment is linked to operations in payment systems, relating to the business unit sold to the Parent Company by Tecmarket[1] (effective from 1 January 2023). The loss of these revenues contributed to the decline recorded by the Corporate Centre.

Net financial result

(thousands of euro)	2023	2022	Abs. Change	% Change
Net trading income	95,339	202,342	(107,003)	(52.9%)
Gains/losses on disposal of financial assets	18,791	47,790	(28,999)	(60.7%)
Dividends and similar income on financial assets	24,213	21,101	3,112	14.7%
Gains/losses on repurchase of financial liabilities	1,267	(3,343)	4,610	
Fair value gains/losses on hedging derivatives	(1,246)	1,402	(2,648)	
Result of assets and liabilities at fair value	(217,393)	(26,309)	(191,084)	726.3%
Total	**(79,029)**	**242,983**	**(322,012)**	

[1] This class was subsequently reclassified to assets held for sale, following the transaction to enhance the value of the e-money business.

Net financial result



The **net financial result**[1] for 2023 was negative at -79.0 million, compared to the positive figure of 243.0 million recorded as at 31 December 2022.
The different contribution is justified by the lower contribution of profits from the sale of securities (-29.0 million), the higher cost of funding through certificates following the rise in rates (-262.8 million in 2023 compared to -70.1 million last year), the impact of CVA/DVAs[2] (-51.0 million) and the different contribution of trading activities and derivative transactions, impacted by the negative effect of operational hedging[3], whose impact must be considered together with the change in the valuation reserves of securities at fair value through other comprehensive income.
These trends were partially offset by the better result deriving from the valuation of the interest held in Nexi (+4.9 million as at 31 December 2023 compared to -84.0 million as at 31 December 2022) and by the changes in fair value of other financial assets (+83.6 million compared to 31 December 2022).

(thousands of euro)	2023	2022 restated (*)	2022	Reclassifications	Abs. change on restated balances	% Change
Retail	(20,044)	(7,528)	(7,529)	1	(12,516)	166.3%
Corporate	19,229	(18,330)	(18,338)	8	37,559	
Institutional	135	(465)	(466)	1	600	
Private	(1,468)	(438)	(429)	(9)	(1,030)	235.2%
Investment Banking	37,461	13,278	13,278	-	24,183	182.1%
Finance	(122,463)	305,175	305,175	-	(427,638)	
Corporate Centre	8,121	(48,709)	(48,708)	(1)	56,830	
Total	**(79,029)**	**242,983**	**242,983**	**-**	**(322,012)**	

(*) Keeping the total of the item unchanged, the figures relating to the previous year have been restated to reflect the changes introduced to the breakdown of operating segments and to guarantee a like-for-like comparison with the profiling criteria used for 2023. For more details on the methods for restating the balances of the previous year, please refer to the next section "Results by business segment" of this Report on operations.

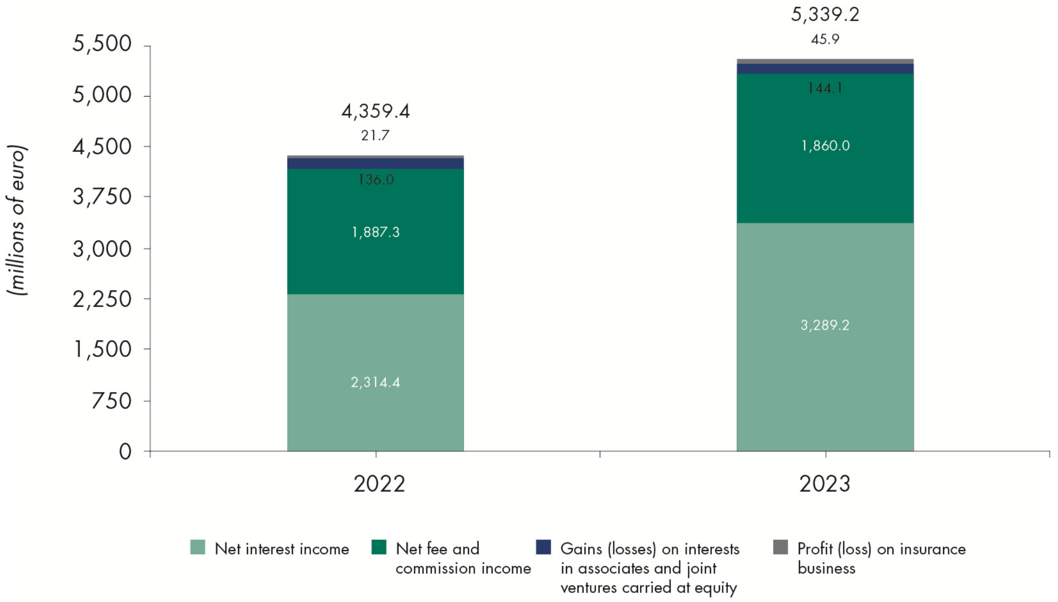
In terms of sector of economic activity, the loss recorded in 2023 is mainly attributable to the Finance business line (-122.5 million). Last year, in fact, the securities portfolio had been characterised by significant capital gains from disposals, as well as by a significant contribution from trading activities and derivative transactions. Lastly, 2023 recorded the negative contribution of the ALM centre, due to the higher cost of certificates linked to the trend in rates.
Investment Banking, due to the positive performance of the markets, rose from 13.3 million to 37.5 million. The contribution of the Commercial Network also rose. In particular, against a contraction in the Retail segment (-12.5 million), due to the effect of the margins of the certificates issued by the Parent Company, the Corporate segment (+37.6 million) recorded an improvement in the component relating to the valuation of those receivables that did not pass the "SPPI test" and which are therefore measured at fair value through profit or loss in the item in question.
Lastly, the positive performance of the Corporate Centre, which stood at 8.1 million, is due to the significant improvement in the valuation of the Group's minor equity interests, in particular Nexi.

[1] The item does not include the accounting effect of the change in the credit rating of the Group with regard to the fair value measurement of bank-issued liabilities (certificates), which led to the recognition of a negative impact of -5.2 million in the year, compared to +7.2 million recorded as at 31 December 2022. This effect is shown, net of taxes, in a separate item of the reclassified income statement.
[2] The CVA (Credit Value Adjustment) expresses the portion of financial assets measured at fair value that may not be paid to the bank by the counterparty in the event of default of the latter. The DVA (Debit Value Adjustment) expresses the portion of financial liabilities measured at fair value that may not be paid by the bank to the counterparty in the event of bank default.
[3] Hedging transactions that do not have the characteristics required by the reference accounting standard to be treated according to the rules of hedge accounting.

The **profit (loss) on insurance business** was 45.9 million. This item includes the contribution of Banco BPM Vita and Banco BPM Assicurazioni. It should be noted that the contribution to the item in question relating to Vera Vita, whose control was acquired near the end of the year, will be recognised starting from 2024[1].

As a result of the trends described, the total **operating income** therefore amounted to 5,341.4 million, up compared to the 4,674.0 million recorded last year (+14.3%).

Core operating income



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

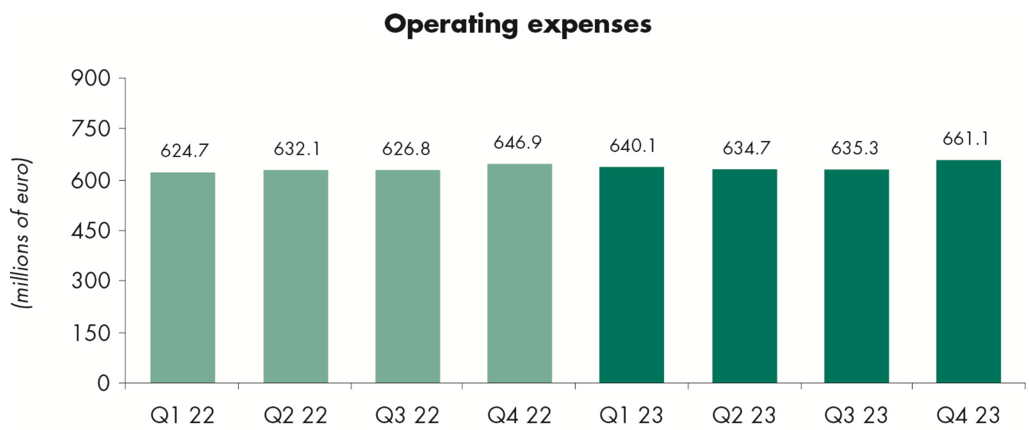
Taking only revenues from the core business into account, represented by the sum of the aggregates relating to net interest income, net fee and commission income, gains (losses) on interests in associates and joint ventures carried at equity and profit (loss) on insurance business, the 2023 figure reached 5,339.2 million, up 22.5% compared to the figure for the previous year.

[1] The profit (loss) on insurance business as at 31 December 2023 is not comparable with the figure as at 31 December 2022, as control of the insurance companies Banco BPM Vita e Banco BPM Assicurazioni was acquired at the beginning of the third quarter of 2022.

Operating expenses

(thousands of euro)	2023	2022 (*)	Abs. Change	% Change
Personnel expenses	**(1,671,952)**	**(1,602,406)**	**(69,546)**	**4.3%**
Other administrative expenses	**(652,393)**	**(648,249)**	**(4,144)**	**0.6%**
- Taxes and duties	(308,852)	(313,178)	4,326	(1.4%)
- Services and consulting	(317,159)	(301,483)	(15,676)	5.2%
- Property	(69,208)	(85,453)	16,245	(19.0%)
- Postal, telephone and stationery	(24,333)	(21,076)	(3,257)	15.5%
- Maintenance and fees for furniture, machines and systems	(100,206)	(95,273)	(4,933)	5.2%
- Advertising and entertainment	(15,417)	(13,453)	(1,964)	14.6%
- Other administrative expenses	(91,307)	(88,897)	(2,410)	2.7%
- Expense recoveries	274,089	270,564	3,525	1.3%
Value adjustments to property, plant and equipment and intangible assets	**(246,818)**	**(279,736)**	**32,918**	**(11.8%)**
- Value adjustments to property, plant and equipment	(148,174)	(180,419)	32,245	(17.9%)
- Value adjustments to intangible assets	(98,024)	(92,265)	(5,759)	6.2%
- Net write-downs for impairment	(620)	(7,052)	6,432	(91.2%)
Total	**(2,571,163)**	**(2,530,391)**	**(40,772)**	**1.6%**

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



Personnel expenses, amounting to 1,672.0 million, showed an increase compared to the figure of 1,602.4 million in the previous year; the increase is mainly attributable to the higher charges deriving from the renewal of the National Collective Labour Agreement. The total number of employees was 19,761 as at 31 December 2023 (of which 146 pertaining to the insurance companies), compared to 20,157 staff employed as at 31 December 2022 (of which 143 pertaining to the insurance companies).

Other administrative expenses[1], equal to 652.4 million, showed an increase of 0.6% compared to 2022. It should also be noted that the figure as at 31 December 2023 included costs, amounting to 11.7 million, relating to the insurance companies Banco BPM Vita and Banco BPM Assicurazioni, consolidated starting from the third quarter of 2022 (the contribution of the insurance companies in 2022 to the item in question amounted to 4.3 million). Without considering the contribution of the insurance companies, the aggregate in question was down by 0.5%, thanks to the careful cost control policy, despite the current inflation dynamics.

Net value adjustments to property, plant and equipment and intangible assets totalled 246.8 million, compared to 279.7 million as at 31 December 2022. 16.9 million of the reduction in the item is attributable

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

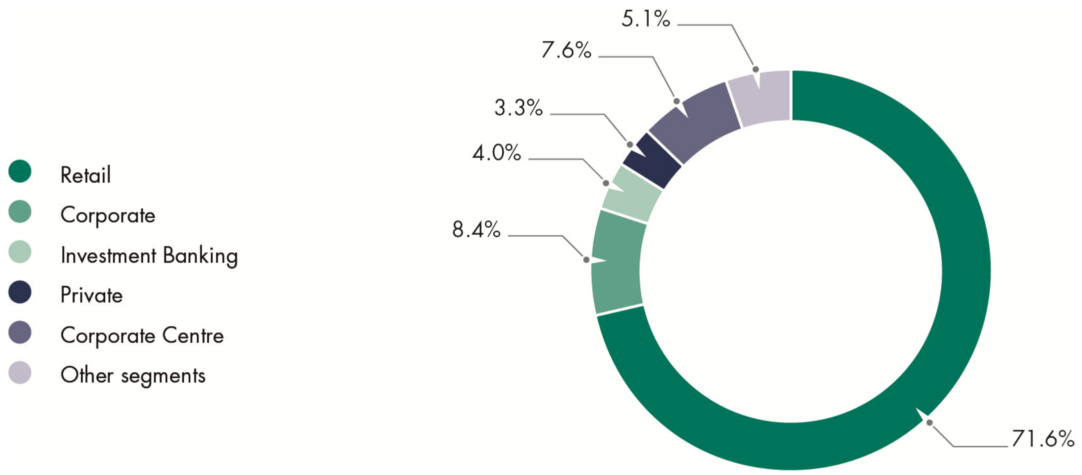
to non-recurring components deriving from the settlement of several anomalies in the recognition of lease contracts in previous years, which had entailed charging higher depreciation mainly attributable to rental contracts.

Total **operating expenses** therefore amounted to 2,571.2 million, up by 1.6% compared to 2,530.4 million in the previous year. Without considering the contribution of the insurance companies mentioned above[1], the difference is limited to +1.3%.

The **cost/income ratio** for the year was 48.1%, lower than the 54.1% recorded as at 31 December 2022, despite the inclusion of the aforementioned costs for the renewal of the National Collective Labour Agreement.

(thousands of euro)	2023	2022 restated (*)	2022	Restatements	Abs. change on restated balances	% Change
Retail	(1,840,027)	(1,872,511)	(1,872,511)	-	32,484	(1.7%)
Corporate	(216,496)	(215,750)	(215,750)	-	(746)	0.3%
Institutional	(46,514)	(45,604)	(45,604)	-	(910)	2.0%
Private	(85,366)	(75,919)	(75,919)	-	(9,447)	12.4%
Investment Banking	(101,830)	(90,438)	(90,438)	-	(11,392)	12.6%
Insurance	(13,906)	(6,581)	(15,559)	8,978	(7,325)	111.3%
Strategic Partnerships	(2,380)	(2,400)	(2,400)	-	20	(0.8%)
Finance	(68,016)	(59,913)	(59,913)	-	(8,103)	13.5%
Corporate Centre	(196,628)	(161,275)	(161,275)	-	(35,353)	21.9%
Total	**(2,571,163)**	**(2,530,391)**	**(2,539,369)**	**8,978**	**(40,772)**	**1.6%**

The figures for the previous year were recalculated following the retrospective application of IFRS 17 and IFRS 9 for insurance companies owned by the Group; they were also restated to reflect the changes introduced in the composition of the operating segments. For more details on the methods for restating the balances of the previous year, please refer to the following section "Results by business segment" of this Report on Operations.



In terms of sector of economic activity, operating expenses, which amounted to 2,571.2 million, were up compared to the previous year in substantially all segments. The increase in personnel expenses, from 1,602.4 million to 1,672.0 million, is mainly attributable to charges for the renewal of the National Collective Labour Agreement, while the increase in other administrative expenses was negatively impacted by the increase in the level of prices.

Profit (loss) from operations

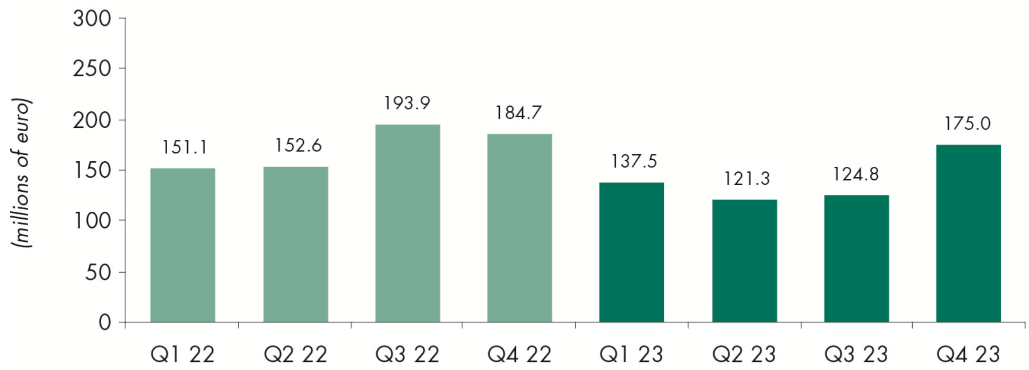
The **profit from operations** for 2023 stood at 2,770.3 million, up by 29.2% compared to 2,143.6 million in the previous year.

[1] Equal to 13.5 million as at 31 December 2023 and 6.3 million as at 31 December 2022 (referring only to the second half of the year).

Adjustments and provisions

(thousands of euro)	2023	2022	Abs. Change	% Change
Net adjustments to loans at AC to customers	**(513,513)**	**(473,692)**	**(39,821)**	**8.4%**
Stage 3	(491,755)	(446,088)	(45,667)	10.2%
Stage 2	(66,777)	43,130	(109,907)	
Stage 1	45,019	(32,768)	77,787	
Acquired or originated impaired	-	(37,966)	37,966	
Gains (losses) on disposal of loans	**(45,546)**	**(210,302)**	**164,756**	**(78.3%)**
Gains (losses) from contractual modification without derecognition	**465**	**1,713**	**(1,248)**	**(72.9%)**
Total	**(558,594)**	**(682,281)**	**123,687**	**(18.1%)**

Net adjustments to loans to customers



Net adjustments to loans to customers in the year, amounting to 558.6 million, showed an 18.1% decrease on the figure as at 31 December 2022.
As at 31 December 2023, the cost of credit, measured by the ratio of net value adjustments on loans to net loans, was 53 bps, down with respect to the 62 bps recorded at the end of 2022.
This result was obtained by safeguarding the solid levels of coverage achieved in previous years, even given the higher value adjustments due to the increases of assignment targets for non-performing loans.

Fair value gains (losses) on property, plant and equipment as at 31 December 2023 were -146.8 million (-108.3 million in 2022), following the adjustment of the value of properties based on updated appraisal values.

Net adjustments to securities and other financial assets as at 31 December 2023 amounted to -2.0 million (-9.1 million in 2022).

Net provisions for risks and charges in the year amounted to -22.2 million (-57.2 million as at 31 December 2022), due to the release of provisions on guarantees and commitments for 10.4 million and provisions recognised during the year for other risks and charges of -32.6 million.

The item **gains/losses on interests in associates and joint ventures and other investments** as at 31 December 2023 amounted to 0.3 million (+2.3 million in the previous year). It should be noted that the capital gain recorded by the Group following the sale of 65% of the share capital of Banco BPM Assicurazioni and of Vera Assicurazioni to Crédit Agricole Assurances, is shown, together with the additional impacts resulting from the reorganisation of the bancassurance sector, in an ad hoc item of the reclassified income statement called "bancassurance impacts net of taxes".

Due to the trends described, the **profit (loss) before tax from continuing operations** was 2,041.0 million compared to 1,288.9 million in 2022 (+58.4%).

Other revenue and cost items

The **taxation charge related to profit or loss from continuing operations** was -604.8 million (-407.0 million as at 31 December 2022).

Profit after tax from continuing operations was therefore 1,436.3 million, an increase of 62.9% compared to 881.8 million in 2022.

Charges related to the banking system, net of taxes were also charged to the income statement for the year, amounting to 126.6 million (151.9 million in 2022) relating to the contribution due to the Single Resolution Fund (85.4 million before tax, compared to 110.5 million as at 31 December 2022) and to the Interbank Deposit Protection Fund (102.2 million before tax compared to 114.6 million in the previous year).

The item **impact of the realignment of tax values to book values** included the effect, equal to +8.8 million, deriving from the expiry, at the end of 2023, of the so-called recapture period envisaged by the regulations on the realignment of tax values to the book values of properties, a realignment carried out in previous years.
The new item of the reclassified income statement **bancassurance impacts net of taxes** included the effects, for a total of -22.2 million, attributable to the transactions finalised in December for the reorganisation of the structure of the bancassurance business. For further details on the impacts of the single transactions of the reorganisation project, please refer to Part G – Business combinations regarding companies or divisions in the Notes to the consolidated financial statements.

In the year, the **change in own credit risk on Certificates issued, net of taxes,** generated a negative impact of -3.5 million (-5.2 million before taxes), compared to the effect recorded as at 31 December 2022 of +4.8 million (+7.2 million before taxes).

As at 31 December 2023, the impact of the **Purchase Price Allocation net of taxes** was equal to -28.3 million, against -42.4 million in 2022. It should be noted that this impact refers to the reversal effects of business combinations completed in previous years.

The **Purchase Price Allocation net of taxes** represents the overall economic impact, net of the relative tax effect, of the reversal effects deriving from the allocation of the prices paid as part of the business combination between the Banco Popolare di Verona e Novara and Banca Popolare Italiana Groups in 2007, and between the Banco Popolare and Banca Popolare di Milano Groups finalised in 2017. In addition, starting from the second half of 2022, the effects relating to the business combination of Banco BPM Vita and Banco BPM Assicurazioni were also recognised, including the remeasurement at fair value of the interest held previously on the basis of the provisions of IFRS 3 for the aggregations carried out in several phases (so-called step acquisition). These impacts were recognised, after the relative tax, in a separate item of the reclassified income statement called "Purchase Price Allocation after tax".
More specifically, the impact on the consolidated income statement for 2023, resulting from the reversal effect of the value adjustments on the net assets acquired, was -9.2 million on net interest income (in connection with the evolution of the different valuations of the loans purchased), and -33.0 million on other net operating income (due to the amortisation of the intangibles recognised in the PPA).

Net of the related tax effects, the overall impact recognised in the item "Purchase Price Allocation net of taxes" in the reclassified income statement for 2023 amounted to -28.3 million (the figure for 2022 was -42.4 million).

Considering the share of profit due to non-controlling interests, 2023 closed with a **net profit** of 1,264.4 million (685.0 million in 2022, +84.6%).

The **figure net of non-recurring items** was 1,432.4 million, up on the previous year (868.8 million; +64.9%).

RESULTS BY BUSINESS SEGMENT

Introduction

According to IFRS 8, companies must provide information enabling users of financial statements to assess the nature and the effects on the financial statements of their business activities and the economic contexts in which they operate.
Therefore, it is necessary to highlight the contribution of the various "operating segments" to the formation of the Group's income.
The identification of the "operating segments" of this Section is consistent with the procedures adopted by Company Management to make operating decisions and is based on internal reporting, used for allocating resources to the various segments and analysing their performance. In that view, also to improve the representation of the Group's profitability, any operating segments that are below the quantitative thresholds put forward in paragraph 13 of IFRS 8 are also highlighted.

It should be noted that the contribution of Group Finance, which as at 31 December last year was brought back within the Corporate Centre, as of 30 June 2023 is shown in a dedicated segment in order to provide a better representation of the results of that business.

Therefore, for 2023, the operating segments taken as a reference to provide the disclosure in question are as follows:

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

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

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

- the "Finance" segment includes activities relating to the portfolio of owned securities, treasury, the Group's Asset and Liability Management and the stock of bond issues placed on institutional markets;
- in addition to governance and support functions, the "Corporate Centre" segment also includes activities relating to the Group's leasing business, equity interests not allocated to "Strategic Partnerships" and companies operating in the real estate sector. Lastly, all the consolidation entries are included in this residual segment.

The table below provides the key income statement and balance sheet figures, broken down by segment, referring to 2023 compared with those as at 31 December 2022.

To allow a comparison on a like-for-like basis, the latter have been restated with respect to those published in the Annual Financial Report as at 31 December 2022 to incorporate:

- the impacts deriving from the retrospective application of IFRS 17 and IFRS 9 for associated insurance companies, recognised in the Insurance sector;
- the change introduced starting from 2023 in the composition of the operating segments indicated above, which sees the contribution relating to the Group Finance activities, previously disclosed in the "Corporate Centre" segment, shown in the new "Finance" segment, as envisaged by the paragraph 29 of IFRS 8;
- the effects of the reallocation of several customers among the various business lines, made on the basis of sales logic to achieve profiling that better reflects the characteristics of customers.

	Group	**Retail**	**Corporate**	**Institutional**	**Private**	**Investment Banking**	**Insurance**	**Strategic Partnerships**	**Finance**	**Corporate Centre**
Operating income										
2023	**5,341,442**	3,563,523	920,392	212,658	132,917	144,308	78,151	111,833	93,184	84,476
2022 (*)	**4,673,953**	2,612,807	736,133	149,003	102,063	120,986	6,733	148,260	842,375	(44,407)
Operating expenses										
2023	**(2,571,163)**	(1,840,027)	(216,496)	(46,514)	(85,366)	(101,830)	(13,906)	(2,380)	(68,016)	(196,628)
2022 (*)	**(2,530,391)**	(1,872,511)	(215,750)	(45,604)	(75,919)	(90,438)	(6,581)	(2,400)	(59,913)	(161,275)
Profit (loss) from operations										
2023	**2,770,279**	1,723,496	703,896	166,144	47,551	42,478	64,245	109,453	25,168	(112,152)
2022 (*)	**2,143,562**	740,296	520,383	103,399	26,144	30,548	152	145,860	782,462	(205,682)
Profit (loss) for the year										
2023	**1,264,453**	795,912	352,324	97,861	23,885	28,882	56,285	110,810	12,017	(213,523)
2022 (*)	**685,047**	58,519	195,330	54,565	10,924	18,725	(3,851)	147,289	509,408	(305,862)
Net loans (including senior securities from sales of non-performing loans)										
2023	**105,426,729**	59,417,979	29,439,419	6,464,184	598,968	296,151	-	-	6,235,777	2,974,251
2022 (*)	**109,454,960**	63,090,530	31,038,075	6,837,905	542,734	1,773,022	-	-	2,403,909	3,768,785
Direct funding (without repurchase agreements with certificates)										
2023	**124,753,958**	83,262,030	7,199,097	11,555,352	2,107,453	2,276,176	-	-	19,228,439	(874,589)
2022 (*)	**123,449,508**	86,189,947	7,554,654	11,078,524	3,001,082	2,858,602	-	-	13,631,140	(864,441)

(*) The figures for the previous year have been restated following the retrospective application of IFRS 17 and IFRS 9 for associated insurance companies; they were also recalculated to reflect the changes introduced in the composition of the operating segments and to guarantee a like-for-like comparison with the profiling criteria used for 2023.

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

	Group	Retail	Corporate	Institutional	Private	Investment Banking	Insurance	Strategic Partnerships	Finance	Corporate Centre
Operating income										
2023	**5,341,442**	3,563,523	920,392	212,658	132,917	144,308	78,151	111,833	93,184	84,476
2022 (*)	**4,673,953**	2,624,438	734,571	147,674	100,844	120,986	6,733	148,260	842,375	(51,928)
Operating expenses										
2023	**(2,571,163)**	(1,840,027)	(216,496)	(46,514)	(85,366)	(101,830)	(13,906)	(2,380)	(68,016)	(196,628)
2022 (*)	**(2,530,391)**	(1,872,511)	(215,750)	(45,604)	(75,919)	(90,438)	(6,581)	(2,400)	(59,913)	(161,275)
Profit (loss) from operations										
2023	**2,770,279**	1,723,496	703,896	166,144	47,551	42,478	64,245	109,453	25,168	(112,152)
2022 (*)	**2,143,562**	751,927	518,821	102,070	24,925	30,548	152	145,860	782,462	(213,203)
Profit (loss) for the year										
2023	**1,264,453**	795,912	352,324	97,861	23,885	28,882	56,285	110,810	12,017	(213,523)
2022 (*)	**685,047**	65,789	195,347	53,127	10,108	18,725	(3,851)	147,289	509,408	(310,895)
Net loans (including senior securities from sales of non-performing loans)										
2023	**105,426,729**	59,417,979	29,439,419	6,464,184	598,968	296,151	-	-	6,235,777	2,974,251
2022 (*)	**109,454,960**	63,164,637	31,092,530	6,704,832	542,448	1,773,022	-	-	2,403,909	3,768,785
Direct funding (without repurchase agreements with certificates)										
2023	**124,753,958**	83,262,030	7,199,097	11,555,352	2,107,453	2,276,176	-	-	19,228,439	(874,589)
2022 (*)	**123,449,508**	86,389,032	7,516,615	11,047,043	2,871,378	2,858,602	-	-	13,631,140	(864,441)

(*) The figures for the previous year have been restated following the retrospective application of IFRS 17 and IFRS 9 for associated insurance companies and to reflect the changes introduced in the composition of the operating segments as at 31 December 2023.

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

Retail

	2023	2022 (*)	absolute change	% change
Net interest income	2,126,138	1,172,820	953,318	81.3%
Financial margin	**2,126,138**	**1,172,820**	**953,318**	**81.3%**
Net fee and commission income	1,432,851	1,441,553	(8,702)	(0.6%)
Other net operating income	24,578	5,962	18,616	312.2%
Net financial result	(20,044)	(7,528)	(12,516)	166.3%
Other operating income	**1,437,385**	**1,439,987**	**(2,602)**	**(0.2%)**
Operating income	**3,563,523**	**2,612,807**	**950,716**	**36.4%**
Personnel expenses	(1,064,066)	(1,046,107)	(17,959)	1.7%
Other administrative expenses	(684,644)	(718,958)	34,314	(4.8%)
Net value adjustments to property, plant and equipment and intangible assets	(91,317)	(107,446)	16,129	(15.0%)
Operating expenses	**(1,840,027)**	**(1,872,511)**	**32,484**	**(1.7%)**
Profit (loss) from operations	**1,723,496**	**740,296**	**983,200**	**132.8%**
Net adjustments to loans to customers	(329,143)	(409,409)	80,266	(19.6%)
Net provisions for risks and charges	(24,484)	(33,622)	9,138	(27.2%)
Profit (loss) before tax from continuing operations	**1,369,869**	**297,265**	**1,072,604**	**360.8%**
Taxation charge related to profit or loss from continuing operations	(457,188)	(104,408)	(352,780)	337.9%
Profit (loss) after tax from continuing operations	**912,681**	**192,857**	**719,824**	**373.2%**
Charges related to the banking system, net of taxes	(95,029)	(110,412)	15,383	(13.9%)
Purchase Price Allocation net of taxes	(21,740)	(23,926)	2,186	(9.1%)
Parent Company's profit (loss) for the year	**795,912**	**58,519**	**737,393**	**Not indicated**

(*) The figures relating to the previous year were recalculated to reflect the changes introduced to the breakdown of operating segments and to guarantee a like-for-like comparison with the profiling criteria used for 2023.

Economic performance of the segment

Total operating income amounted to 3,563.5 million, up by 36.4% on the previous year. Within this aggregate, net interest income rose by 953.3 million, due to the increase in the reference interest rates.
Net fee and commission income, totalling 1,432.9, recorded a reduction of 8.7 million, affected by the trend in fee and commission income from assets under management (-53.7 million), not entirely absorbed by the growth in that on transactional banking services (+20.7 million), services to businesses (+13.7 million) and that related to insurance protection (+5.6 million).
Other net operating income showed an improvement; instead, the net financial result decreased, relating to hedge products placed and to the issue of Certificates.
Operating expenses, amounting to 1,840.0 million, decreased by 32.5 million.
Net adjustments to loans to customers fell to 329.1 million (compared to 409.4 million recorded in 2022), benefiting from the lower risk of the portfolio.
Provisions for risks and charges amounted to 24.5 million compared to 33.6 million recorded last year; the decrease was mainly linked to recoveries for commitments undertaken and to the absence of charges related to the branch closure plan, which was completed in 2022.
Net banking industry charges amounted to 95.0 million (compared to 110.4 million in the previous year), as per the Target defined by the Single Resolution Fund.
Instead, the contribution of the PPA (Price Purchase Allocation) of -21.7 million, was negative due to the lack of positive reversals on non-performing loans.
Due to the above, the Retail segment closed 2023 with a profit of 795.9 million.
As illustrated in the introduction, the "Retail" segment includes the management and marketing of banking and financial products/services and loan brokering, which are mainly aimed at private customers and small businesses.

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

Private Customers

Introduction

During 2023, the Group was able to further strengthen and intensify the digital identity and remote sales processes, developed in the 2020-2021 two-year period, on most of the products offered: financial, insurance, loans and payment cards.
This year, the self-service sales channel was added on the App and web for some bancassurance and e-money products; development is also underway for Agos personal loan products. Online and self-service subscriptions allow customers to digitally sign contracts safely, simply and independently.
In addition, the Videocollaboration function was released for private customers on YouApp and Webank App, through which an appointment with their manager or a product specialist via video call, regardless of where the customer is.
Also on the business side, customers can now book a telephone consultation via app with their Business manager; the implementation of the Videocollaboration function for the business segment is being developed.
Lastly, Banco BPM and Webank digital platforms (public websites, internet banking and mobile Apps) both for private and business customers are being continuously improved and extended, resulting in better remote operations and a wider range of services offered.
On the ESG side, further innovations are being developed, thanks to Banco BPM's constant commitment in this sphere, not only through the proposal of investment products linked to the green world, but also thanks to the progressive increase in products/services that can be subscribed remotely.

Private Customers

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

In December 2023, Private customers broke down as follows:

Segment	no. of customers with current account	% of customers with current account
Universal	2,590,209	80.3%
Personal	590,565	18.3%
Other Retail segments	47,076	1.4%
Total Retail customers with a current account (including card accounts)	**3,227,850**	**100.0%**

Products, services and loans for private Retail customers

Current accounts

Banco BPM continued to update its commercial offer of current accounts addressed to the consumers and non-consumers target.
As part of the digital transformation programme, launched through the .DOT programme, new initiatives have been released concerning the full digital and paperless process with the opening of the Webank Account completely online for joint accounts, thanks to recognition via SPID or bank transfer from another bank. The implementations on the online onboarding processes widen the offer target, improve the customer experience and the Bank's green profile.
For small economic operators and the small business target, the commercial proposals of the YouBusiness Line were updated with an offer dedicated to new customers, characterised by advantageous conditions for customers with a duration of up to twelve months. The initiatives were promoted through commercial sites, ADV and DEM campaigns and represent an important commercial opportunity to acquire customers and increase the customer base.
As part of product catalogue management activities, important content updates were made, in relation to the changed market interest rate scenario, with particular reference to the increase in the ECB rate over the entire year; these activities allowed the Bank to reduce the costs incurred on direct funding.
Also for the Network rationalisation project, in 2023, an offer dedicated to customers impacted was developed.

Companies have been able to benefit from subsidies thanks to the NRRP recovery plan: a current account has been developed dedicated to the management of incoming and outgoing cash flows, related to the implementation of the interventions for which the subsidies were granted.
Among the activities to update the product catalogue and in line with the trend of market interest rates, the sale in the branch of the new Fixed-Term Deposit product was released, relating to remunerated time-based deposits, reserved to consumer and non-consumer customers.
In support of the operational process relating to the Fondo Unico di Giustizia (Single Justice Fund), the product through which the sums recovered by the State transit, especially as a result of anti-mafia seizures and confiscations, was updated.
Close collaboration with the Commercial Network continued, supported by specific training/information sessions.

E-Money - Payment cards

The introduction of Digital Identity and the Signature Room facilitated the preparation of new processes for the sale of Banco BPM products, also online, both through the Online Channel, available to the manager or the Digital Branch, and through the self-service channel, which allows customers to be completely independent in the purchase of a product online, from the signing of contracts up to the receipt of the same at their home.
In the second half of 2023, to this end, the document dematerialisation of Cartimpronta Credit requests was finalised, thus allowing the Network to offer customers a smart and completely green service. We also draw attention to the important interventions carried out on this product in order to further strengthen the security related to accessing the Portal and using online cards.
During the year, a process to rationalise the stock of revolving products was launched. The Bank contacted card holders to advise of the rationalisation and withdrawal, offering them appropriate alternate financing proposals where necessary.

Omnichannel services

One of the founding pillars of the 2021-2024 Business Plan is the advertising campaign on Banco BPM's digital transformation. Always close even online, is the claim that characterises it, and is the beginning of a thread for a storytelling that, starting from the Online Offer, will recount the innovations towards an Omnichannel and Full Digital Bank. Digital Transformation is therefore seen as an accelerator to meet the needs of all types of customers, through a full omnichannel approach.

Enablers and online sales methods

During 2023, activities relating to the evolution of the new service model continued, as envisaged by the 2021-2024 Strategic Plan.
The Digital Identity contract, as an enabling element for the digital-driven service model that provides the customer with all the tools to communicate and interact with the Bank digitally and remotely, was signed by 1.3 million customers as at 31 December 2023. This result was also achieved thanks to the numerous initiatives aimed at increasing the dissemination of the ID through better customer engagement.
The initiatives involved both branch and online processes and envisaged:

- integrating messages in the sales processes of products and services in the branch;
- optimising the experience of the online application process on the Web and App channels;
- using a clear and concise communication language that enhances and makes the advantages of ID more tangible;
- signing the ID as the main enabler for self-service or online purchasing processes.

In addition, the Online Offer mode was extended to Webank customers and the catalogue of self-service and online products and services was further enriched, in particular:

- the new International Debit Card;
- self-service Agos Loans. Customers can apply for a flexible loan directly from the reserved area of YouWeb and Webank in a few simple steps.

The adoption of the Online Offer process has contributed to achieving important results: online subscriptions for Nexi Cards represent 22% of sales, 6.5% of Agos Loans and 23.6% of financial advisory services.

The efficiency of web platforms continues through the enhancement of existing functions and the optimisation of processes used by customers.
With the sale of the new debit card, new functions have been integrated, available on the App and the web, such as the modification of the limits, the temporary suspension of the card, the authorisation or customisation to make online purchases, the management of expense categories.

Onboarding

The initiatives of the .DOT Programme, with particular attention to ESG issues include activities relating to the digitalisation of Onboarding processes. During the year, prospective users and existing customers were offered the opportunity to open a joint Webank current account in paperless mode, thanks to the use of digital signatures, also introducing recognition through SPID. In this way, the customer experience has improved and consequently the churn rate has decreased.
In the period 1 April 2023 - 31 December 2023, AOLs with identification through SPID represented 67% of requests to open a Webank current account.

Accessibility

The digital evolution requires a particular commitment to accessibility and usability for all webtools. In this regard, Banco BPM Group has launched a process to adapt its digital platforms to the requirements envisaged by law (Agenzia per l'Italia Digitale [Agency for Digital Italy] - with the related implementing provisions).
The project, launched in 2022, has continued with the aim of constantly monitoring and improving the usability of the Group's digital assets (websites and Apps available to private and corporate customers) and making them accessible to all, without barriers and distinctions, paying particular attention to the needs of people with disabilities or other types of difficulty.
Specialised training programmes were also undertaken for technical staff (Designers and Developers) to further support the development of techniques for designing, maintaining and updating digital services and products and increasing the Group's internal expertise.

Mobile banking developments and investments: private customers

The main innovations released on the App this year include:

- Artificial intelligence to improve the user experience (UX): through the use of algorithms based on artificial intelligence (AI), the first functions that exploit the potential of this new technology have been released:
  - card activation through the use of the device's camera: thanks to AI, the data printed on payment cards can be accurately read and captured, even in non-optimal conditions (characters that are not very visible due to low lighting and low resolution), improving the card activation process;
  - payment slip with upload: a function has been released that allows the system to read the content of a PDF of the payment slip, which the customer has uploaded to the App, retrieving the necessary information (e.g. QR code, amount, header, etc.) transferring them to the page so as to avoid the customer having to manually fill in all the requested data;
  - Optical Character Recognition (OCR) of identity documents: the upload of an identity document has been simplified as the data is acquired through OCR. After the upload, the customer will see the personal data at the front end so as to avoid manual entry and speed up the updating process.
- Dark mode: over the last few years, the focus on ESG issues on digital channels has increased significantly. Banco BPM Group has started a process of accessibility checks to comply with the requirements of the law (Agenzia per l'Italia Digitale, promoted by the Presidency of the Council of Ministers, with the relative implementing provisions). In this phase, several Group websites and banking Apps were analysed and work will continue in the coming months.
  It is a long and ambitious path addressed to internal and external stakeholders, which envisages constant dialogue between different Group players who, according to different functions and skills, are called upon to achieve a greater objective: to shape a reality able to welcome everyone, without barriers and distinctions.
  The Banco BPM Apps were released with the dark mode function, which allows customers to set the new, more modern and appealing dark mode. The change can be made regardless of the settings that the customer has already set on his/her smartphone. The dark mode transforms the pages and graphic

elements from light tones, which are usually pre-set in the apps, to dark tones. The Banco BPM App is one of the few in the banking sector to have this function.

- Sale of new Debit card:
  - in Self mode for Webank and You customers;
  - Online through the digital branch with the support of the branch manager.
- Donations: following the climatic events that hit the Emilia-Romagna area starting from May 2023, Banco BPM Group undertook several initiatives with a view to supporting the population affected. The initiatives included the suspension of mortgage instalments until the end of the state of emergency and a fundraiser was launched, in collaboration with Caritas Italiana, through online platforms, also implemented through Banco BPM's home banking services.
- ISEE section: a new specific section has been added in which the customer can retrieve all the documentation useful for ISEE purposes. A shortcut to F24 receipts has also been added.
- Non-life insurance: a new function that allows customers to consult and sign quotations of certain non-life policies in full autonomy, included in agreement with the manager of the physical branch or agreed by telephone with the Digital Branch.

2023 .DOT Programme

Videocollaboration

As part of its 2021-2024 Strategic Plan, the Bank outlined a significant digital transformation with a focus on hybrid physical/remote interaction, introducing concepts such as the digital branch and remote selling. The innovative introduction of video calling represents a crucial step in developing an omnichannel service adaptable to new technologies, improving the customer experience and simplifying the management of appointments for managers. The Bank emphasises the key role of the human factor and expertise to guarantee customer satisfaction. The Banco BPM App stands out as the first that enables customers to interact via video call with managers, also allowing the signing of documents and contracts; all of this promotes environmental sustainability.
Since September 2023, the Bank has activated the Videocollaboration function for private customers, and will extend it to other platforms in the future. The proposed solution is fully integrated with front-end and appointment management tools. This channel can be initiated directly by the customer or proposed by the operator.
The relationship with the customer becomes faster and safer, allowing the customer to interact remotely, with significant savings in terms of time.

Optimisation of inbound flows - Conversational App

With regard to the .DOT Programme, this initiative aims to structurally reduce the volume of assistance managed by Customer Support & Development (CSD) operators, through the development of new self-service functions and intelligent assistance for customers.
The Conversational App, called Virtual Assistant (AV), is designed to offer an area dedicated to the reactive and proactive management of the customer relationship, where support and answers in real time can be received.
In 2023, some features were introduced involving the Virtual Assistant (AV): handover from Virtual Assistant to CSD, through Call Me Back (call at a pre-arranged time) and Call Me Now (immediate call) on the App and website, which helps to reduce the intervention of operators, for example setting up appointments at the branch.

New Marketing Automation platform - navigation data tracking

The initiative, launched in April 2022, aims to boost sales through marketing, focusing on:

- new channels and methods of contact, such as real-time engagement based on browsing behaviour;
- reduction of the implementation time of initiatives;
- enhancement of Artificial Intelligence capabilities in the new platform.

The Platform has been integrated with different channels: CSD, Business Centres, public websites, internet banking and mobile App. At the same time, changes were made to allow the personalisation and tracking of browsing data on some digital channels, through Interaction Studio. These interventions, which impact the websites and Apps of Banco BPM and Webank, concern the adaptation of the cookie policy and the introduction of processes for the collection and management of consents for marketing/profiling purposes, with a focus on compliance with the Apple

guidelines. The collection of consents is essential to guarantee the customer a better browsing experience and offer products and services in line with their interests.
Some interventions are still underway, such as the tagging of behavioural triggers for websites and Apps, with expected releases in production by February 2024.

Trading and investment implementations

In 2023, the projects developed on the platforms for private customers as regards trading and investments were focused on:

- interventions aimed at facilitating the entry of direct orders on the stock exchange for the subscription, from the Web and App channels, of government securities such as the BTP Valore (in 2023 online placements totalled 465.5 million);
- interventions for the introduction, during the purchase and sale phase, of the rating and of the appropriateness controls were released. Ultimate analysis and design aimed at mitigating the information deficit inherent in the FIXED INCOME world with the introduction of a new factsheet for securities;
- implementation of new calculation algorithms on the EUREX and CME derivative markets; all preventive analysis and testing made it possible to limit/mitigate the critical issues of transactions in derivatives.

The running activities for the development and updating of the App have made it possible to continue to increase the percentage of customers operating through mobile channels: as at 31 December 2023, 54.0% of operating accounts had placed purchase and sale orders through the App (vs. 51.7% in 2022), 25.6% of trading volumes were mobile.

Mobile Banking evolution: companies

Creation of the new YouBusiness App and evolution of YouBusiness Web

With regard to business customers, the main projects undertaken in 2023 are illustrated below:

- YouBusiness App, development continues on the dedicated application for the business world. Among the most significant innovations:
  - creation of the Contracts and proposals function (already available on the web) which now allows customers to sign products and services purchased remotely via the App;
  - implementation of the function that allows you to update your identity document online;
  - expansion of the card section for both debit and top-up cards;
  - purchase of American Express cards.
- Evolution of the appointment-making function that allows the meeting to be carried out entirely by phone. The total number of users at the end of 2023 was 120,000, with a strong penetration in the SME segments. In addition, the excellent ratings received on the reference stores (Apple and Android) position the YouBusiness App as one of the best in the sector.
- The evolution of the Smart Lending service continued, with the extension of the types of loans that can be subscribed in full digital mode. The possibility of requesting and signing loans with SMEGF guarantee online was also introduced.
- The offer in the field of advances on documents has been completed, thanks to the possibility of requesting an advance on contracts, invoices not channelled on Banco BPM and other credit-related documents (invoice lists, VAT declarations, etc.) from the web.

Business customers can use the YouPlan Business service, which makes it possible to optimise the financial management of their company, provides useful tools that simplify the control of cash flows and provides relevant information to make informed financial decisions.
The Financial management notifications function was also released, which makes it possible to receive useful updates on the company’s economic situation; the customer can activate the notifications and customise them according to their needs (some examples: balance above and below a threshold, significant outgoing payments, overdrawn account, invoices falling due, summary of expense thresholds).

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

Product/Service	End of 2023 figures	End of 2022 figures	% Change
No. of customers with the Home Banking service	**2,164,245**	2,095,461	3.3%
No. of customers with Digital Identity	**1,355,593**	876,329	54.7%
No. of pure digital customers (WeBank)	**275,740**	266,374	3.5%

% customers making transactions	End of 2023 figures	End of 2022 figures	% Change
% customers making online transactions against total customers making transactions	58.9%	56.0%	+5.2%
% customers making mobile transactions against total customers making online transactions	77.2%	73.4%	-5.2%

Customer Support and Development (CSD) and Digital Branch

During 2023, the development of the CSD into a Digital Branch continued and efforts to support cross-selling in specific business areas, both private and corporate, were further developed, in synergy with Omnichannel Customer Journeys and in line with the objectives stated in the 2021-2024 Business Plan.
This objective was achieved thanks to the steady growth of proactive contacts managed, which reached almost 57% of all of the unit's activities in 2023.
The percentage of Retail and Private customers contacted by the unit for commercial and caring purposes exceeded 17%.
The scope of Online Channel activities, acting as a Digital Branch, was expanded for both the private and corporate world, with e-money and bancassurance products, confirming the presence of the new sales channel, also for Webank customers.
As part of the initiative regarding the withdrawal of Webank customers from deposit accounts, the Digital Branch also carried out proactive activities, contacting customers considered to be at higher risk of reducing funding and contributing reaching the objective of maintaining volumes on current accounts.
The Unit continued to contribute to increasing the penetration of the Digital Identity and was also involved in efforts to enable customers to seek financial advice online, thanks to targeted contacts.
As regards the Superbonus, it continued to fully manage assistance and customer relations, focusing above all on outbound caring activities, aimed at proactively informing customers on the status of their applications.

With regard to support activities, customers were managed in continuity with respect to the previous year as regards contact channels (toll-free number with operator and Interactive Voice Response - IVR, call back service available from the App and website for some customers, e -mail messages, Virtual Assistant and social channels) and the areas of operation (assistance in the use of digital channels for individuals and companies, support for card issues, telephone banking service, pre-sales and post-sales support for customers of the Webank online service in synergy with the virtual branch). By virtue of the evolution of digital channels, support activities for digital self-service sales and digital onboarding of network customers have increased.
The inbound optimisation process continued, with the constant reduction of assistance activities carried out with operators and the increase in digital and self-service activities, in particular thanks to the continuous growth in the use of the Virtual Assistant by customers.
With the Conversational App project, developed within the .DOT Programme, the Virtual Assistant becomes the reference point for assistance within digital channels, to offer direct support to customers or put them in contact with managers and operators through the new handover functions, to schedule appointments at the branch and re-contact requests with Customer Service or the Digital Branch.

Private Mortgage Loans

Despite the fall in volumes recorded at system level, also due to the constant increase in interest rates, the market share relating to disbursements of mortgage loans to Banco BPM individuals remained unchanged in 2023.
The commitment to redevelop the real estate portfolio also continued thanks to its offer of mortgages to individuals for purchase, construction and renovation, which envisages a tangible incentive for customers who, during the life of the loan, demonstrate that they have made their property more efficient.

With reference to Private customers, the main instrument offered by Banco BPM is the green mortgage[1]. This scope includes loans disbursed to purchase class A, B and C residential properties or to carry out work for property energy efficiency purposes.

More specifically, Banco BPM mortgages contain a contractual clause called Green Factor[2], thanks to which, customers who take out a mortgage will have the opportunity to obtain a discount on the interest rate, following work to make the property used as collateral more energy efficient, entailing a reduction of energy consumption by at least 30% or an improvement of at least 2 classes as certified by the comparison between APE before the work and APE after the work.
The mortgages in this scope awarded the Energy Efficient Mortgage Label (EEML)[3], a quality and transparency label promoted by the European Commission for best practices in the energy-efficient mortgage market.

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.
In line with the Bank's commitment to ESG issues, attention continues to be focused on the under-36 target, namely the You Giovani Green Mortgage [Green Mortgage for Young People], assisted by the Fondo Garanzia Prima Casa [First Home Guarantee Fund] managed by CONSAP. This product also benefits from the mortgage promotion in the event of purchase of a class A or B property.
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 was confirmed in the first half of 2023.
As part of the specific catalogue, the main products intended to support energy and structural improvement works are:

- 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.

In 2023, the guarantee of the First Home Fund continued to be available to the extent of 80% for mortgage applications from customers under 36, and from other types of priority customers envisaged by the Fund. Also in 2023, the Group supported customers affected by natural disasters or who found themselves in difficulty in paying their mortgage instalments. A total of 1,176 suspensions were granted to private customers, with a total residual debt at the suspension date of approximately 116 million. Banco BPM also implemented the regulatory provisions contained in the 2023 Budget Law no. 197, renegotiating mortgages from floating rate to fixed rate for customers who decided to benefit from this opportunity.

Consumer credit

In 2023, new personal loans disbursed amounted to 1,144 million, substantially in line with the previous year. Almost all of the personal loans were disbursed by Agos Ducato S.p.A., a consumer credit company, whose products are distributed exclusively by Banco BPM.
The Group continued to be firmly committed to its objective of making a tangible contribution to increasing the awareness of environmental issues of its current account holders; to this end, a special offer was reserved to the same: the Green offer by Agos proved to be extremely successful with Banco BPM current account holders, and over 5,000 were therefore able to finance eco-sustainable expenditure, both in the field of Green transport and Energy upgrading.
Particular attention was also paid to young people, through a specific offer reserved to them; almost 4,000 current account holders under 36 subscribed.
Lastly, to further emphasise its constant proximity and attention to the needs of its customers, in 2023 Banco BPM promoted an evolution of the sales channels by enabling its customers to apply for an Agos personal loan remotely,

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[1] In the Strategic Plan, the Group has committed to disburse 4 billion in green residential mortgages in the four-year period 2021/2024.

[2] 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.

[3] 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.

both in Online and Self modes. The standard initiatives of the Agos personal loans in the catalogue also continued, thanks to which the customers concerned were able to benefit from advantageous conditions.

Advances on severance pay for employees of the Public Administration

Banco BPM continued to focus on the issue relating to the advance payment of severance pay (TFS) for employees of the Public Administration. In fact, the agreements signed with the main Institutions and Professional Associations of the country were confirmed and further agreements are in the pipeline.
In total, 985 advances were granted in 2023 for a total of 110.4 million in credit facilities granted with drawdowns of 94.8 million.
The total stock of TFS advances amounted to 7,096 transactions with drawdowns of 339.7 million.

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

In 2023, private customers continued to have the opportunity to transfer tax credit originating from work to improve the energy efficiency of buildings (Ecobonus and Superbonus). During the year, Banco BPM customers sold 2,436 applications to Cherry Bank for a nominal value of the tax credit of approximately 198 million.
The distribution of the applications sold shows the following breakdown between types of bonuses and customers:

	no. of applications		credit value		total	total
Customer type	other bonuses	superbonus	other bonuses	superbonus	no. of applications	credit value
Private customers	426	2,010	12,486,612	187,267,890	2,436	199,754,502

The contractual applications, not yet assigned as at 31 December 2023, are detailed in the following table:

	no. of applications		credit value credit to be sold		total	total credit value
Customer type	other bonuses	superbonus	other bonuses	superbonus	no. of applications	credit to be sold
Private customers	274	678	12,093,932	80,830,285	952	92,924,217

Investment products

In light of the macroeconomic scenario in 2023, the volumes of assets under management were mostly distributed in asset classes with a predominantly bond component, while maintaining a portion invested in flexible products with an equity component of between 30% and 50%.
The placement of Mutual investment funds, maintaining the characteristics of an open architecture system, entailed Anima SGR as the main partner.
The main funds placed include: Anima Obiettivo Valore Globale Bilanciato 2028 and 2029, new editions of Anima Cedola Più 2028 and 2029, Anima Prima Soluzione 2025 III and IV and Anima Obiettivo America Bilanciato 2028. The offer was completed with investment solutions in Flexible thematic funds including: Anima Investimento Globale & Trend Media 2028, Anima Net Zero Internazionale. These issues allowed customers to further diversify their portfolios in terms of sector, theme and duration of the fund, also with an income-distribution approach.
Banco BPM Group also continued to enhance ESG criteria in compliance with the EU Sustainability and Finance Regulation. With this in mind, among investment funds, note the placement in May 2023 of Anima Net Zero Azionario Internazionale, which seeks to invest in shares of companies that aim to reduce climate-changing gas emissions and make sustainable investments, pursuant to Art. 9 of Regulation (EU) 2019/2088 (SFDR). In fact, the issuers of the equity instruments in which the fund invests are selected from those that contribute positively to a sustainable objective (in this case climate transition), without seriously damaging other types of sustainable objectives (DNSH test: Do No Significant Harm) and are characterised by a good governance system.
As regards investment products, the Asset Management service was also relaunched with a new benchmark line called Personal Asset Tricolore by Anima SGR, characterised by a medium-term Italian government investment.

The Group's offer of insurance investment policies continued through Banco BPM Vita and the joint ventures with Vera Vita and Vera Financial.
In this context, customer preferences continued to regard the Vera Financial Multi-segment product called Multi Obiettivo Personal.

Customers were also able to opt for other types of Class I investment policies including BPMVITA Accumula 3, Coupon Plus and Vera Vita Beldomani 2023, able to ensure coverage of the customer's invested capital and a minimum guaranteed return for the first three years linked to the Segregated Fund.
In the Unit-Linked area, the Class III policies Banco BPM Vita Strategia Obbligazionaria and Global Dividend Growth - products managed by Anima SGR - were placed, adopting a model that seeks to grow capital in the medium term by implementing a systematic allocation strategy, in accordance with a predefined risk level.
With regard to ESG, in the area of investment insurance products, Vera Financial continued its commitment with the placement of the Futuro Sostenibile 2.0 policy. The placement of the whole-life policy, whose premium invested is placed in an Internal Insurance Fund, comprised in part by underlying assets with characteristics typical of so-called sustainable investments, namely that invest in compliance with ESG (Environment, Social and Governance) criteria, was concluded in October 2023.
The Group continued to issue certificates, meeting customer preferences with products characterised by a financial structure aimed at protecting capital (Equity Protection). The so-called memory effect and consolidation mechanisms of periodic coupons with participation in the revaluation of the underlying assets with caps have been added to some structures.
With regard to the underlying assets of the issues, particular attention was paid to the Eurostoxx Select Dividend, SMI, Eurostoxx 50 stock market indices, and to a basket of sector indices, including Eurostoxx Health Care and Utilities.
In December, customers were offered a structured bond issued by Banco BPM linked to the Italian stock market index FTSE Mib, with a duration of five years, with fixed coupons for the first three years and digital coupons for the last two.
As regards Supplementary Pensions, the Group focused on promoting the knowledge and dissemination of two products in the catalogue: the "Arti & Mestieri" Pension fund by Anima SGR and the Piano Individuale Pensionistico [Individual Pension Plan] by Vera Vita.

Bancassurance Protection

The focus of 2023 was the multi-channel approach and the finalisation of the new strategic partnership with Crédit Agricole Assurances S.A..
With a view to multi-channel offerings, the distribution channels of products with greater commercial appeal were increased, in continuity with that undertaken in previous years, therefore starting the distribution through Online Offers both for credit insurance products and for stand-alone non-life policies, through the branch or through the central Customer Support & Development units.
On 14 December, the parties signed a new distribution agreement with Crédit Agricole Assurances S.A., which enabled the completion of the sale to the Company of 65% of Vera Assicurazioni and Banco BPM Assicurazioni, launching a 20-year strategic partnership in bancassurance in the Non-Life and Protection sector, which will make it possible to fully exploit the potential of the Companies operating in this sector, building on the positive experience gained in a success story such as that of Agos and will allow Banco BPM to leverage the industrial expertise of the largest European player in bancassurance.
The agreement envisages maintaining the Insurance Companies separate and rationalising the product catalogue for an initial period, selecting the products marketed by the aforementioned Companies based on a best in class logic.

Listening to customers

In line with the efforts made in previous years, also in 2023, the utmost importance was given to listening to customers and assessing their satisfaction, both aimed at improving the service provided.
The relational Customer Experience, or Customer Satisfaction survey was conducted, and involved around 168 thousand Retail, Private and SME customers[1]. About 20% of the interviews were carried out via web questionnaire, while the remaining 80% by telephone. Satisfaction was measured using the Net Promoter Score (NPS), which monitors how likely a customer is to recommend Banco BPM. The Customer Satisfaction surveys also assess satisfaction regarding the aspects closer to the branch (e.g. active listening, competence, queuing at the cash desks, availability, etc.). The NPS Satisfaction indicator in 2023 was 25, one point higher than in 2022.
To continuously monitor the level of service perceived by customers, all results and insights of the surveys were published and made available to colleagues in a portal called "La voce del cliente" [The customer's voice], accessible from the company Intranet. To monitor the quality provided, over 2,000 visits were also made to Group

[1] Data as at November 2023.

branches, using the Mystery shopping technique. The results confirmed a good level of service at branches, with particular regard to the relational aspect.
The process of developing the tools available to actively listen and oversee the Experience as a whole continued. In fact, Banco BPM has further expanded the use of the Customer Feedback Management (CFM) platform, a tool able to easily manage the various surveys addressed to customers and collect instant feedback. Introduced in 2020, to date the Platform has collected approximately 433 thousand entries of feedback (123 thousand just this year)[1], overseeing all levels of Customer Experience listening, from relational aspects to those concerning digital interactions and the purchase of products and services.
The great potential made available by the CFM platform, combined with continuous internal communication activities and the involvement and engagement of most of the bank's departments (Marketing and Sales in particular), have made it possible to gradually spread a culture of so-called continuous improvement (Close the loop), enabling the work that began in 2022 to be continued. This made it possible to analyse and manage requests made by customers more rapidly, where possible (Outer close the loop).
Significant progress has also been made with regard to re-contacting dissatisfied customers (Inner close the loop). Specifically:

- re-contacting by Customer Support & Development was further extended to all customers who expressed a negative assessment of digital channels (approximately 5.2 thousand customers have been re-contacted since the beginning of the year);
- from September 2023, the customer re-contact programme was released to the entire Commercial Network, following negative feedback in the relational Customer Experience survey, allowing managers to provide proactive solution to the problems that emerged (approximately 6.3 thousand customers were re-contacted from the beginning of the year).

Research

In 2023, to complement the previously mentioned Customer Experience survey, 15 customised research projects were conducted for the Group, with a view to addressing more strategic and innovative topics which needed to be examined in more depth.
In particular, surveys were carried out to support the Group units relating to ESG issues, strategic segments (SMEs), the development of new products and services (e.g. Smart Lending, Business Financial Management solutions) and the improvement of existing ones (e.g. Virtual Assistant).
In addition, a Voice of Employee survey was conducted to verify the company climate and to improve communication between Management and the Network, also in the commercial sphere.
Also in 2023, in addition to collaborating with Research Institutes, the Customer Feedback Management (CFM) platform and the 'Insquadra' (Inteam) Community Panel were also utilised, the latter represents a further channel to encourage listening to customers, with the involvement of around 2,000 Private customers and 500 Business customers.

Business Customers

Business customers with a current account as at 31 December 2023 are detailed in the following table:

Segment	no. customers with current account	% compared to total businesses
Small Business Operators	149,578	32.3%
Businesses	137,556	29.7%
Companies	41,386	9.0%
Condominium Associations	89,525	19.3%
Other businesses	43,668	9.4%
Public Sector and Third Sector	1,429	0.3%
Total	**463,142**	**100.0%**

[1] Total data 2023.

The distribution of customers (unique customers with current accounts) by turnover level confirms the significant concentration in the class of up to 25 million (approximately 99%) already recorded in previous years, attesting to the vocation of Banco BPM Group in its relations with medium-sized companies.
Regarding the breakdown of customers by production sector, commercial and manufacturing activities continued to represent the most significant area, followed by those related to construction and property, catering and the agricultural sphere.

Production sectors	no. customers with current account	% compared to total businesses
Real estate activities	114,133	24.6%
Wholesale and retail trade, motor vehicle repair	75,387	16.3%
Manufacturing	49,048	10.6%
Construction	44,610	9.6%
Other service activities	30,731	6.6%
Accommodation and food service activities	27,533	5.9%
Agriculture, forestry and fishing	22,021	4.7%
Professional, scientific and technical activities	21,897	4.7%
Transport and storage	14,440	3.1%
Rental, travel agencies, business support services	11,637	2.5%
Arts, sports and entertainment	11,806	2.6%
Other segments	39,899	8.8%
Total	**463,142**	**100.0%**

As mentioned above, the distribution of Business customers includes a significant proportion of small and medium enterprises, for which the Group further strengthened its activities in 2023, thereby confirming its role as the bank of reference and support for the entrepreneurial fabric in the main areas served.
More specifically, this entailed the offer of dedicated products and services, illustrated below.

Collection and payment services

Growing trends in payments services through instant bank transfers were also recorded for 2023: the increase is also supported by various initiatives such as training for Network colleagues, a specific promotion aimed at Webank customers and the account holders of the YouWeb platform, and the expansion of the scope of authorised current accounts.
In the second part of the year, the procedural provisions defined at EU level relating to the adoption of the instant bank transfer as the main method for transferring funds within the Eurozone were confirmed. In particular, the following measures were identified that will require the Group’s commitment already in the first few months of next year: the obligation to offer the service of receiving and sending bank transfers in euro to all customers to whom ordinary bank transfers are offered, commission parity between instant bank transfers and ordinary bank transfers, the obligation to offer the customer an IBAN/beneficiary verification service, and confirmation of the provisions on sanction screening.
Activities aimed at the gradual reduction of cash in circulation continued; in this regard, these entail measures aimed at discouraging certain manual operations at the branch, such as cash withdrawals by cheque (bank cheque/banker’s draft/drawer's cheque), in favour of more efficient alternative methods (e.g. bank transfers and electronic money).
Participation in the ABI Working Group continued, which, under the direction of the ECB is undertaking activities aimed at the adoption of the euro in a digital format; in particular, once the so-called investigation phase has been completed, the implementation phase began on 1 November and will last two years. In this period of time, the Eurosystem will focus on: digital euro rulebooks, the selection of suppliers for platform and infrastructure development, testing and experimentation.

E-money - POS and Acquiring

2023 saw the consolidation of the offer for merchants with the upgrade of the Mobile POS terminal and the introduction of the range of Smart POS products, innovative tools for accepting physical and digital payments at points of sale.

Smart POSs are equipped with a digital touch interface, which enable the merchant's copy to be archived and signature management, provide an option for all available circuits to be collected in a single device and feature numerous Apps for a simple collection experience and maximum interaction for merchants with their customers (management of meal vouchers, discount campaigns, management of tips and the possibility of collecting the opinion of their customers). At technological level, Smart POS terminals have Ethernet, WiFi and 4G connectivity and support contactless payments from the main tokens, wallets and innovative payment tools (e.g. wearable).
The launch of the new product was regularly supported by Digital POS sales campaigns, with wide visibility in agencies and on the bank's website, by sending DEMs to customers without POS and newly acquired customers in the various Retail and Third Sector segments. The promotion saw the elimination of one-off installation costs and the monthly fee for the first six months.
As part of the .DOT Programme, the remote digital signature and the 'signature train' for the POS and Acquiring offer were introduced, which can now be subscribed remotely, by telephone contact with the operator or by direct sales through targeted initiatives by the Digital Branch operators.
The expansion of the sales channels for the POS collection product for Small Merchants, Institutions and the Third Sector has brought several advantages:

- the digitalisation of the POS sales process and of Acquiring services with a view to having more time available for commercial activities in the branches;
- the interactive and multi-channel approach with the Digital Branch that proposes and finalises the POS offer, thus further improving and simplifying the sales experience and relationship with the merchant;
- the industrialisation of the commercial approach, especially in contrast to the aggressive offer of non-bank competitors who offer self-service sales on the web.

Lastly, as regards ESG, this year the FEA, Advanced Electronic Signature made digitally on the tablet in the bank, was released, also for the POS service, saving the paper printing of contracts to be signed in the branch in all those circumstances in which the subscription of the product cannot be made remotely.

Loans and lending

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

2023 was characterised by the further enhancement of products to support companies in the transition towards a sustainable economy as regards ESG.
Sustainable loans not only finance projects, but constitute a bridge between profit and environmental responsibility, supporting a future where every investment leaves a positive footprint on our planet.
In this regard, the Unsecured Business Loan with Sustainability Objective aims to support and incentivise companies that have embarked on the virtuous path of sustainability by focusing on shared ESG objectives. The latter were broken down into a catalogue of ESG covenants[1] and linked to the loan requested by the customer to enhance and reward various projects in the Environmental, Governance and Social dimensions. The bonus is linked to the interest rate if the agreed KPI targets are achieved. To meet complex and challenging market needs, Banco BPM decided to expand the catalogue of ESG Covenants by introducing topics such as sustainable mobility for vehicles with electric or hybrid power, gender equality and antitrust policies.
For the new sustainability objectives, as in the previous edition, the Bank collaborated with RINA Consulting for the certification of the methodological forms for the calculation of the target values and the reporting methods.

The growing importance of Sustainability issues within the agendas of Governments and Institutions allows the financial system to take on a leading role in guiding investments towards a low-carbon economy. In this context, Banco BPM, in line with its ESG strategies, intends to be a reference partner for companies in the important process towards green transition. In this regard, the Green Transition Approach financing solution[2] allows companies to implement their own low-carbon investment plans, in line with EU environmental objectives such as mitigation and

[1] 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.
[2] 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).

adaptation to climate change, the protection of water and marine resources, the circular economy, the prevention of biodiversity and of pollution. In order to qualify green operations, Banco BPM requires a contractual commitment by the customer to use the funds disbursed to carry out projects that make a substantial contribution to the environment. Therefore, the client company provides the Bank with a summary report of the green project for which the loan is requested, whose objective is attributable to one of those envisaged by the EU Taxonomy. The funds disbursed for the realisation of the project will be monitored over time until the completion of the same.

Following the methodology proposed with the Green Transition Approach, efforts continue to provide support and to promote plants involved in the specific area of producing energy from renewable sources, through business financing solutions.
In this regard, since last year, Banco BPM Group has made a new "approach" available to the commercial network to support the investment plans of companies that install specific systems for the production of energy from renewable sources (RES).
This "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 certain minimum professional requirements. The report provides an indication of the measurement of the reduction of CO2 emissions and the related Business Plan of the initiative.

The EU Taxonomy guides economic activities towards a sustainable future, also thanks to green loans. In this context, the Unsecured Green Taxonomy Business Loan[1] makes it possible to support the investments of companies that are pursuing the objectives set by the EU Taxonomy. To this end, due diligence of the green project is carried out by professionals with expertise on ESG issues, who assess compliance with the regulatory principles envisaged by the EU Taxonomy.

As part of the Sustainable Investments 2020-2023 programme, an Agreement was signed with Cassa Depositi e Prestiti, called CDP Investimenti Sostenibili, aimed at creating and selling loans to be allocated within a specific ceiling of 300 million addressed to SMEs and Mid-Caps focused on energy efficiency, green financing and sustainable investments.

As part of the product initiatives launched with the NRRP Plan, Banco BPM has set itself the objective of supporting corporate customers both in their role as direct beneficiaries and as suppliers of the PA with particular regard to the need for:

- advance payments of grants or of receivables for supplies to the PA;
- financing of investments not covered by grants or other related investments;
- guarantees in the form of bank sureties for the advance of some of the contributions of the NRRP (depending on the text of the specific call for tenders) and the issue of guarantees for participation in tenders (in the case of Level 2 calls);
- issues of bank reference letters and statements of financial standing;
- to offer companies advisory support through third-party partnerships (the agreement with Finservice is already in place) able to make them fully seize market development opportunities.

In addition, it has issued the following financing solutions:

- Subsidised Loans (FRI) - Agri-Food Supply Chain Contracts (V Tender) with the aim of supporting investments of national importance in the agricultural, agri-food and agro-energy sectors, promoting integration between the various players in the Supply Chain;
- Subsidised Loans (FRI) - Tourism in favour of tourism companies that carry out, by 31 December 2025, energy redevelopment, environmental sustainability and digital innovation interventions for an amount between 500,000 (minimum limit) and 10,000,000 (maximum limit). The subsidy intervention (so-called FRI-Tur) is part of Measure M1C3, intervention 4.2.5 of the National Recovery and Resilience Plan in implementation of the Business Revolving Fund (Fondo Rotativo Imprese, FRI) project line to support businesses and development investments, as envisaged by Art. 3 of Italian Decree Law no. 152 of 6 November 2021, converted with amendments into Law no. 233 of 29 December 2021;

[1] The Unsecured Green Taxonomy Business Loan is the "catalogue" solution intended primarily for companies whose economic sectors are deemed eligible by the EU Taxonomy and specifically for counterparties subject to "NFRD" Directive 2014/95/EU (companies with more than 500 employees) or companies subject to "CSRD" Directive 2022/2464/EU (companies with more than 250 employees, and/or with turnover exceeding 40 million and/or total balance sheet assets exceeding 20 million.

- the agreement of the Ministry of Tourism for the management of financial resources within the scope of the NRRP (Measure M1C3.4 (Tourism 4.0) was implemented, activating the Special Tourism Section of the SME Guarantee Fund to facilitate access to credit by hotels that are involved in agritourism. In particular, Banco BPM made the Unsecured Loan and the Mortgage Loan with SMEGF guarantee - Special Tourism Section available to its customers. With Circular no. 18/2023, the Fund announced the suspension of this special section with effect from 1 September 2023.

In addition to the financing solutions, again in the NRRP area, the Bank identified the need for customers to receive support through specialist services in order to fully seize the market development opportunities deriving from the Calls for Tenders issued. In this regard, Deloitte Consulting S.r.l. Società Benefit, creator and implementer of the Incentivi360 Platform, was selected. In 2023, the Bank entered into an agreement with Deloitte Consulting to use it in the Commercial Network and through a Promotion Agreement to offer the service to customers.

With regard to tax receivables, collaboration with Cherry Bank S.p.A. continued, confirming the catalogue of specific products to support the financial cycle of the renovation/energy efficiency work for residential buildings by Private Customers, Condominiums and Businesses, such as:

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

Smart Lending

In 2023, through the online channel, customers continued to be offered short-term loans to be paid in instalments to support business liquidity or to facilitate the payment of taxes/13th month wages.
With regard to loans to Businesses, implementations continued on the online channel linked to Smart Lending to give customers the opportunity to request multiple types of Unsecured Mortgages both with SMEGF guarantee and as unsecured loans.
Lastly, a project linked to transactions on Unsecured Loans was launched, which will be completed in 2024, the purpose of which is to allow the Bank to receive requests for the issue of guarantees via the online channel and to issue them in digital format and with electronic signature, making them available to the applicant and the beneficiary on the CETIF platform rather than on the company Home Banking channel.

Invoice Financing

To improve access to financial services by businesses, considerable progress has been made by extending the type of receivables disposal transactions that may be requested through the YouBusiness Web channel.
During the year, further options were added to the digital channel in the area of receivables disposal, implementations that will be completed in 2024 with the transformation into electronic form of the notifications to the assigned debtor.

Other activities to support and increase business loans

The Bank continued its commitment to measures to support businesses, both in the emergency period resulting from the Covid-19 pandemic, and especially afterwards, in compliance with the measures established to combat the effects of the crisis in Ukraine.
The schemes implemented in 2023 in this regard mostly entailed arrangements required to promptly implement the support measures and subsidies dictated by a series of rules, such as Laws, Decree Laws and ABI Agreements.

Specifically, the following were gradually updated and made available:

- loans secured by the Guarantee Fund for Small and Medium Enterprises (pursuant to the Liquidity Decree Law, as amended, 2022 Budget Law, Aid Decree Law, as amended);
- unsecured agricultural loans backed by the ISMEA 100% direct guarantee pursuant to Article 20 of Italian Decree Law no. 50 of 17 May 2022 (Aid Ter DL).

Agrifood

The traditional and consolidated focus on businesses in the Agrifood sector continued successfully through the synergistic presence of Agricultural Sales Specialists in all Territorial Departments, to support the network in the phases of contact and visits to businesses in this sector. Activity in the primary sector, affected by the Ukraine crisis, saw a considerable increase in raw materials (fertilisers, feed and fuel).
To meet the liquidity needs of businesses in the segment, the Bank made loans with a 100% ISMEA guarantee (pursuant to Art. 20 of the Aid Decree Law).
Based on the experience gained in relation to the Supply Chain and District Projects with CDP-MIPAAF funds (IV Tender), Banco BPM also participated, as the Lender Bank, in the V Tender, which entails the commitment of significant resources from the NRRP.
Lastly, in relation to the Agri-solar and Biomethane NRRP tenders, the Bank has made a modular mix of products from the Sowing Catalogue available, able to meet and support investments and advance payment requirements.

Subsidised Financing and Guarantee Bodies

In 2023, Banco BPM continued to disburse subsidised loans to businesses and households, with a view to facilitating access to credit, or to reducing its cost.
These loans feature public guarantees (e.g. Guarantee Fund for SMEs, ISMEA Guarantee Funds, European Investment Fund-EIF, SACE, Guarantee Fund for the First Home, etc.), or are granted by the Bank using funds obtained at advantageous conditions (e.g. funds of the European Investment Bank - EIB - or of the Cassa Depositi e Prestiti - state-controlled fund and deposit institution).

The most significant initiatives were as follows:

- loans to SMEs and Mid-Caps, allocated to the EIB Synthetic Securitisation ceiling, of approximately 900 million, made available on the basis of the agreements with the EIB concluded at the end of 2021;
- use of the SACE guarantee lines to support SMEs and Mid-Caps for both liquidity and investment needs directed towards research and development and/or technological innovation; the guarantees offered by SACE can be at market rate or subsidised. The market rate guarantees do not accrue State aid (e.g. the SACE Green guarantee described below and all the financial guarantees offered by the same). On the other hand, the subsidised guarantees include the SACE SupportItalia guarantee which, as such, accrues state aid in terms of GGE (Gross Grant Equivalent);
- SMEGF guarantee, extended from 2022 also to new short-term loans and unsecured loans, actually implementing a legislative provision already covered for some time by the Operating Provisions of the SMEGF and allowing a more extended use of risk mitigation tools, such as the direct SMEGF guarantee. With this in mind, in 2023 the Bank also decided to launch the guarantee request on portfolios of new loans, known as the so-called Tranched Cover. These transactions are considered, in accordance with Supervisory Regulations, synthetic securitisations, i.e. transactions in which the transfer of credit risk on the first losses (so-called junior tranches) of the portfolio of loans disbursed is transferred to a guarantor (in this case the SMEGF);
- extension of the Guarantee Fund for the First Home, with significant use by young people under 36, who were able to benefit from a higher LTV than the standard offer.

In this historical phase characterised by numerous Tenders, Banco BPM assessed the need for the assistance of Deloitte Consulting, which provided a Service for the use of the Incentivi360 Platform, to offer support in the research and analysis of incentives related to tenders and public notices issued by individual providers.

Guarantee instruments for enterprises

Collaboration with the Confidi continued with the strengthening of commercial relations with the Guarantors operating in the Territories, and with the agreement of new Confidi (Uni.Co.), consolidating the support and assistance provided to the companies in the reference territories.
Dedicated loan products were launched in accordance with the provisions of the Ukraine Decree Law in order to exploit the opportunity of the counter-guarantee issued by the Central Guarantee Fund.
The Bank also continued to work with various Foundations, by virtue of agreements entered into over time, which regulate operations as regards measures to contrast usury with regard to the funds allocated by Italian Law 108/96 Anti-Usury Law.
Thanks to their guarantee issued to Banco BPM, also the liquidity requirements of individuals with overt economic difficulties and problems accessing credit, can be met. On 28 April 2023, it joined the ministerial initiative and prepared a financing product for companies, alongside the solutions already available, and always within the Framework Agreement, intended for consumers and which provide for a guarantee by Anti-usury Foundations.

Other State subsidies for businesses

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

Partnership with the CBI

In 2023, the regulatory Sandbox was conducted with the Bank of Italy (led by the CBI) to set up a system database to allow the real-time consultation of invoices and the percentage of advances already granted to applicant customers at other institutions. Starting from the second quarter of 2024, significant improvements will be introduced within the Invoice Advance procedure by automating the advance control and verification process aimed at mitigating the risk of possible fraud.
In the second half of the year, the partnership with Sorgenia was finalised, to offer Business customers an energy analysis aimed at defining the efficiency of their company and identifying areas for improving energy performance and environmental impact. The entire consulting process takes place online without the need for physical intervention.
Collaboration with the partner Alphabet - BMW Group - continued, with a view to offering Long-Term Rental cars to private customers and businesses. Among the proposals made, electric and hybrid vehicles were particularly important to support the green connotation of Banco BPM’s offer.
Furthermore, new developments took place as regards the partnership with TeamSystem, which makes management systems for companies. In particular, Banco BPM took the opportunity to incorporate the information concerning the companies that have connected a management system within the CRM systems. Cyclical campaigns were also launched to raise awareness of the use of the functions enabled by the management system-remote banking connection.
Since October 2023, the partnership with Fintech SWITCHO is being defined, a platform that will offer - starting from the first months of 2024 - a fully digital service for analysing and optimising expenses on the Webank and Banco BPM APPs for retail customers in utilities and telephony. The advisory service will be free for the customer, while for the Bank it will represent the first application of the opportunities deriving from PSD2 regulations.

Corporate

	2023	2022 (*)	absolute change	% change
Net interest income	584,789	476,551	108,238	22.7%
Financial margin	**584,789**	**476,551**	**108,238**	**22.7%**
Net fee and commission income	315,747	277,854	37,893	13.6%
Other net operating income	627	58	569	981.0%
Net financial result	19,229	(18,330)	37,559	-
Other operating income	**335,603**	**259,582**	**76,021**	**29.3%**
Operating income	**920,392**	**736,133**	**184,259**	**25.0%**
Personnel expenses	(80,013)	(76,838)	(3,175)	4.1%
Other administrative expenses	(133,977)	(134,810)	833	(0.6%)
Net value adjustments to property, plant and equipment and intangible assets	(2,506)	(4,102)	1,596	(38.9%)
Operating expenses	**(216,496)**	**(215,750)**	**(746)**	**0.3%**
Profit (loss) from operations	**703,896**	**520,383**	**183,513**	**35.3%**
Net adjustments to loans to customers	(165,105)	(193,122)	28,017	(14.5%)
Net provisions for risks and charges	5,597	(12,043)	17,640	-
Profit (loss) before tax from continuing operations	**544,388**	**315,218**	**229,170**	**72.7%**
Taxation charge related to profit or loss from continuing operations	(180,388)	(105,650)	(74,738)	70.7%
Profit (loss) after tax from continuing operations	**364,000**	**209,568**	**154,432**	**73.7%**
Charges related to the banking system, net of taxes	(11,768)	(14,348)	2,580	(18.0%)
Purchase Price Allocation net of taxes	92	110	(18)	(16.4%)
Parent Company's profit (loss) for the year	**352,324**	**195,330**	**156,994**	**80.4%**

(*) The figures relating to the previous year were recalculated to reflect the changes introduced to the breakdown of operating segments and to guarantee a like-for-like comparison with the profiling criteria used for 2023.

Economic performance of the segment

The Corporate segment recorded a total operating income of 920.4 million, up by 184.3 million (+25%) compared to last year.
Within this aggregate, net interest income was 584.8 million, up by 108.2 million against 2022 (+22.7%), benefiting, despite a slight reduction of the volume of loans, from the increase of the reference interest rates.
Net fee and commission income was up and amounted to 315.7 million (+37.9 million; +13.6%), due, in particular, to the higher contribution of other business services (+41 million; +31.3%), while the net financial result of 19.2 million, recorded a positive increase, mainly due to the impact of fair value measurement of loans that didn't pass the SPPI test (+12.8 million).
Operating expenses recorded a slight increase of 0.7 million, mainly attributable to other personnel expenses, while the cost of credit showed an improvement, amounting to 165.1 million (193.1 million in 2022), benefiting from a significant improvement in the risk level of the portfolio, largely attributable to the derisking actions and the hedging policies completed in recent years.
The segment in question was also impacted by charges related to the banking system, net of taxes, of 11.8 million compared to 14.3 million in 2022, as per the Target defined by the Single Resolution Fund. The net result of the business line therefore stood at 352.3 million compared to 195.3 million of the previous year.
As illustrated in the introduction, the "Corporate" segment includes the management and marketing of banking and financial products/services and loan brokering, which are mainly aimed at medium and large-sized companies.

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

Evolution of the organisational and commercial model

In 2023, the new Corporate & Investment Banking Division (CIB Division) of Banco BPM was established, reporting directly to the Chief Executive Officer, which coordinates: the Corporate function (Management and Commercial Network), the specialised high value-added units, such as Structured Finance and Global Transaction Banking, as well as Banca Akros, the company that oversees the Group's investment banking activities.

The new CIB Division was created with the aim of being a global partner of customer companies, providing them with an integrated system of products and services, with a view to creating tangible and lasting value for customers and for the Group.
The presence of a Commercial Network dedicated to larger companies (the Corporate commercial network serves Corporate companies with group turnover greater than 75 million and Large Corporate companies with group turnover exceeding 1 billion), structured and strongly rooted in a dynamic business and economic fabric, represents a component of great value and an important strategic factor: it guarantees proximity, a solid relationship with the most evolved customers, concrete support for the growth of companies and, through them, of the communities.

In parallel with the launch of the new CIB Division and the continuous evolution of the digitalisation process of the Corporate service model, in 2023 territorial coverage was further strengthened, in particular in areas with high development potential, through the establishment of three new Corporate Centres:
- 1 "Central Italy" Corporate Centre, based in Rome;
- 2 Large Corporate Centres, as part of the Large Corporate Market.

The development of the Corporate commercial network has made it possible to enhance the professional value of internal bank resources, in line with the strategic objectives of the Business Plan, also in terms of equal opportunities.
During the 2023 financial year, a process to further strengthen and specialise the same was also launched, which will be fully implemented in 2024.

Corporate Customers

Business sectors and geographical distribution

In terms of breakdown by product sector, a large part of Corporate customers operate in manufacturing sectors (the Manufacturing macrosector also includes the production of motor vehicles).
The share of companies operating in the manufacturing sectors out of the total number of Corporate customers is approximately 26%, with a share of approximately 18% of total credit facilities within the Corporate perimeter.
In terms of geographical distribution, the companies served are mainly present in the more economically dynamic regions, characterised by high GDP values and a greater concentration of industries and services.
The territorial spread of the Corporate Network involves all regions of the peninsula and is therefore able to support all types of companies, even in areas with reduced numbers.
To date, the Corporate segment encompasses approximately 14 thousand individual counterparties with a volume of approximately 36 billion in loans (cash and unsecured loans) and approximately 7 billion in direct funding (progressive average figures as at December 2023).

Corporate business strategy

In a complex context such as that of 2023, which suffered from both the impact of the protracted Russian-Ukrainian conflict, and the sudden rise in interest rates at global level, the timely monitoring of relations with companies was more strategic than ever, which took the form of tailor-made support, through prompt and personalised responses to the needs of customers that are continuously and physiologically evolving. The role of relationship managers was fundamental, as they represent the core of the Corporate commercial network and work in close synergy and coordination with the CIB units and corporate centres (Structured Finance, Supply Chain Finance, Global Transaction Banking, Investment Banking).

Offer to Corporate customers

Also in 2023, Banco BPM Group maintained its benchmark role for financial players at national level, with a specific vocation to manage the needs of companies in the Corporate segment. Its consolidated experience gained in this area, combined with its deep roots in local areas, enabled a further the bank-business relationship to be further strengthened, with market shares that continue to be significant in the specific Corporate customer segment.

During 2023, the offer of loans dedicated to Corporate customers was developed in parallel along two lines: continuity and innovation.
In terms of continuity, the Bank continued its commitment to make the processes linked to operational solutions already in place increasingly effective, by adapting them to the evolution of the regulatory landscape, as in the case

of interventions supported by public guarantees (including in 2023 the SACE Supportitalia Guarantee, which played an important role); these instruments were used to deal with fluctuating market trends (connected to the complex international situation), alongside other public subsidies (e.g. those related to NRRP projects).
In terms of innovation, the range of tools used to promote and support the ecological transition of customers has been expanded, in line with the objectives of the Group's Strategic Plan.
In this perspective, the development of the new Unsecured Green Taxonomy Business Loan[1] makes it possible to support the investments of companies that are pursuing the objectives set by the EU Taxonomy.

The new solution mentioned above supports that which has already been made available in 2022 and further enhanced in 2023 in the area of green transition and ESG issues:

- Unsecured Business Loan with Sustainability Objective: dedicated to supporting businesses in their path towards more sustainable business models from an ESG perspective, thanks to the adoption of targets (ESG KPIs - contractual covenants), to reward and motivate companies that commit, in various ways, to improving their ESG sustainability profile;
- Unsecured Business Loan with Sace Green guarantee: this also makes it possible to support the investments (in Italy) of companies aimed at pursuing the objectives set by the EU Taxonomy, allowing the customer to benefit from the advantages offered by the Sace Guarantee. In greater detail, 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. 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 Guarantee described above, SACE provides precise guidelines for compliance with certain parameters on the purpose of the loan and also provides for ex-post controls on compliance with them.

Activities also continued in synergy with the various units of the Bank, functional to the development of new solutions (products, services and tools) in line with the measures envisaged in the National Recovery and Resilience Plan.
In 2023, special emphasis was placed on enhancing ESG information in the interaction platform of the Corporate network (Sales4Change), where all the data that can be used to define the ESG profile of customer companies were entered and highlighted, with particular attention the Environmental parameter. The objective is to enhance the information assets to support commercial action in the ESG area.
The central role of the interaction platform is therefore confirmed as regards the various activities relating to commercial management (monitoring, negotiations, pricing, etc.).

Other distinctive commercial activities

Structured finance

In 2023, the Group promoted the structuring of increasingly sophisticated lending transactions, made with institutional and industrial counterparties which, as regards the purpose of the loan and/or its amount, require a personalised and specialised approach.
Increased customer interest in this type of activity was recorded, thanks to the market context and residual post-pandemic effects, as they recognised the high strategic value of this type of transaction.

Performance in 2023 improved compared to the previous year, also thanks to the economic situation, for all parameters (capital, economic and operating).
More specifically, Corporate Lending activity recorded a very significant increase in the number of transactions made, and in terms of income. In this regard, the Group has qualified as one of the leading banking operators in Italy, taking part in most of the significant transactions in terms of size and strategic scope.

[1] As mentioned above, the Unsecured Green Taxonomy Business Loan is the "catalogue" solution intended primarily for companies whose economic sectors are deemed eligible by the EU Taxonomy and specifically for counterparties subject to "NFRD" Directive 2014/95/EU (companies with more than 500 employees) or companies subject to "CSRD" Directive 2022/2464/EU (companies with more than 250 employees, and/or with turnover exceeding 40 million and/or total balance sheet assets exceeding 20 million.

Activities carried out for Financial Sponsors, an area in which Banco BPM has maintained its leadership position in the SME segment in terms of the number of transactions made, marked a very positive year thanks to the improvement in market conditions and the maintenance of a high flow of transactions. In this regard, it should be noted that a team specialised in smaller transactions, an area given less importance in the past, has been operational since 2023.

Project Finance activity confirmed the performance level recorded in 2022, thanks to the consolidation of relations with several operators, and to the participation in transactions on important infrastructure projects. The solutions developed also in the face of critical issues arising in relation to the geopolitical context are expected to have important and positive repercussions on business in the near future.
Despite the increase in market interest rates, activities in the Real Estate sector also recorded excellent performance during the year, significantly improving on the figures of the previous two years, thanks to the interest of institutional operators, including international ones, in investments in areas in which he Group boasts a privileged competitive positioning.

Over 200 Structured Finance transactions were concluded in 2023, for a total subscribed amount of around 7.5 billion. Of these, over 100 transactions, for over 5 billion in loans subscribed, relate to Corporate Lending. The following categories, in terms of numbers and relative volumes, are Leveraged transactions (around 50 transactions, for over 1 billion), Real Estate transactions (over 30 transactions, for around 800 million), and lastly Project Finance transactions (over 20, for a total of around 650 million).

Global Transaction Banking

Dedicated network and foreign goods unit

Despite the complexity of the geopolitical situation, 2023 maintained a positive trend in international trade and the dedicated unit was able to exploit this growth, significantly increasing its market share, in terms of both exports and imports, providing constant and proactive support to its customers.
This customer support was guaranteed by the dedicated commercial network, made up of more than 60 reference specialists across Italy, who have superior technical and commercial skills and are, therefore, able to best support companies in their internationalisation activities.
On the strength of the positive experience of the previous year, the interesting initiative of the Sales and Trade & Export Credit units continued, concerning the development of the Credito Fornitore [Supplier Credit] product, also improved by the option to discount bills assisted by the Euler Hermes/Allianz policy, as well as by SACE. The collaboration took place both through virtual meetings customised to the specific requests of the individual customer, and with meetings in the presence of limited groups of companies with a common interest in the product, with the special contribution by Simest.

In terms of operational support, Banco BPM Group also has foreign-goods units located throughout the country, more specifically in Milan, Legnano, Verona, Modena, Bergamo and Lucca.
The aforementioned units handle, in particular, operations in documentary credits and documented remittances.
Overall, the Operations unit currently has about 100 members of staff and manages foreign documentary transactions, as illustrated above, with the exclusion of electronic receipts and direct remittances (i.e. the open account area).

Since September 2023, the activities concerning foreign payments and management of international guarantees have been merged into the newly established International Payments & Guarantees unit. This is a single unit based in Milan, which provides these specific services to the entire country.
The common objective is to provide customers with a high-added value service that guarantees consistent returns in terms of commission income, while at the same time carefully and promptly monitoring the considerable technical-operational risks.

Financial Institutions

During 2023, the Financial Institutions Group (FIG) constantly carried out missions abroad to strengthen relations with local counterparties, with the primary purpose of guaranteeing adequate credit facilities to support the import and export activities of customers. In this way, risk assumptions were consolidated and increased, in consideration of the countries and markets of greatest commercial interest, and the monitoring of the financial and socio-political performance of the banks and the lending countries was also strengthened, also thanks to synergies with the offices of Trade Finance Products & Controls and of Banks, Institutions, Entities and the Public Sector.
In order to consolidate and increase the Bank's ability to attract trade finance operations, participation in the trade facilitation programmes of the main supranational banks - EBRD, IFC, ADB - was maintained, as well as the direct membership of B.A.F.T. and I.T.F.A.. The activities carried out by the Representative Offices in Mumbai and Hong Kong, which constantly monitored relations with the banks of the Indian subcontinent and the Asian area, also provided significant support.

Foreign Products and Services - Interactive channels

The development of interactive channels with both information and order functions for the use of business customers that operate and/or intend to operate abroad continued in 2023, with the implementation of tools that are already available. Specifically:

- YouWorld is an information platform that allows companies to access a comprehensive and constantly updated set of information on foreign trade (e.g. political-institutional framework of countries, customs and tax regulations, contractual obligations, calls for tenders, professional lists) and references of potential foreign suppliers or buyers (organised by country, type of goods or services offered). Approximately 900 companies use the service as at December 2023, including Retail and Corporate customers.
- YouLounge is the B2B platform that allows business customers that participate in the Trade Club Alliance to promote their products/services through a virtual display window (business card). All companies interested in expanding their international markets can take advantage of the platform by accessing Banco BPM e-banking. Currently, the geographical coverage of the Trade Club Alliance extends to more than 40 countries, with an audience of almost 24,000 selected companies. As at December 2023, YouLounge counted around 1,500 companies, including Retail and Corporate customers.
- YouTrade Finance is a portal that enables goods operations to be managed online (international guarantees - already operational, documentary credits, operational for the import phase), simplifying and optimising the bank-customer relationship, and able to guarantee maximum security (i.e. the use of digital signatures) through guided procedures. Approximately 460 customers use the service.

Agreements with leading institutions

In order to expand the support to customers that operate in the complex field of internationalisation, Banco BPM has joined numerous associations through its managers specialised in Foreign Operations and Trade Finance (including ICC Italia International Chamber of Commerce, Credimpex Italia and the previously mentioned SACE).
All of this has been done to offer customers professional support based on in-depth knowledge of regulatory techniques and methods, instruments and rules relating to the sphere of international trade.
Regarding relations with the Chambers of Commerce, in 2023 Banco BPM maintained its collaboration with the Italian-Russian Chamber of Commerce.

Trade and Export Finance

The Trade and Export Finance unit encompasses all export finance activities, with the support of SACE/SIMEST: international structured finance transactions with international industrial groups that have significant business or exchanges with Italy, Export Finance transactions to support exports of leading national industries in collaboration with SACE, Trade Finance transactions (such as supplier credit, guarantees and structured trade with insurance support).
In 2023, the desk continued to develop buyer credit transactions with SACE, SACE Push strategy and supplier credit transactions with SACE and Euler Hermes coverage, and closed several important international transactions, both as regards export finance and commodity finance and international corporate, creating new trade relations and consolidating existing relations with industrial groups active in International markets, focusing in particular on Africa and Europe.

It continues to develop activities with global energy traders who, in the face of the diversification of the sources necessary for Italy, find themselves working more intensively with our country and with the main customers.
The focus in the SACE and ECA area was characterised by the expansion of relations with major Italian exporters, with SACE, with Cassa Depositi e Prestiti, with international banks and with international corporations. (Banco BPM mainly operates with senior roles and in the primary market).
In 2023, the desk was able to participate in some financing transactions to support strategic exports. The development of relations with international corporations is always highly selective and aimed at creating the greatest number of commercial opportunities for the Corporate network and investment banking activity.
A particular focus is and will be dedicated to the major players in energy transition and to the new tech verticals. The average size of supplier credit transactions grew considerably, as did the activity in international guarantees with SACE and Euler Hermes coverage.
Since its establishment, the desk has closed about thirty international financing transactions with senior roles; with regard to supplier credit and guarantees, the volumes of closed deals and overall turnover have significantly increased.

Synergy with Banca Akros: financial risk hedging

Significant synergy with Banca Akros continued also in 2023, the latter specialising in Capital Markets (interest rate, exchange rate and commodity hedging) and Investment Banking (Equity Capital Markets, Debt Capital Markets, M&A, Securitisation and Advisory segments).
In particular, in 2023, Banco BPM Group reaffirmed its provision of specialised support to corporate customers in managing interest rate, exchange rate and commodity risks, through the Corporate & Investment Products unit of Banca Akros. This activity is directed towards companies that feature the aforementioned risk hedging needs in relation to their operational management or the structure of their financial statements. In a scenario of growth in Italian investments abroad, there is an increasing need for knowledge and understanding of financial risks on the part of companies. Customers are assisted by a group of sales advisors and specialists, located in different geographical areas, and equipped with superior technical and commercial skills.
During the year, the Group continued to develop new products and services, continuing to strengthen its role as a benchmark for its customers in terms of innovation.
In 2023, the activity remained substantially unchanged compared to the previous year as regards exchange rate and commodity hedges; on the other hand, there was a slowdown in interest rate hedging compared to the previous year, mainly due to a very volatile and rapidly growing interest rate market that saw, especially in the last part of the year, companies taking a wait-and-see approach to hedging, looking for opportunities to reduce interest rates.
In any event, through its sales staff and specialists, the unit continued to forge solid relationships with its customers, by providing services with high added value, even in an increasingly challenging market context.

Synergy with Banca Aletti: Insieme project

With a view to the growth and development of synergies, the Corporate function developed the Insieme project with Banca Aletti, to acquire new Private customers through Corporate channels, by exploiting existing customer relationships within the Group.

Purchase of tax and trade receivables

During 2023, Banco BPM was particularly active, also thanks to the contribution of external technical partners, in the area of services relating to the purchase of trade and tax receivables and incentives, held by Customers also vis-à-vis the Public Administration, including tax credit relating to Decree Law 34/2020 (so-called Super Ecobonus).
The activities performed in this regard seek, first and foremost, to support the production chains using an instrument that in recent years has proven to be particularly effective in optimising a company's working capital.
The experience acquired by the Group in this area is demonstrated above all by its ability to enter into customised agreements with leading companies that wish to optimise the opportunities available to manage supply credit/debt, while at the same time offering effective financial services to their suppliers.
An important market position was achieved in the purchase of tax credits deriving from the so-called Super Ecobonus, an activity that has allowed both private and business customers to take full advantage of the important tax benefits envisaged by the relative decree.
Consolidating its leadership of this specific market was possible also due to an initial phase in which internal procedures were innovated by developing a platform able to facilitate operating aspects in the bank-customer

relationship. This platform will be the subject of an important development plan aimed at full operational digitalisation by 2024.

ESG culture and promotion of Sustainable Finance

Initiatives for corporate customers

In 2023, Banco BPM reconfirmed its attention towards companies that intend to undertake or develop the path towards green transition, not only through ad hoc financing solutions (as previously illustrated), but also by promoting awareness and knowledge of the opportunities available, with particular focus on current regulatory developments.
With this in mind, the sector-based pilot event dedicated to Real Estate was organised by the Corporate Division in collaboration with Banca Aletti in September 2023; the focus of the event, which involved a significant number of operators in the sector (about 80), was: "Architecture and Sustainability in the Milan of the future". Among the topics covered, we draw attention to: ESG constraints and opportunities in the Real Estate area, sustainable building certifications, attractiveness of investments in certified buildings, EU regulations on green construction, green offer for operators in the sector. The debate saw the participation of leading representatives from the world of architecture, politics and trade associations, reflecting the role played by the Group as a facilitating agent in the green transition field for the economic and social system.

Institutional

	2023	2022 (*)	absolute change	% change
Net interest income	163,820	95,420	68,400	71.7%
Financial margin	**163,820**	**95,420**	**68,400**	**71.7%**
Net fee and commission income	46,533	50,575	(4,042)	(8.0%)
Other net operating income	2,170	3,473	(1,303)	(37.5%)
Net financial result	135	(465)	600	-
Other operating income	**48,838**	**53,583**	**(4,745)**	**(8.9%)**
Operating income	**212,658**	**149,003**	**63,655**	**42.7%**
Personnel expenses	(14,178)	(13,884)	(294)	2.1%
Other administrative expenses	(32,014)	(31,113)	(901)	2.9%
Net value adjustments to property, plant and equipment and intangible assets	(322)	(607)	285	(47.0%)
Operating expenses	**(46,514)**	**(45,604)**	**(910)**	**2.0%**
Profit (loss) from operations	**166,144**	**103,399**	**62,745**	**60.7%**
Net adjustments to loans to customers	(3,748)	(564)	(3,184)	564.5%
Net provisions for risks and charges	244	(398)	642	-
Profit (loss) before tax from continuing operations	**162,640**	**102,437**	**60,203**	**58.8%**
Taxation charge related to profit or loss from continuing operations	(53,814)	(33,871)	(19,943)	58.9%
Profit (loss) after tax from continuing operations	**108,826**	**68,566**	**40,260**	**58.7%**
Charges related to the banking system, net of taxes	(10,944)	(13,976)	3,032	(21.7%)
Purchase Price Allocation net of taxes	(21)	(25)	4	(16.0%)
Parent Company's profit (loss) for the year	**97,861**	**54,565**	**43,296**	**79.3%**

(*) The figures relating to the previous year were recalculated to reflect the changes introduced to the breakdown of operating segments and to guarantee a like-for-like comparison with the profiling criteria used for 2023.

Economic performance of the segment

Total operating income for the Institutional segment came to 212.7 million, a marked increase of 63.7 million compared to the previous year (+42.7%).
This change is mainly explained by the increase in net interest income, equal to 68.4 million, while net fee and commission income recorded a decrease of 4.0 million, corresponding to 8%. Operating expenses, amounting to 46.5 million, were up compared to the previous year (+0.2%).
Net adjustments to loans to customers showed a marked increase of 3.7 million compared to 0.6 million in the previous year.

Charges related to the banking system, net of taxes were booked to the income statement of the current year, and amounted to 10.9 million (14.0 million in 2022), as per the Target defined by the Single Resolution Fund. 2023 closed with a net profit of 97.9 million, compared to 54.6 million recorded last year.

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

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

- Institutional Customers, Religious Entities and the Third Sector, to which the following business units report:
  - Institutional Counterparty Managers;
  - Institutional Counterparties (dedicated branch);
  - Third Sector and Religious Institutions.
- Centralised Partnerships with alliances external to the Group;
- Entities and the Public Administration.

Institutional Customers, Religious Entities and the Third Sector

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

Relations with Institutional Counterparties are monitored through a complete service model, which includes managers and specialised employees (bankers) and a dedicated branch, which handles the transactions of the accounts held by Institutional Counterparties Customers.

Institutional customers are broken down by type of SAE (Sector of Economic Activity) as follows (figures as at 31 December 2023):

Type of Entity by SAE (*)	**% Breakdown**
Mutual Investment Funds, Pension Funds and UCITs	18%
SIMs, SGRs and trust companies	7%
Non-banking (Leasing, Factoring) and Consumer Credit companies	6%
Regions, Healthcare Companies, Large Municipalities and Companies Co-owned by the Public Administration	9%
Insurance companies	5%
Bank foundations	2%
Central Government and Constitutional Bodies	2%
Social Security and Social Welfare Entities	2%
Other companies and financial intermediaries	49%
Total	**100%**

(*) *Group companies are not included.*

The unit that handles Institutional Counterparties also manages the transactions performed for Banco BPM Group companies.
With a view to achieving greater efficiency in the management of relationships, the services offered have been harmonised and commercial partnerships have been developed with Banca Akros and Banca Aletti to make the range of services offered to this particular type of customer more complete and specialised.
In 2023, activities related to securitisations intensified, within which Banca Akros acted as arranger and Banco BPM, through the banking book reserved to Institutional customers as purchaser of the senior notes, thus implementing a path complementary to the more traditional one of direct loans, to support the real economy.

Particular attention was paid to the financial support of companies associated with the MEF (Ministry of the Economy and Finance) that operate in the energy and other sectors (i.e. Gestore Mercati Energetici, Gestore Servizi Energetici, CSEA, Invitalia), providing them with operational/financial support, in application of the energy policies and, more generally, of redevelopment, managed by the Italian Government.
Special mention should be made of the activity carried out with institutional investors, who benefit from investment logic in the real economy through AIFs (Alternative Investment Funds), an area in which Banco BPM operates, today directly and, in the near future, through the newly established Banco BPM Invest SGR.

Third Sector and Religious Institutions

Customers belonging to the Third Sector and Religious Entities are represented by Third Sector Entities (TSE) enrolled in the new RUNTS (Single National Register of the Third Sector) and non-profit non-enrolled entities, amateur sports associations, Federations recognised by Coni, as well as dioceses, parishes, congregations and religious orders. The segment also includes trade unions and political parties.
The regulatory framework of the Third Sector is evolving, especially with regard to the activation of the RUNTS: in fact, activities related to the census of third sector entities have been implemented, to capture all the peculiarities of the TSE.

Third Sector and Religious Entities customers are broken down by type of SAE (Sector of Economic Activity)/Legal nature as follows (figures as at 31 December 2023):

Type of Entity by legal nature	% Breakdown
Associations	43%
Foundations	2%
Religious Entities (parishes)	12%
Social Cooperatives	4%
Other entities with or without legal status	39%
Total	**100%**

The Third Sector and Religious Entities represent a central customer segment in terms of interest in ESG issues, and Banco BPM has strengthened its sales efforts towards these customers through a dedicated unit, with specialists in each geographical area of action of Banco BPM.
The most important initiatives of 2023 included:

- economic support measures for investments relating to the NRRP, for social and green transition, and in post-pandemic support, by granting new loans for liquidity needs triggered first by the pandemic and, subsequently, by the energy and inflation crisis, exacerbated by the war in Ukraine;
- the granting of a new loan for social impact projects (so-called Social bonds);
- the management and monitoring of activities relating to the Third Sector Portal, launched in 2021 and dedicated to customers in this segment, which is directly linked to Banco BPM's institutional website. Through this site, customers can contact the dedicated specialist office, which provides advice and facilitates opening new accounts;
- the sponsorship of the fourth edition of the Cantieri Viceversa laboratory, organised by the National Forum of the Third Sector, to ensure the matching of the demand for and the supply of funds between Third Sector entities;
- the activation of an initial experimental pilot project, in collaboration with Rete del Dono and with the Group Foundations created by the former Territorial Banks, to enable crowdfunding to support initiatives and projects of customer associations.

Commercial partnerships with allies external to the Group

The Institutional Customers, Entities and Third Sector Function is also tasked with supervising and coordinating the unit dedicated to centrally managing commercial alliances with partners external to Banco BPM Group.
These alliances are regulated by specific commercial partnership agreements, which envisage a range of products addressed exclusively to the customers of the external alliance, through a dual distribution channel:

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

The activity is managed by a dedicated unit, included within the Institutional Customers, Entities and Third Sector Function, which has 17 branches spread across Italy.
Direct supervision through a wholly dedicated unit enables commercial agreements to be constantly developed in view of legislative changes, better economic returns and better supervision of operational risks especially as regard Anti-Money Laundering Legislation.

The market for the off-site offer of banking products and services through the networks of financial advisors belonging to independent groups has strong potential and the organisational model specifically adopted, together with the know-how acquired to date by Banco BPM have lain the groundwork for the further development of this business.

Entities and the Public Administration

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

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

The Public Sector function is responsible for managing the segment from a commercial, regulatory and administrative perspective. The activity, in relation to the acquisition of relationships and the management of the Public Administration, is conducted with particular focus on the commitments and critical issues that arise, on the limitations of operational risks, of image, of credit and from a commercial perspective.
Banco BPM holds UNI EN ISO 9001:2015 quality certification for the management of treasury and cash services and loans to the Public Administration.

Commercial activities in 2023 entailed providing Public Sector counterparties with products and services able to meet their specific needs. In this regard, increasing attention was paid to activities performed by public investee companies in the water sector, local public transport and the waste disposal cycle sector, due to the clear environmental impacts, based on ESG logic.
The NRRP was the subject of specific focus, given the key role of Public Sector in this context.

Entities and P.A. customers are broken down by type of SAE (Sector of Economic Activity) as follows (figures as at 31 December 2023):

Type of Entity by SAE	% Breakdown
Municipalities - Unions of municipalities	37%
Schools and Universities	22%
Companies Co-Owned and Production Companies of Public Services	25%
Other entities	16%
Total	**100%**

Private

	2023	2022 (*)	absolute change	% change
Net interest income	37,583	4,545	33,038	726.9%
Financial margin	**37,583**	**4,545**	**33,038**	**726.9%**
Net fee and commission income	96,797	97,951	(1,154)	(1.2%)
Other net operating income	5	5	-	-
Net financial result	(1,468)	(438)	(1,030)	235.2%
Other operating income	**95,334**	**97,518**	**(2,184)**	**(2.2%)**
Operating income	**132,917**	**102,063**	**30,854**	**30.2%**
Personnel expenses	(62,563)	(57,159)	(5,404)	9.5%
Other administrative expenses	(17,489)	(15,259)	(2,230)	14.6%
Net value adjustments to property, plant and equipment and intangible assets	(5,314)	(3,501)	(1,813)	51.8%
Operating expenses	**(85,366)**	**(75,919)**	**(9,447)**	**12.4%**
Profit (loss) from operations	**47,551**	**26,144**	**21,407**	**81.9%**
Net adjustments to loans to customers	(265)	541	(806)	-
Net provisions for risks and charges	(6,360)	(4,665)	(1,695)	36.3%
Profit (loss) before tax from continuing operations	**40,926**	**22,020**	**18,906**	**85.9%**
Taxation charge related to profit or loss from continuing operations	(14,010)	(7,643)	(6,367)	83.3%
Profit (loss) after tax from continuing operations	**26,916**	**14,377**	**12,539**	**87.2%**
Charges related to the banking system, net of taxes	(717)	(963)	246	(25.5%)
Purchase Price Allocation net of taxes	(2,314)	(2,490)	176	(7.1%)
Parent Company's profit (loss) for the year	**23,885**	**10,924**	**12,961**	**118.6%**

(*) The figures relating to the previous year were recalculated to reflect the changes introduced to the breakdown of operating segments and to guarantee a like-for-like comparison with the profiling criteria used for 2023.

Economic performance of the segment

Total operating income for the Private sector came to 132.9 million, up 30.9 million (+30.2%) compared to the previous year.
Within this aggregate, the net interest income was up compared to 2022 (+33.0 million). Net fee and commission income, amounting to 96.8 million, recorded a decrease of 1.2 million compared to last year.
Operating expenses, amounting to 85.4 million, recorded an increase of 9.4 million, with personnel expenses of 62.6 million, value adjustments to property, plant and equipment and intangible assets of 5.3 million and other administrative expenses amounting to 17.5 million.
The income statement of the segment in question also includes net provisions for risks and charges of 6.4 million, up by 1.7 million compared to 2022. Instead, charges related to the banking system, net of taxes were 0.7 million euro (1.0 million in the previous year).
Also considering the negative contribution of the PPA (Purchase Price Allocation) of -2.3 million, the Private business segment closed with a profit for the year of 23.9 million, with an increase of 13.0 million against 2022.

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

At the end of 2023, the Private Banking Network of Banca Aletti recorded a global amount of "assets under management" (direct funding, administered and managed assets) of 25.6 billion, up against 2022 by around 3 billion; the figure does not include the marginal liquidity positions of private customers of Banca Aletti with accounts at Banco BPM.
In an extremely complex situation due to the economic and financial consequences of the conflicts in Ukraine and in the Middle East, the year was characterised by an increase in operating income in the Private Customer segment compared to the previous year.
The increase in income was the result of the good quality of the investment portfolios, the assiduous advisory activities of the Private Customer Network and the entry of a considerable portion of new funding, approximately 1

billion. Maintaining a high level of delegation allowed the quality of the portfolios to be guaranteed, mainly through high quality asset management solutions.
The international scenario of extreme uncertainty, combined with the consolidation of positive returns on interbank monetary rates and on the yield curves of many bond markets, confirmed the definitive recovery of bond investments that began in 2022.
In fact, the search for returns led investors to move large amounts of assets from direct funding (current accounts in particular) to administered assets.
The many actions and strategies aimed at increasing volumes in the medium term and expanding the customer scope provided comforting results in terms of net funding, as already mentioned, both as regards private and institutional customers.
In line with Banco BPM's strategic plan, which envisages an increasingly pervasive approach to cross selling, the year saw the continuation on a national scale of the new model for synergy with the Corporate and Business world. In the course of 2023, partnerships in the territory, which included the presence of Private Branches, Corporate Centres and Business Centres, yielded around 400 million in net funding.
Collaboration with Banca Akros and with Corporate and Investment Banking generated considerable synergy.
To support development activities, in line with the strategy of previous years, efforts were made, in agreement with the Parent Company, to create opportunities to meet both potential customers and existing customers by organising a widespread network of local events. These meetings involved the participation of General Management and partner companies to provide customers with a comprehensive view of the financial market and to explain, in a simple but complete way, how portfolios are constructed in relation to the current situation.

The new territorial model of the Private Banking Network implemented in 2022 continued to be adopted, with the involvement of new individuals both within the main management bodies and through a dedicated training plan aimed at managerial growth.

To further confirm the central role of human resources in the Bank's business model, during the year training was boosted considerably (not only through digital tools): 2023 saw the continuation and consolidation of the significant activities of the previous year, which focused on two main areas within the Aletti Academy, represented by knowledge-enabling course in technical/commercial/soft skills and managerial skills.
In addition, various training sessions were dedicated to strengthening specific skills in the areas of wealth management, family business and useful reporting.

Investment Banking

	2023	2022	absolute change	% change
Net interest income	47,798	56,509	(8,711)	(15.4%)
Financial margin	**47,798**	**56,509**	**(8,711)**	**(15.4%)**
Net fee and commission income	59,274	50,237	9,037	18.0%
Other net operating income	(225)	962	(1,187)	-
Net financial result	37,461	13,278	24,183	182.1%
Other operating income	**96,510**	**64,477**	**32,033**	**49.7%**
Operating income	**144,308**	**120,986**	**23,322**	**19.3%**
Personnel expenses	(30,040)	(29,590)	(450)	1.5%
Other administrative expenses	(71,244)	(60,478)	(10,766)	17.8%
Net value adjustments to property, plant and equipment and intangible assets	(546)	(370)	(176)	47.6%
Operating expenses	**(101,830)**	**(90,438)**	**(11,392)**	**12.6%**
Profit (loss) from operations	**42,478**	**30,548**	**11,930**	**39.1%**
Net adjustments to loans to customers	2	111	(109)	(98.2%)
Net adjustments to securities and other financial assets	106	(68)	174	-
Net provisions for risks and charges	39	(83)	122	-
Profit (loss) before tax from continuing operations	**42,625**	**30,508**	**12,117**	**39.7%**
Taxation charge related to profit or loss from continuing operations	(11,565)	(9,227)	(2,338)	25.3%
Profit (loss) after tax from continuing operations	**31,060**	**21,281**	**9,779**	**46.0%**
Charges related to the banking system, net of taxes	(2,178)	(2,556)	378	(14.8%)
Parent Company's profit (loss) for the year	**28,882**	**18,725**	**10,157**	**54.2%**

Economic performance of the segment

Banca Akros exclusively carries out specialised activities with qualified counterparties and professional customers, which qualify it as a "factory" of Corporate and Investment Bank products.
The 2023 financial year saw the continuation of the activities carried out in the various units responsible for operations on the markets, which starting from July 2023, are represented in particular by five areas of activity: Global Markets, Corporate & Investments Products, Corporate Finance, Cross Assets Products & Solutions and Brokerage.
During the year, the project for the demerger in favour of the Parent Company Banco BPM of the set of assets and resources organised for the performance of "Proprietary finance" activities was also launched; the demerger took effect for legal, accounting and tax purposes from 1 January 2024.

An analysis of the reclassified income statement as at 31 December 2023 (without considering the methods of presentation in the financial statements - present in the statutory statements - envisaged by accounting standard IFRS 5 for assets held for sale) shows that the operating income of the Investment Banking BU was 144.3 million, higher than the 121.0 million recorded in 2022.

The increase in operating income concerned all of Banca Akros' business areas. In particular, the greater volatility that characterised the financial markets throughout 2023 was accompanied by an increase in volumes brokered by the Brokerage Division and in revenues relating to the Proprietary Trading of the Global Markets Division; Revenues from Certificates placed on the Group's Network and Third Party Networks also had a positive impact on the latter and on the Corporate & Investment Products Division. The positive contribution of the Debt Capital Markets area is worth noting, which recorded a strong increase in revenues compared to the previous year, also thanks to two transactions as Co-Dealer made with the Ministry of Economy and Finance in the placement of BTP Italia and BTP Valore.
The Corporate Finance Division recorded slightly lower results compared to the previous year, due to a generalised slowdown in 2023 in the entire M&A segment; it closed the year with revenues of 8.4 million, which also benefited from the contribution of the investee Oaklins Italy S.r.l., the latter more focused on cross-border Merger & Acquisition activities.
Oaklins Italy S.r.l. closed 2023 with a net profit for the year of 489 thousand.
During the year, the activity of the Cross Asset Products & Solutions Division began, which contributes to developing commercial activities, with particular reference to domestic and foreign "non-captive" customers, including

institutional customers, qualified counterparties, private funds, sovereign funds and family offices, through the sale of products, services and solutions, including investment solutions, with a view to achieving the best commercial and economic results. Operating income was higher than the previous year in FX activities (spot, forwards and options) recording volumes of 1.7 billion.
Flows of repurchase agreements on government securities also increased, as did securities lending on equity and fixed income.
Thanks to its sales staff, the unit has forged, together with the Group, solid commercial relationships with its institutional customers, providing services with high added value, in a market context characterised by strong competition from major Italian and foreign banks.

Operating expenses, amounting to 101.8 million, increased compared to 90.4 million in the previous year. Against substantial stability in personnel costs, other administrative expenses recorded an increase also linked to the increase in prices.

Profit (loss) before tax from continuing operations amounted to 42.6 million (30.5 million in 2022) and the net profit for the year, after taxes due in the period and net charges relating to the contribution to the banking system, amounted to 28.9 million, up compared to 18.7 million in the previous year.

The "Investment Banking" segment includes the structuring of financial products, access to regulated markets, and the support and development of specialised financial services, carried out by Banca Akros and by the subsidiary Oaklins Italy S.r.l., which operates in the Mergers & Acquisitions consulting business.

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

Corporate & Institutional Banking

During the year, the specialist commercial coverage and development activities of Corporate & Financial Institutions customers, in relation to the specialist products and services offered by the C&IB Division of Banca Akros, continued successfully, in coordination with the Parent Company.
In particular, thanks to the service model that envisages, for hedging products, sales staff and specialists to support the Parent Company's managers, transactions on financial risk hedging instruments were effectively monitored, with particular attention to customer service and development for both retail and corporate areas. During the year, cash flows on derivative products amounted to a total notional value of around 7.5 billion for exchange rate and commodity risk hedges and around 3.2 billion for interest rate risk hedges on the underlying loans at floating rate, mainly disbursed by Banco BPM. Operating income was substantially in line with the previous year in exchange rate activities (spot, forwards and options) and in commodities. On the other hand, there was a slowdown in income from hedging transactions on interest rates, both for corporate customers and for businesses, mainly due to a very volatile market and a sudden rise in interest rates, especially in the first few months of the year.
Thanks to its sales staff and specialists located in Corporate Centres in Italy, the structure has forged, together with the Group, solid commercial relationships with its customers, providing services with high added value, in a market context characterised by strong competition from major Italian and foreign banks. Banca Akros continued to develop new activities, services and technical hedging solutions on interest rate and exchange rate risks, confirming its status as a benchmark in terms of innovation to the benefit of the customer.
The Bank improved its portfolio of products for financial risk management for businesses by including instruments that allow them to hedge the risk of fluctuations in gas which, both nationally and internationally, represents one of the main risks that businesses, especially those belonging to the energy-intensive sector, have had to deal with in recent times. It also continued to support companies in managing the risk related to fluctuations in oil and its derivatives as well as in precious and base metals.

In 2023, total Investment Certificates structured by Banca Akros amounted to approximately 2,056 million, of which 1,741 million placed by Banco BPM Group networks and 316 million by third-party networks. Compared to 2022, volumes increased. In a year characterised by the high volatility of interest rates and by rising stock markets, the placement of Certificates was characterised by the prevalence of products with unconditional capital protection, not only for the Banco BPM Group network, but also for the third-party distribution networks.
In the last part of the year, Banca Akros structured the first equity-linked bond issued by Banco BPM and addressed to Group customers.

In Debt Capital Market activities, note the return of Public Subscription Offers (PSO) addressed to the retail public: in January, the Bank participated in the PSO of the Sustainable Linked Bond issued by ENI S.p.A., for a total of 2,000 million at 5 years, in the capacity of Guarantor and Lead Manager; in November, in the PSO of Cassa Depositi e Prestiti S.p.A., of 2,000 million at 6 years, as placement agent.
In the corporate issuers segment, Banca Akros participated in the placement with institutional investors of the following new bond issues: as Joint-Bookrunner for ENEL S.p.A., Sustainable Linked Bonds, 8- and 20-year dual-tranches of 750 million each; for the inaugural issue of Alperia S.p.A., Green Bond, 500 million at 5 years; for Aeroporti di Roma S.p.A., Sustainable Linked Bond, 400 million at 10 years; and for Cassa Depositi e Prestiti S.p.A., 500 million at 7 years. As Other-Bookrunner for HERA S.p.A., Sustainable Linked Bond, at 10 years of 600 million; and for Austostrade per l'Italia S.p.A., Sustainable Linked Bond, 750 million at 10 years. In addition, again for corporate issuers, the DCM participated as Joint Bookrunner in the following High-Yield bonds: Engineering S.p.A. (Centurion Bidco S.p.A.) 11.125% 385 million two 2028; Adler Pelzer Holding GmbH 9.50% 400 million two 2027; Lottomatica S.p.A. 7.125% 565 million two 2028 and Floating Rate Notes 550 million two 2028; Piaggio S.p.A., 6.50% 250 million due 2030; and Lottomatica S.p.A., Floating Rate Notes 500 million two 2030.
Again in the corporate sphere, the Bank participated in two public offerings of sale with direct distribution on the MOT intended for the general public in Italy and qualified investors abroad. These are the Sustainable Linked Bond issue of Maire Tecnimont S.p.A., 6.50% 200 million and maturity 2028, and the Green Bond issue of Alerion S.p.A., 6.75% 170 million and maturity 2029.
In the Financial Institutions segment, Banca Akros participated, as Joint-Bookrunner, in the placement of the following bond issues of the Parent Company Banco BPM S.p.A., placed with institutional customers: Senior Preferred Green Bond 4.875% maturing in 2027, for a total of 750 million; Senior Non-Preferred Green Bond 6% maturing in 2028, for a total of 750 million; Covered Bond 3.75% maturing in 2028 for a total of 750 million; Covered Bond 3.875% maturing in 2026 for a total of 500 million; Additional Tier 1 9.50% PNC 5.5 of 300 million, associated with a Liability Management transaction with Tender Offer on the AT1 security 8.75% PNC 5; and Senior Preferred Social Bond 4.375% maturing in 2027 of 500 million.
In addition, the Bank participated as Joint Lead Manager in the Covered Bond of Banca Popolare di Sondrio S.p.A., 4.125% of 500 million and maturing in 2028, in the placement of the Class A1 bond of 320 million of the Sunrise 2023-2 securitisation originated by Agos Ducato S.p.A., and the Senior Non Preferred Green Bond of Credit Agricole S.A., for 1,250 million, 4.375% and maturing in 2033.
Banca Akros also participated with minor roles in fifteen transactions of leading Italian and foreign financial institution issuers.
Banca Akros was also involved in four issues by leading supranational issuers, such as the European Investment Bank (EIB) and the German bank, Kreditanstalt Für Wiederaufbau (KFW).
Lastly, Banca Akros participated as Co-Dealer in the 19th issue of BTP Italia, with a duration of 5 years, issued for an amount of 9.9 billion, as well as in the first and second issues of BTP Valore, with a duration of 4 years and 5 years respectively and amounting to 18 and 17 billion each.

In the Securitisation & Structuring Solutions segment, and with particular regard to performing securitisations, we draw attention to the participation of the Bank, as Joint Arranger, in the following "STS" securitisation transactions: "Sunrise 2023-1" and "Sunrise 2023-2", two consumer credit securitisations originated by Agos Ducato, amounting to approximately 1,200 million and 900 million respectively.
Banca Akros also assisted Alba Leasing S.p.A. as Joint Arranger, in the "STS" securitisation of receivables deriving from "Alba 13 SPV S.r.l." lease contracts, for an amount of approximately 1,239 million.
The Bank acted as Co-Arranger in the "STS" warehouse securitisation of receivables originated by Banca Privata Leasing S.p.A. deriving from instrumental, vehicle and real estate lease contracts, "Tricolore 2019 S.r.l." for a maximum amount of approximately 260 million.
Note also the participation of the Bank with the role of Arranger in the securitisation of receivables originated by Banca di Cambiano 1884 S.p.A. and deriving from loans to SMEs guaranteed by the Guarantee Fund, "Pontormo SME 2023 S.r.l." for an amount of approximately 122 million.
The Bank also acted as Arranger in the "STS" securitisation of loans originated by Sanfelice Banca Popolare 1893 S.c.p.a. and deriving from residential mortgage loans, "Sanfelice Finance S.r.l." for an amount of approximately 95 million, and as Arranger in the "STS" securitisation of loans originated by Banca Valsabbina S.c.p.a. and deriving from residential mortgage loans, "Golem SPV S.r.l." for an amount of approximately 125 million.
In the performing corporate securitisation segment, it should be noted that the Bank assisted Optima Italia S.p.A., as Arranger, in its first securitisation of receivables deriving from the supply of electricity, gas and telecommunications services for a total of 25 million, and Melchioni S.p.A. in its first securitisation of receivables deriving from the sale

of electronic components and products. The Bank also assisted a company and its subsidiaries operating in the supply of electricity and gas, as Arranger, in their first securitisation for a total of 40 million.

Trading and market making activities on own account

The last weeks of 2022 had been characterised by a recovery in the markets in the wake of inflationary data that signalled, especially in America, but also in Europe, the probable achievement of a peak in CPI.
Government yields, especially on the longer maturities of the curve, had reached new lows for the period with curves further flattening. The movement was amplified by the illiquidity of the market and facilitated by the absence of new issues on the primary market, which were instead expected to be copious in the first few months of 2023. In this context, there was a further progressive good performance of the peripheral governments, in line with that of equity and risk assets.

In 2023, the stock and bond markets recovered most of the losses incurred in 2022.
The MSCI index recorded an increase of 15% from the beginning of the year, while the main government bond indices of the developed and corporate markets showed returns of between +5% and +10%.
The fate of the financial markets in 2023 was mainly driven by expectations on the outlook for the monetary policies of the main global central banks and estimates of their potential effects on the performance of economic growth and inflation.
This assumption was supported by inflation data both in the United States and in the Eurozone. The growth in consumer prices in the United States, in fact, fell to 3.1% in November 2023 from the peak of 9.1% in June 2022, while in the Eurozone, in the same month, it recorded 2.4% against the peak of 10.6% in October 2022.
Despite the positive scenario for the stock markets, the performance of the major international indices was characterised by marked variability.
Among the major global stock indices, the best performance was recorded by the Nasdaq, up by more than 37%. The index benefited in particular from the boom of the seven shares with the highest capitalisation (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla), which investors focused on, mainly due to the leading role they play in the development of artificial intelligence.

Also in Europe, the Eurostoxx performed well, despite fears over the growth prospects of the Eurozone. The best European stock market of 2023 was the Italian one, driven by the performance of Unicredit (+82%) and Bper (+60%), whose results recorded a strong boost from the rise in net interest income.
The Euro managed to appreciate against most of the currencies of developed countries, losing ground only against the Swiss Franc and the British Pound, which appreciated against the single currency by 4.5% and 3.2%, respectively.
The worst currency was the Yen, penalised by the accommodating monetary policy adopted by the Bank of Japan, while the main Western central banks, including the Federal Reserve and the ECB, remained restrictive during the year.
Within a context of renewed confidence in the bond market, thanks to the aforementioned restrictive monetary policies implemented by the main central banks, the market-making activity of the fixed income segment recorded higher volumes than in 2022. In particular, the market-making activity on sovereign debt recorded the best performance, with an increase in volumes of 45% YoY.
The structuring of products for the offer of hedging to Corporate customers recorded a drop in volumes of around 30% YoY, mainly due to the slowdown of the European economy in a context of rising inflation.

On the equity markets, the market-making activity of certificates improved compared to 2022, recording an increase of approximately 11% for Investment Certificates and of approximately 190% for Certificates issued under Direct Listing. Market-making activity on equity, listed and OTC derivatives was down, with a drop in profitability of around 45%, mainly due to lower primary and secondary activity with the existing customer base and only partially offset, in the second half of the year, by new operations with new institutional customers. Proprietary equity trading was particularly limited, due to the sharp reduction in volatility levels thanks to the upward trend that characterised equity markets throughout 2023.

The structuring of investment products was also affected by changes in the economic context. The nominal amount of certificates issued in 2023 increased by 20% compared to 2022, while the marked decrease in the notional value relating to total return swaps with underlying shares is worth noting, due to the low volumes placed by the Network in relation to structured equity funds. Also in 2023, the Bank continued to pursue its policy of diversifying the underlying assets, with positive effects both on risk management and on the prices shown to customers

Market-making activities in the foreign exchange market increased compared to the previous year. Proprietary trading in FX and commodities also recorded much better results than expected.

Brokerage and financial research activities

A very weak fourth quarter of 2022 (note the 13.3% drop in our main index) had projected widespread negativity in the expectations of analysts of the main global brokerage and investment houses for 2023. This negativity was also fuelled by a trend in inflation that was still on the rise at the end of the year, and by a cycle of rate hikes that had just begun.
However, during the year, with the easing of commodity volatility, and the consequent drop in inflation, investors gradually changed their market view, resulting in a more constructive vision; all this translated into a significant performance of the FTSE MIB which, led by the bankers, closed 2023 with a significant +28% at 30,351, the maximum value since December 2008.
However, the glass can only be seen as half full because the Small Caps sector saw a less brilliant performance with the FTSE Star index growing “only” by 3.34% and the FTSE Italian Growth instead falling by 10.2%. The negative phenomenon of the second part of 2023 was in fact the outflow of assets from so-called PIR funds, which led to the decline of small caps. At the beginning of December 2023, Assogestioni reported that, in the second quarter, ordinary PIRs recorded outflows of 610 million, while alternative PIRs showed inflows of 0.7 million (note that at the end of June, ordinary PIRs managed 17.5 billion assets and alternative PIRs 1.5 billion assets).

As regards specialist and corporate broker services for issuers listed on the stock markets, 29 mandates were recorded, compared to 32 as at 31 December 2022, stable without considering the delistings during the year. Of the 29 mandates currently in place, 8 are with companies listed on the Euronext Milan, 11 with companies listed on the Euronext STAR Milan (formerly STAR) and 10 with companies listed on the Euronext Growth Milan market.
In 2023, the equity research team produced around 150 single-topic reports and over 2,200 daily comments on the roughly 110 securities hedged; the sponsored research segment continued to give satisfaction with around 30 contract issuers. Marketing activities accelerated with about one hundred corporate events, during which investors and issuers met through the Bank.

With regard to bond products, the Bank reached second place overall in third-party brokerage on the fixed-income market of Borsa Italiana (Source: AMF Italia), with total trading volumes representing 25.77% for the whole of 2023 (29.24% in 2022). More specifically, the value of brokerage on behalf of third parties enabled Banca Akros, to confirm first place on the Borsa Italiana Euronext EMOT market for the whole of 2023, with 33.95% (Source: AFM Italia). Again with reference to the bond markets, Banca Akros came in second on the Domestic MOT (24.78% share), Euronext Access Milan (20.38% share), ETLX (22.84%) and Vorvel (18.74%) markets.
Banca Akros also holds third place on the ETF (ETFPLUS) market and on the Certificates SEDEX market, with a market share of 12.10% and 13.61%respectively. The excellent performance on the ETF market was achieved thanks to the commercial strength of the Bank and the technological investments made in the past on proprietary platforms such as SABE ETF. Note also the significant value of orders executed on alternative execution venues, not yet included in the association’s statistics; their inclusion, according to available estimates, would push Banca Akros into the first absolute position with regard to transactions on bonds and ETFs.
Trading on the energy derivatives markets declined during the year. The experience of 2022 has prompted companies in the energy sector to offer end customers a variable and non-fixed price of supply in a context of downtrending markets. This led to a lower need for hedging on regulated markets
Banca Akros continued to support market players by expanding the offer of marketable products.
In terms of volumes, there was an increase in market share from 3.89% to 5.17% in index options, with a fourth absolute position compared to the sixth position held in 2022.

Corporate Finance

M&A activities on medium-sized enterprises were affected by macroeconomic issues, as well as by the changed geopolitical contexts, which influenced the execution of the mandates in the “pipeline”; nevertheless, Banca Akros has intensified its focus on its M&A/Corporate Finance activities, acquiring new “sell side” and “buy side” assignments with family businesses and Private Equity funds.

With reference to the activities completed during the year, the following should be noted:

- transactions with private equity funds: the acquisition of U-Power by NB Renaissance, the sale of a minority stake in RINA to Fondo Italiano di Investimento, the acquisition of Reevo by White Bridge and the acquisition of Mapel by Rino Mastrotto (NB Renaissance);
- with reference to activities with Corporate Customers, assistance to Anima for the acquisition of Castello SGR, assistance to Abaco, the majority shareholder of Exprivia in the tender offer on the same, the agreement between Gardant and AMCO and the BPER group for the creation of a strategic partnership to manage non-performing loans, as well as the acquisition by SAPA of two assets in the Netherlands and Estonia;
- with reference to activities with Business Customers, the sale of KFC Italy to operators interested in the development of the chain, the offer of the share capital of BeDimensional, active in the production of graphene, to institutional investors;
- with reference to fairness opinions, note those issued to Hera for the merger by incorporation of the subsidiary Asco into Acantho, and that issued to Anima for the acquisition of Castello SGR.

With regard to the activities carried out by Oaklins Italy, wholly owned by Banca Akros, note the conclusion of three M&A "sell side" transactions, namely La Spiga Food to the Morato group, Massimo Zero to the Morato group and GL Industry to the DayDayCook group, as well as four "buy-side" transactions, in particular the acquisition of D&V Serramenti by Sciuker Frames, of Mi-Metal by Cherubini, of OEM Parts by Zephyr and of Anya Cosmetiques by Sifarma.
Cross-selling activities between Banca Akros and the Parent Company Banco BPM increased, in particular with Structured Finance, Lending Corporate Origination, Corporate Centres, Territorial Departments, Third Sector Department, as well as with Banca Aletti.

With regard to Equity Capital Markets, the Bank acted as Global Coordinator and Euronext Growth Advisor Sponsor in the IPO of International Medical Devices on the Euronext Growth Milan market and as Joint-Bookrunner in the IPO of Lottomatica on the Euronext Milan market. Banca Akros, inter alia, also acted as Intermediary in charge of Coordinating the Collection of Subscriptions in the public purchase offers on Prima Industrie, Sababa Security, Cover 50, Reevo and Exprivia (in the last two, also as Financial Advisor). Lastly, Banca Akros acted as Euronext Growth Advisor on behalf of Industrial Stars of Italy IV in the Business Combination with Sicily By Car and as Bookrunner in Saipem's Convertible Bond.
The collaboration with the Bank's Brokerage/Sales Team continued to be fundamental.

Investment Banking

The Cross Asset Products & Solutions unit contributes to developing commercial activities, with particular reference to domestic and foreign "non-captive" customers, including institutional customers, eligible counterparties, private funds, sovereign funds and family offices, through the sale of products, services and solutions, including investment solutions, with a view to achieving the best commercial and economic results.
During the year, the commercial coverage and development activities of all Financial Institutions customers in relation to the specialist products and services offered by Banca Akros, in coordination with the Parent Company, continued successfully, recording significant growth.
In particular, thanks to the service model that envisages, for hedging products, sales staff and specialists to support the Parent Company's managers, transactions on financial risk hedging instruments were effectively monitored. Operating income was higher than the previous year in FX activities (spot, forwards and options) recording volumes of 1.7 billion.
Flows of repurchase agreements on government securities also increased, as did securities lending on equity and fixed income.
Thanks to its sales staff, the unit has forged, together with the Group, solid commercial relationships with its institutional customers, providing services with high added value, in a market context characterised by strong competition from major Italian and foreign banks.

In 2023, total Investment Certificates structured by Banca Akros amounted to approximately 2.1 billion, of which 1,741 billion placed by Banco BPM Group networks and 316 million by third-party networks, falling within the CAP&S perimeter.

Compared to 2022, the volumes of Investment Certificates issued by Banca Akros and placed by third-party networks (non-captive) saw an increase of more than 50%, thanks to greater competitiveness in the structuring of the product and to the strengthening of commercial activities towards customers-distributors.

As regards the core business of trading in the secondary bond market, the cash flows from institutional customers in the segments of Government, Supranational and Agency securities, as well as from Corporate and Financial issuers, were in line with 2022, recording volumes of over 7 billion.
The positive contribution of the so-called "flow business" from institutional and professional investors in the segment of OTC equity derivatives, which generated volumes for Banca Akros of over 1 billion, was also confirmed.
The distribution of issues on the primary bond market to institutional investors was significant, with the active participation in the placement of medium/long-term bonds of leading Financial and Corporate issuers, as well as the placement of some MEF issues (see the paragraph "Investment Banking").

Insurance

	2023	2022 (*)	absolute change	% change
Net interest income	(95)	(39)	(56)	143.6%
Gains (losses) on interests in associates and joint ventures carried at equity	28,440	(16,101)	44,541	-
Financial margin	**28,345**	**(16,140)**	**44,485**	
Other net operating income	3,955	1,171	2,784	237.7%
Profit (loss) on insurance business	45,851	21,702	24,149	111.3%
Other operating income	**49,806**	**22,873**	**26,933**	**117.8%**
Operating income	**78,151**	**6,733**	**71,418**	**-**
Personnel expenses	(2,026)	(1,638)	(388)	23.7%
Other administrative expenses	(11,873)	(4,347)	(7,526)	173.1%
Net value adjustments to property, plant and equipment and intangible assets	(7)	(596)	589	(98.8%)
Operating expenses	**(13,906)**	**(6,581)**	**(7,325)**	111.3%
Profit (loss) from operations	**64,245**	**152**	**64,093**	**-**
Net provisions for risks and charges	(34)	(3)	(31)	-
Profit (loss) before tax from continuing operations	**64,211**	**149**	**64,062**	**-**
Taxation charge related to profit or loss from continuing operations	(7,926)	(4,000)	(3,926)	98.2%
Profit (loss) after tax from continuing operations	**56,285**	**(3,851)**	**60,136**	**-**
Parent Company's profit (loss) for the year	**56,285**	**(3,851)**	**60,136**	**-**

(*) The figures for the previous year were restated following the retrospective application of IFRS 17 and IFRS 9 for the insurance companies owned by the Group.

The Insurance sector is the segment in which the contributions to the consolidated financial statements of the interests held in Banco BPM Vita, Banco BPM Assicurazioni, Vera Vita and Vera Assicurazioni converge.
The strategy to strengthen Banco BPM Group's business model, which - in line with its strategic plan - envisages the internalisation of the "Life" insurance business, which has already started with the acquisition of the entire share capital of Banco BPM Vita from Covéa in 2022, and the activation of a strategic partnership with Crédit Agricole Assurances S.A. ("CAA") in the bancassurance, Non-Life/Protection sectors, saw an evolution during 2023, which can be represented as follows.
On 29 May 2023, Banco BPM had exercised the call option vis-à-vis Generali Italia - envisaged in the agreements signed at the time with Cattolica Assicurazioni - on 65% of the share capital of Vera Vita S.p.A. and Vera Assicurazioni S.p.A., Companies in which Banco BPM already held a 35% interest. On said date, Vera Vita S.p.A., in turn, held the entire share capital of Vera Financial DAC, an Irish insurance company, while Vera Assicurazioni held 100% of the share capital of Vera Protezione S.p.A..
Following the exercise of this option, by virtue of the partnership signed in December 2022 between Banco BPM S.p.A. and CAA, and by virtue of the transactions concluded on 14 December 2023, after having obtained all the necessary authorisations:

- Banco BPM Vita S.p.A. acquired full control of Vera Vita S.p.A. (by acquiring the interest of 65% from Generali Italia S.p.A. and of 35% from the parent company Banco BPM S.p.A.) and therefore, indirectly, of Vera Financial DAC (now renamed BBPM Life DAC);

- CAA acquired the interests equal to 65% of the share capital of Banco BPM Assicurazioni S.p.A. (the minority interest, equal to 35%, remained with Banco BPM Vita) and of Vera Assicurazioni (the latter, subordinately after the repurchase by Banco BPM of the interest, also equal to 65% of the share capital);
- Banco BPM Vita S.p.A. acquired the 35% minority interest in Vera Assicurazioni S.p.A. from Banco BPM S.p.A..

As a result of the above-mentioned transactions, the Banco BPM Vita Insurance Group is therefore comprised by the Parent Company Banco BPM Vita S.p.A., and the subsidiaries Vera Vita S.p.A. and BBPM Life DAC. There are also 35% interests in Vera Assicurazioni S.p.A. and Banco BPM Assicurazioni S.p.A..

With regard to the above, in terms of the Balance Sheet, Banco BPM Vita and Vera Vita are consolidated on a line-by-line basis, while Banco BPM Assicurazioni and Vera Assicurazioni are consolidated using the equity method.
In terms of the Income Statement, on the other hand, Banco BPM Vita and Banco BPM Assicurazioni are consolidated on a line-by-line basis, while Vera Vita and Vera Assicurazioni are consolidated using the equity method.
Lastly, it should be noted that the consolidation of the results of Banco BPM Vita and Banco BPM Assicurazioni, in 2022, began on 1 July, therefore the comparison is not like-for-like.

Economic performance of the segment

The mission of the Banco BPM Vita insurance Group is to synergistically develop the offer of insurance products for Banco BPM Group customers.
On average, the market performance of almost all asset classes was uncertain and volatile for the first ten months of the year, and then recovered in the last two months, both on the stock and bond market fronts.
Segregated Funds showed a reasonable level of profitability also in the year just ended, but offering lower yields than those of Italian government securities which, as already highlighted, recorded significant increases in 2022 and 2023. The decline in market yields in the last months of 2023 was not sufficient to restore competitiveness to the yields of Segregated Funds, which, moreover, continue to show significant latent losses.
In any event, it should be noted that the trend in the average minimum rates to be retroceded to the policyholders is continuously decreasing. The financial choices were made on the basis of the recommendations of the ALM and Investments Committees, the asset diversification promoted by the Board of Directors and the ALM indicators, with a view to a correct balance of the Portfolios. The Company’s Risk Appetite and therefore the restrictions relating to capital absorption were taken into consideration.

The main technical trends of the segment are illustrated in summary form and on an annual basis.

Despite the above difficulties identified, the gross production of the group in the period stood at substantial levels. An increase compared to that recorded in the same period of the previous year. Total direct funding from insurance business, amounting to 1,021 million (values expressed in accordance with ITA GAAP standards), actually showed an increase (17.04%, equal to +174 million) in the twelve-month period.
In particular, the Life premiums of the Banco BPM Vita Group, amounting to 984 million, showed an increase of 20.98% compared to the previous year, attributable to the sale of new traditional Class I products (+28%). On the other hand, premiums on pension products and unit-linked products were down slightly by approximately 1%.
Non-Life business premiums amounted to 37 million, up by around 8% compared to 2022. In particular, the growth mainly regarded Accident and Health guarantees linked to protection products, which recorded an increase of approximately 2.4 million.
The operating income of the Insurance BU amounted to 78.2 million, mainly due to the result of insurance activities (45.9 million) and the equity gains of Vera Vita and Vera Financial (28.4 million).
Operating expenses amounted to 13.9 million, with a significant impact on the expenses incurred for the adaptation to the new accounting standards IFRS 17 and IFRS 9 and the expenses relating to the transfer to the new company headquarters. After spending approximately 8 million in taxes, a profit of 56.3 million was recorded.

Bancassurance business

The year just ended certainly saw a wealth of initiatives, both in terms of product innovation and marketing and commercial actions to support the dissemination of insurance products.

Two new unit-linked products were designed, created and made available to the distribution network during the first and second halves of the year. The insurance solutions were placed for a limited period of time. Built in collaboration with Banca Aletti and Anima SGR, they received different levels of appreciation from Banco BPM customers.
In addition to the innovations concerning Class III, in the second half of the year, a successful revaluable product, "BPMVita Coupon plus", was revised and made available to the sales network, specifically designed to respond more consistently to the contemporary conditions of the financial markets and customer needs. With the new revaluable product, the Company introduced 2 levels of innovation, creating a revaluable product linked to two segregated funds, one of which was newly created, envisaging the application of a profit reserve.

In a year characterised by the recovery of bond market rates, several initiatives were implemented to support the sales network, in particular the implementation of various and prolonged commercial campaigns to support the sale of the new revaluable product and the multi-segment product of the range.
In addition, also in 2023, work continued on adapting to the numerous adjustments required by the Regulatory body, which impacted the process of creating new insurance products, with a view to further promoting transparency with regard to the investor-policyholder and, in particular, the comparability between the products available on the market, in addition to increasingly focusing on matching customer needs and the insurance solutions proposed, which also entailed updating the "process standard of Banco BPM Vita – creation, approval and monitoring of insurance products" achieved with the contribution of the Parent Company. Efforts also increased with regard to control measures for the distribution networks that have further perfected their own analysis tools.

With regard to the protection products sold by Banco BPM Assicurazioni, Marketing activities sought to directly and indirectly help the distribution networks in order to increase the effectiveness of the commercial proposition.
In line with previous years, the Company also carried out an investigation into the quality perceived by customers in the event of a claim.
On the communication front, in close collaboration with the competent units of the banking partner, various projects were carried out, in continuity with the previous year, to promote awareness among customers of the Company's offers.
In addition, considerable supporting materials were prepared for training sessions dedicated to the distribution network. In collaboration with the internal and Banco BPM's commercial departments, further product sheets with a commercial bias were created in order to provide additional sales support.
Furthermore, during the year, the Companies continued with the process of integrating risks and sustainability factors (so-called ESG – Environmental, Social and Corporate Governance) in insurance, investment, risk management and corporate governance processes, with the aim of contributing to the dissemination of a culture of social responsibility. In particular, the complex ESG framework was implemented in all company activities, with particular reference to governance, business, investments, risk management and Human Resources.

At the closing date (14 December 2023), Banco BPM Assicurazioni signed a new contract with Banco BPM Vita and Banco BPM for the provision of ordinary services and migration services, until the migration of Banco BPM Assicurazioni's activities to the systems identified as part of the new Governance is completed.

The Life insurance market in Italy

At the end of 2023, considering the new business carried out by Italian and non-EU companies, the Italian life insurance market was down by 3.3% compared to the same period of 2022 (by 5.2% also considering EU companies). Looking exclusively at the results achieved by the bancassurance channel, the contraction in premiums was slightly lower (-1.2%), a loss driven by the very significant reduction in new Class III premiums (-43.3% compared to 2022). Bancassurance remains the most significant sales channel, due to the fact that it accounts for almost 68% of new premiums in the Italian life insurance market.
The net flow of total premiums collected by the Italian insurance sector, at the end of the third quarter of 2023, unlike previous years, was negative by over 15 billion, of which 11 billion from Class I products and around 4 billion from Class III products.
On the other hand, looking at technical reserves, again at the end of the third quarter of 2023, the sector managed a total of approximately 798 billion (-0.8% compared to the same period of 2022).
The Company's market share, calculated on the new premiums made by the bancassurance channel alone, stood at 1.98% at the end of 2023, a significant increase compared to the previous year.

Strategic Partnerships

	2023	2022	absolute change	% change
Net interest income	(1,764)	(1,961)	197	(10.0%)
Gains (losses) on interests in associates and joint ventures carried at equity	113,597	150,221	(36,624)	(24.4%)
Financial margin	**111,833**	**148,260**	**(36,427)**	**(24.6%)**
Operating income	**111,833**	**148,260**	**(36,427)**	**(24.6%)**
Personnel expenses	(1,639)	(1,741)	102	(5.9%)
Other administrative expenses	(701)	(619)	(82)	13.2%
Net value adjustments to property, plant and equipment and intangible assets	(40)	(40)	-	-
Operating expenses	**(2,380)**	**(2,400)**	**20**	**(0.8%)**
Profit (loss) from operations	**109,453**	**145,860**	**(36,407)**	**(25.0%)**
Profit (loss) before tax from continuing operations	**109,453**	**145,860**	**(36,407)**	**(25.0%)**
Taxation charge related to profit or loss from continuing operations	1,357	1,429	(72)	(5.0%)
Profit (loss) after tax from continuing operations	**110,810**	**147,289**	**(36,479)**	**(24.8%)**
Parent Company's profit (loss) for the year	**110,810**	**147,289**	**(36,479)**	**(24.8%)**

The contributions to the consolidated financial statements of the interests held in Agos Ducato, Alba Leasing, Selmabipiemme Leasing, Gardant Liberty Servicing and Anima Holding are included within the Strategic Partnerships segment.

Economic performance of the segment

The operating income of the segment in question amounted to 111.8 million, down compared to the previous year, substantially as a result of lower equity gains (-36.6 million). In particular, among the profits carried at equity, the negative contribution of Anima Holding (-5.7 million) and of Agos (-28.1 million) are worth noting.
Operating expenses were substantially stable and, after taxes, brought the profit to 110.8 million.

More details are provided below on the activities and performance recorded in 2023 by the investees Agos Ducato and Anima Holding.

Agos Ducato

Agos Ducato is a leading financial company in the consumer credit sector, present in Italy for over 35 years. Since 2008, following the partnership agreements, 61% of the company's share capital is held by Crédit Agricole, through the subsidiary Crédit Agricole Consumer Finance, and 39% by Banco BPM.
The company, which has around 2,000 employees, distributes its products through a network of around 250 branches and single-mandate agencies, through the banking channel consisting of the branches of Banco BPM and Crédit Agricole Italia and, lastly, through distribution agreements with the main chains specialised in electronics, in the supply of household equipment and in the distribution of motor vehicles and motorcycles.
The specific areas of operations concern personal loans, special purpose loans, credit cards, salary-backed loans and a wide range of insurance services.
Banco BPM has a distribution agreement in place expiring on 28 June 2034.
The total stock of loans outstanding as at 31 December 2023 amounted to 16,820 million, of which performing loans for 16,104 million and non-performing loans for 716 million.
The total volume of new loans in 2023 amounted to 7,825 million, up by approximately 1% compared to the 2022 figure, gaining 0.2% in the market share, which at the end of 2023 stood at 14.3%. In detail, new personal loans totalled 3,984 million, special purpose loans totalled 2,793 million (of which 1,281 million referred to cars and motorcycles) and salary-backed loans amounted to 237 million.
In 2023, the Banco BPM network placed personal loans for an amount of 1,034 million, credit cards for 144 million and salary-backed loans for 55 million.
Total revenues, represented by operating income, amounted to 828.9 million, down by 2.5% compared to the previous year, due to the significant increase in the cost of funding. The cost of risk amounted to 239.1 million (corresponding to 1.53% of loans), an increase compared to 149.5 million in 2022 (corresponding to 1.05%) due to the worsening of the economic situation. Operating expenses amounted to 311.7 million, up 2.2% compared to

the previous year. The consolidated net profit for the year of Agos Ducato as at 31 December 2023 amounted to 187.7 million, down compared to 265.1 million in the previous year.

Anima Group

Anima is the largest independent asset management group in Italy, with total assets under management of 191 billion and more than one million customers. Banco BPM holds a 21.71% stake in Anima Holding.
The Anima Group, which was formed from a process of aggregation of several companies, with different and complementary specialisations, now has more than 300 professionals and implements and manages forward-looking, flexible investment solutions built around the specific needs of customers, whether they are institutional investors (insurance and financial groups, social security funds, pension funds), companies or individuals.
The parent company Anima Holding is a public company, listed on the Milan Stock Exchange since 2014, which controls 100% of the operating company Anima SGR and of the company focused on private market investments, Anima Alternative SGR, established in 2020.
In 2023, Anima Holding finalised the acquisition of 80% of the share capital of Castello SGR, a leading company in the promotion and management of alternative investment products, mainly in the Real Estate sector, and signed the agreements for the acquisition of Kairos Partner, two important elements in its expansion towards market segments that were covered to a lesser extent, such as alternative investments and wealth management.
Banco BPM has a distribution agreement in place with Anima SGR, expiring on 31 December 2037.
Fully active in the world of investments, Anima has diversified its business into the following main areas: mutual funds, solutions for institutional customers, asset management, open pension funds and alternative investments.
As at 31 December 2023, the total assets managed by the Anima Group amounted to 191.5 billion, of which 113.2 billion relating to individual Portfolios and 78.3 billion relating to Open-end funds and Alternative funds, up by approximately 8% compared to 177.1 billion at the end of 2022, thanks to the contribution of Castello SGR for 3.8 billion and the positive performance of the portfolios. Net funding in 2023 amounted to -171 million.
Total revenues amounted to 368.0 million (of which 290.5 million net management fee and commission income and 34.9 million in incentive fees), up 7% compared to 343.0 million in 2022 (+4% net of Castello SGR). Ordinary operating expenses amounted to 102.0 million, up by 16% compared to 2022 (+9% excluding Castello SGR). Net profit as at 31 December 2023 amounted to 149.3 million, an increase of 24% compared to 2022 (+22% excluding Castello SGR).

Finance

	2023	2022 (*)	absolute change	% change
Net interest income	220,196	536,187	(315,991)	(58.9%)
Financial margin	**220,196**	**536,187**	**(315,991)**	**(58.9%)**
Net fee and commission income	(4,549)	1,013	(5,562)	-
Net financial result	(122,463)	305,175	(427,638)	-
Other operating income	**(127,012)**	**306,188**	**(433,200)**	**-**
Operating income	**93,184**	**842,375**	**(749,191)**	**(88.9%)**
Personnel expenses	(10,259)	(10,132)	(127)	1.3%
Other administrative expenses	(57,548)	(49,579)	(7,969)	16.1%
Net value adjustments to property, plant and equipment and intangible assets	(209)	(202)	(7)	3.5%
Operating expenses	**(68,016)**	**(59,913)**	**(8,103)**	**13.5%**
Profit (loss) from operations	**25,168**	**782,462**	**(757,294)**	**(96.8%)**
Net adjustments to securities and other financial assets	1,975	(6,262)	8,237	-
Profit (loss) before tax from continuing operations	**27,143**	**776,200**	**(749,057)**	**(96.5%)**
Taxation charge related to profit or loss from continuing operations	(9,185)	(257,237)	248,052	(96.4%)
Profit (loss) after tax from continuing operations	**17,958**	**518,963**	**(501,005)**	**(96.5%)**
Charges related to the banking system, net of taxes	(5,941)	(9,555)	3,614	(37.8%)
Parent Company's profit (loss) for the year	**12,017**	**509,408**	**(497,391)**	**(97.6%)**

(*) The data shown in the column relating to the previous year were determined in accordance with the new Segment Reporting structure adopted in FY 2023.

The Finance business line is the segment that encompasses the contributions to consolidation of activities relating to the portfolio of owned securities, treasury, Group Asset and Liability Management and the bond issues placed on institutional markets.

It should be noted that, for a better representation of the profitability of the segment in question, the reclassified income statement also shows the figures relating to the previous year, although the "Finance" segment has been shown in a separate segment only since FY 2023.

Economic performance of the segment

The net interest income of the sector in question amounted to 220.2 million, down considerably (-316.0 million) due, in particular, to the trend in the securities portfolio, whose cost of funding was only partially offset by the growth in recorded interest income. In addition, the ECB's monetary policy decisions obviously affected the decline in the contribution of the TLTRO, which went from a positive contribution of 181.4 million in 2022 to a negative contribution of 703.5 million in 2023, only partially offset by interest income collected on the Deposit Facility and on the Minimum Reserve, the remuneration of which, in any case, was zeroed starting from 20 September 2023. Lastly, also in view of the gradual elimination of the use of the TLTRO, the renewed use of institutional issues made a negative contribution to net interest income, with placements of 7.1 billion, in a scenario of rising rates.
Net fee and commission income was down, due to the lower contribution of securities lending activities, but above all the Net Financial Result, which was negative for 122.5 million. Last year, in fact, the securities portfolio had been characterised by significant capital gains from disposals, as well as by a significant contribution from trading activities and derivative transactions. In addition, the year 2023 recorded the negative contribution of the ALM centre, due to the higher cost of certificates linked to the trend in rates.
Lastly, there was an increase in operating expenses of 68.0 million, offset by the decrease in charges relating to adjustments to financial assets.
After having recognised the charges relating to the banking system and taxes in the income statement, the business unit in question closed with a profit of 12.0 million.

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

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

Funding and Capital Management

The Group's liquidity position remained solid throughout 2023; during the year, liquidity indicators LCR and NSFR remained well above the Group's Risk Appetite Framework objectives.
During the year, the ECB continued its restrictive monetary policy with the aim of bringing inflation back to the target level, and continued to raise the conditions relating to official interest rates, increasing them by 2 percentage points and setting the main refinancing rate at 4.5%.
With regard to the issue of bonds for the wholesale market, the EMTN programme was adapted and updated, also through supplements and Covered Bond programmes that can be used for covered bond issues.

With regard to public bond issues, six placements were made totalling 3.8 billion. In detail, the following were issued:

- in January, a Senior Preferred bond with a 4-year maturity and a fixed coupon of 4.875%, for an amount of 750 million;
- in June, a Green Senior Non Preferred bond with a 5-year maturity, an early repayment option in the fourth year and a fixed coupon of 6.00%, for an amount of 750 million;
- in June, a European Covered Bond (Premium) with a 5-year maturity and a fixed coupon of 3.75%, for an amount of 750 million;

- in September, a European Covered Bond (Premium) with a 3-year maturity and a fixed coupon of 3.875%, for an amount of 750 million;
- in November, a Social Senior Preferred bond with a 4-year maturity and a fixed coupon of 4.625%, for an amount of 500 million;
- in November, an Additional Tier 1 perpetual bond for a nominal value of 300 million (redeemable in advance 5 years from the issue date) and a coupon of 9.50%.

Furthermore, it should be noted that together with the AT1 issue in November, the Bank made a public repurchase offer relating to the Additional Tier 1 security XS1984319316 for a maximum amount equal to the nominal value of 300 million. At the end of the offer period, BBPM fully accepted the offers received, repurchasing 223.3 million of the security (approximately 74.45%).

Lastly, as regards the optimisation of RWAs, note that in 2023, the following synthetic securitisation transactions were concluded:

- synthetic securitisation "Grace": transaction concluded in June with two market investors and which entails the coverage of the junior tranche of a portfolio of around 2.5 billion in performing loans disbursed to Mid Corporate Plus and Large Corporate;
- synthetic securitisation "Marlene": transaction performed in December with three market investors and which entails a guarantee on the mezzanine tranche of a portfolio of around 2 billion in performing loans disbursed to SMEs, Mid Corporate and Mid Corporate Plus. This is the first transaction completed through the issue of securities by a vehicle and the coverage of the tranche through a limited recourse loan disbursed by the SPV;
- synthetic securitisation on a tranched cover basis "SMEGF 2001": transaction performed pursuant to Italian Ministerial Decree of 14 November 2017, as amended and supplemented by Italian Ministerial Decree of 21 June 2019, characterised by the release by the Guarantee Fund for small and medium enterprises of a direct personal guarantee to cover the junior tranche of a portfolio of new disbursements to SMEs and MID CAPs, for an amount of approximately 300 million.

Banking Book and ALM

ALM

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

Management of Proprietary Portfolios

Regarding the management of financial instruments under assets, in 2023 the strategies briefly described below were followed.

Positions in the HTCS category
In 2023, the Parent Company's HTCS business model portfolio recorded an increase of around 1.1 billion, from 10.5 to 11.6 billion.
The government share is the main subject of this increase, given by a combination of purchases divided between domestic and foreign government bonds, +0.75 and +0.25 billion, respectively.
The management of investments in non-government bonds recognised in the HTCS portfolio mainly directed towards adjusting profitability to the increased cost of funding. This strategy was implemented by maintaining not only the nominal amount invested substantially unchanged, but also the main characteristics of the investments, characterised by high coverage of the interest rate risk, attention to ESG issues and a strong focus on the level of diversification

and average rating, both of which maintained as high as possible given the profitability targets assigned to these specific investments.

Positions in the HTC accounting category
In 2023, the HTC portfolio of the Parent Company's Banking Book fell from a nominal 26.8 billion to 25.5 billion. This reduction was determined by the government component, which fell by 1.8 billion against large maturities only partially reinvested. Domestic government bonds were the main subject of these maturities, all at fixed rates, while most of the repurchases were carried out at variable rates, in order to reduce portfolio risks.
The non-government component accounted for in HTC recorded a further increase of approximately 500 million in total nominal value. The allocation of new investments, focused on issues characterised by a limited residual life, a high credit standing and the absence of interest rate risk hedging, took place in line with the strategies described for the HTCS accounting category. The share of ESG issues on the total portfolio (HTC+HTCS) of non-government securities held by the Parent Company rose by 5% over the year, bringing it to around 29%.

Trading and Funds

Positions in the HFT category
As regards trading activities, it should be noted that the approach taken at the beginning of 2023 was substantially the same with respect to the end of the previous year, namely with a mainly tactical allocation to various asset classes, containing the Var and favouring intraday operations and spread positions, equally divided between equity, currency, bond and precious metals segments; the continuous change in market sentiment, which has shifted from the strong rate increases of central banks to rapid cuts, has led to unintuitive market dynamics and short-term trends on the currency front, with a single persistent note relating to the appreciation of the equity segment, especially in the Technological field.

Alternative Investments and Funds
In 2023, investment in both Italian and foreign Alternative Funds continued, maintaining a priority for Private Equity, even though, with a view to obtaining a lower level of risk and market diversification, on a par with the previous year, investments also regarded other asset classes, such as private debt, venture capital and infrastructure. In the selection of Alternative Investment Funds, particular attention was paid to the implementation of ESG factors in the investment policy applied by the managers.

Group Treasury

The Bank's liquidity position in 2023 continued to be significant and the advantageous conditions offered by the ECB for TLTRO III funding contributed to maintaining positive economic results in treasury management. During the year, Banco BPM repaid 11 billion of TLTRO III at the maturity of the individual drawdown transactions (9 billion in June, 1 billion in September and 1 billion in December) and joined the ECB Deposit Facility for a daily average (including holidays) of around 24.2 billion, leading to a net balance between assets and liabilities with the central bank that was positive for the Group.
During 2023, the activities of the Money Market Desk recorded a high volume of Forex Swap operations, both to fulfil the coverage needs of accounts in foreign currencies at the various treasuries, and to seize arbitrage opportunities. Trading activities in FX Swaps showed an average monthly turnover of around a nominal 11 billion (equivalent value in euro), with a decrease in volumes compared to the previous year, the latter reflecting the geopolitical tensions that negatively influenced transactions in foreign currencies for the Group's commercial customers.
Funding activities at CC&G increased in 2023 with average trading volumes of approximately 7.3 billion. The development of transactions with the other two Central Counterparties of which we are members, Eurex Clearing AG and LCH SA, allowed Banco BPM to further increase the financing activities of negotiable securities with these counterparties, helping to reduce operational and counterparty risks and optimising the cost of very short-term funding. The total average volumes traded through both Clearing Houses amounted to 7.3 billion.
Overall secured financing activity through central clearing houses on proprietary assets reported total daily average funding of approximately 15 billion, while lending activity, including long-term transactions, amounted to approximately 300 million per day.
To complete funding activities, Long Term Repo operations were carried out using non-government securities, contributing approximately 4.4 billion to the Group's medium-term funding during the year.

In terms of the secured investment of surplus liquidity, like the previous year, a marked decrease in volumes was recorded due to the fact that General Collateral repo rates continue to be constantly lower than the ECB Deposit Facility rate.
With regard to treasury activities in dollars in 2023, a sharp rise in the USD repo rate curve on all the main maturities was recorded, following the significant rate increases implemented by the Federal Reserve; to finance USD government securities, a maturity diversification strategy was adopted in order to guarantee the best funding efficiency of said portfolio, which on average stands at the equivalent of approximately 3.7 billion euro.
Collateral optimisation activities continued through open securities lending transactions and collateral switching.

Portfolio Management

In 2023, the global economy recorded modest growth, in a global system permeated by macroeconomic and geopolitical risks.
After the sudden rise witnessed in 2022, inflation was then characterised by a continuous slowdown, conditioned in particular by the drop in the cost of energy.
The high inflation recorded conditioned the action of the main Central Banks in the Western world which, until late summer, continued with monetary tightening policies, with continuous interest rate hikes, and then stopped at high levels of intervention compared to those that have characterised the last few years.
With reference to the main investment areas, in the United States, despite the aggressive monetary tightening policy implemented from March 2022 (a total cumulative interest rate hike of 525 bps, which brought the official rate in the range of 5.25-5.50%), economic activity maintained a very positive trend, supporting the hypothesis of a soft economic landing scenario, thanks to the positive contribution of consumption, stock and public spending, in a context in which the labour market confirmed its solidity.
The aggregate economic scenario of the Eurozone showed greater difficulties, confirming a limited but positive growth rate, with different dynamics in the various Member States. More specifically, greater difficulties were recorded in Germany, mainly due to the slowdown in domestic consumption and exports to China (where economic difficulties and the crisis in the real estate sector have affected the economic trend, resulting in lower growth rates than in the past). The ECB continuously raised official interest rates, reaching in September 2023 the tenth consecutive hike since July 2022, bringing the rate on refinancing to 4.50% and that on deposits to 4%.
The Bank of Japan, on the other hand, did not change its expansive approach to support of economic activity, despite the fact that inflation was confirmed above target.
Financial market expectations of a downward trend in official interest rates in 2024 consolidated in the last two months of 2023, conditioned by the positive reduction of inflation rates and by the comments made by the US Central Bank, resulting in a significant decrease in bond yields, after reaching an all-time high in over a decade between September and October. These expectations also positively affected the stock markets, leading to an intense recovery in share prices, which achieved decidedly positive performances in FY 2023. In 2023 as a whole, the global MSCI World index rose by more than 20% (around 18% if translated into euro).

With reference to assets under management, the approach adopted encouraged the search for a balance between risk and returns, with particular attention to risk control, in consideration of multiple elements, such as the worsening of the geopolitical landscape (with the events in the Middle East adding to the Russian-Ukrainian issue, in addition to increased tension in other places), the evolution of macroeconomic variables (including the resilience of consumption due to the adjustment of the prices of many goods to decidedly higher compared to the past, the repercussions of the decline in international trade on industrial activity), the trend of company profits and the relative market valuations, the enormous issue of public and private debt, which has been at decidedly high levels at worldwide level for years.
The investments made were characterised by a neutral/negative positioning on the equity component, with a reduction in the underweight position of the beginning of the year, implemented with a flexible and tactical approach.
Given the restrictive monetary policies implemented by the Central Banks and high inflationary levels, the average portfolio duration was maintained, for the first few months of the year, constantly underweight with relation to the benchmarks adopted in the managed portfolios, favouring short-term government investments, also in consideration of decidedly more positive nominal yield rates, compared to medium/long-term ones. The average financial duration of the managed portfolios was progressively increased in the last quarter, thus gradually reducing the overall underweight position with respect to the reference parameters adopted. In particular, transactions regarded the long-term component of US government bonds, given the high yields reached in October, and the positive real rates of return.

Investments in corporate bond markets were characterised by caution and selectivity, due to the sensitivity of the asset class to the rise in official interest rates and taking into account the slowdown recorded by the macroeconomic aggregates in the latter part of the year.
Investments in financial assets exposed to exchange rate risk were maintained close to neutrality, with technical-tactical management of the asset class. Currency diversification was therefore maintained consistent with the different risk levels of the lines.
Overall, the results for the year were particularly positive in absolute terms, and were substantially in line with the reference parameters.
As at 31 December 2023, assets under management stood at around 3.5 billion, slightly higher than the volumes at the end of 2022 (3.2 billion), with a positive contribution both from net funding and from the market.

Corporate Centre

	2023	**2022 (*)**	**absolute change**	**% change**
Net interest income	110,763	(25,623)	136,386	-
Gains (losses) on interests in associates and joint ventures carried at equity	2,060	1,863	197	10.6%
Financial margin	**112,823**	**(23,760)**	**136,583**	
Net fee and commission income	(86,634)	(31,861)	(54,773)	171.9%
Other net operating income	50,166	59,923	(9,757)	(16.3%)
Net financial result	8,121	(48,709)	56,830	-
Other operating income	**(28,347)**	**(20,647)**	**(7,700)**	**37.3%**
Operating income	**84,476**	**(44,407)**	**128,883**	**-**
Personnel expenses	(407,168)	(365,317)	(41,851)	11.5%
Other administrative expenses	357,097	366,915	(9,818)	(2.7%)
Net value adjustments to property, plant and equipment and intangible assets	(146,557)	(162,873)	16,316	(10.0%)
Operating expenses	**(196,628)**	**(161,275)**	**(35,353)**	**21.9%**
Profit (loss) from operations	**(112,152)**	**(205,682)**	**93,530**	**(45.5%)**
Net adjustments to loans to customers	(60,335)	(79,838)	19,503	(24.4%)
Fair value gains (losses) on property, plant and equipment	(146,847)	(108,347)	(38,500)	35.5%
Net adjustments to securities and other financial assets	(4,067)	(2,776)	(1,291)	46.5%
Net provisions for risks and charges	2,809	(6,401)	9,210	-
Gains (losses) on interests in associates and joint ventures and other investments	342	2,258	(1,916)	(84.9%)
Profit (loss) before tax from continuing operations	**(320,250)**	**(400,786)**	**80,536**	**(20.1%)**
Taxation charge related to profit or loss from continuing operations	127,968	113,576	14,392	12.7%
Profit (loss) after tax from continuing operations	**(192,282)**	**(287,210)**	**94,928**	**(33.1%)**
Charges related to the banking system, net of taxes	-	(77)	77	-
Impact of the realignment of tax values to book values	8,802	-	8,802	-
Bancassurance impacts net of taxes	(22,245)	-	(22,245)	-
Goodwill impairment	-	(8,132)	8,132	-
Change in own credit risk on Certificates issued by the Group, net of taxes	(3,463)	4,818	(8,281)	-
Purchase Price Allocation net of taxes	(4,357)	(16,047)	11,690	(72.8%)
Profit (loss) for the year attributable to non-controlling interests	22	786	(764)	(97.2%)
Parent Company's profit (loss) for the year	**(213,523)**	**(305,862)**	**92,339**	**(30.2%)**

(*) The figures relating to the previous year have been restated to reflect the changes introduced to the breakdown of operating segments and to guarantee a like-for-like comparison with the profiling criteria used for 2023.

Contributions to the consolidated financial statements that are not represented in the other lines of business are included within the Corporate Centre business line. Specifically, the Corporate Centre includes the financial contributions of the Group's real estate companies, of the run-off activities relating to the Group's leasing business, as well as the centralised management of functions for the entire Group.

Note that, for a better representation of the profitability of the segment in question, the figures of the previous year have been restated as compared to those published in the 2022 Annual Report, to take into account the amendments made to the Segment Reporting structure. More specifically, the contribution relating to the Group's finance activities, which as at 31 December 2022 was included in the "Corporate Centre", is now highlighted in the specific "Finance" sector.

Economic performance of the segment

Net interest income amounted to 110.8 million, up compared to the previous year. In particular, operations in tax receivables (Ecobonus) amounted to 70.1 million, compared to 32.8 million in 2023. The other components not included in the other business units also grew.
Net fee and commission income fell considerably, reaching 86.6 million. The negative contribution given by the new synthetic securitisation transactions was particularly significant, where against the benefit of a reduction in the Group's risks, fee and commission expense of approximately 62.2 million was recorded, compared to 25 million in 2022.
The Net financial result rose to 8.1 million. Last year, in fact, the contribution made by the valuation of Nexi was particularly negative (going from a loss of 84 million to a positive valuation of 4.9 million).
Operating expenses increased to 196.6 million, also due to the renewal of the National Collective Labour Agreement. On the contrary, there was a significant decrease in the cost of credit. In particular, net adjustments on loans of the Corporate Centre, mainly regarding lease loans, amounted to 60.3 million. Note, in fact, that last year, the particularly high cost of credit was due to the impact of the increase in the targets for the sale of non-performing loans, as a result of the change in the management strategy for non-performing loans approved by the Group.
Lastly, note the impacts of Fair value gains (losses) on property, plant and equipment (-146.8 million in 2023 compared to -108.3 million in the previous year), of the PPA net of taxes (negative 4.4 million) and the effects relating to the reorganisation of the Bancassurance business totalling -22.2 million.
Based on the above, the Corporate Centre recorded a loss lower than the previous year, amounting to -213.5 million.

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

Real Estate Sector

As at 31 December 2023, the total book value of the Group's real estate assets amounted to 2.2 billion (2.4 billion as at 31 December of last year).
Group operations in the real estate sector are addressed to the management of operating properties (head office and branches) and the enhancement, development and disposal of non-operating properties. In greater detail, in 2023 the Group's activities focused on improving the efficiency of the spaces occupied and reducing their management costs.

The activity relating to the promotion and marketing of non-instrumental assets is part of a non-performing market for real estate in general and for non-residential in particular, undermined by the geopolitical situation, the rise in interest rates and uncertainty about the stability of the economy.
The slowdown in the Italian real estate market, which had begun to emerge from the second half of 2022, became progressively more intense during this year and now threatens to extend to the next. The erosion of purchasing power, associated with difficulties in accessing credit, inevitably ends up penalising the prospects of a sector that had emerged refreshed from the pandemic wave.
In this economic phase, the capital market is contracting and attention appears to be focused on less risky products with rising returns. A limited number of transactions continues to be recorded, resulting in real estate market performance that is not easy to understand. The outlook continues to be marked by a high degree of uncertainty and tension, suggesting little room for improvement in the short term in terms of capital market transactions.
The current modus operandi reflects the dynamics of an illiquid market, where the divergences in expected prices between supply and demand are widening, generating a wait-and-see and flight-to-quality approach by operators. At the same time, developers prefer initiatives that allow them to operate by limiting (or eliminating) the use of financial leverage to a minimum, postponing transactions that require large credit lines and are characterised by a high risk profile.
With reference to the corporate sector, there seem to be timid signs of improvement.
In Italy, the volume of corporate investments in 2023 totalled just over 6 billion (-46% vs. 2022), confirming the slowdown in the market recorded in the first half of 2023. In absolute terms, the result achieved is based on a volume of transactions at an all-time low in the last decade.

However, while as regards the housing segment, it is reasonable to expect that the precariousness of macroeconomic prospects and the non-correction of real estate values will favour continuing weakness also into the next year, the situation on the corporate side is different, where the conditions for a recovery could be close.
Specifically, the Hospitality asset class has maintained its dynamism thanks to transactions aimed at placing high quality products on the market. The significant recovery in tourist flows, and in particular the component of foreigners, has reactivated the interest of tenants in the high-street retail segment. In particular, Milan is confirmed as the city with the market characterised by the most active demand, followed by the main cities with a strong vocation for international tourism (Rome, Florence and Venice), in particular for the luxury segment.
The profitability of logistics remains solid, in particular with interest in secondary axes, to ensure greater capillarity in distribution and also due to the saturation of prime locations.
With regard to offices, a gradual repricing of office assets is expected, both in terms of market value and a slight increase in average returns.
The interest in ESG issues linked to the energy transition of buildings as a characterising element of corporate demand is confirmed, also with repercussions on the economic and income aspects of investments (values/rents/returns), fuelling the rethinking of the layout of tertiary spaces with a view to meeting new requirements in terms of liveability and flexibility.

The residential sector continues its consolidation as an investment asset class, in a market in which an increasing emphasis is being placed on communities and smart neighbourhoods, where the focus is on creating spaces that promote sociality.

As regards the breakdown of investments by asset class, Hospitality and Healthcare reached a total of 29%, with total investments of just over 1.7 billion; the logistics/industrial segment, with 26%, is in second place with just under 1.6 billion.
The office sector, albeit well below the performance recorded in previous years, recovered ground compared to the first half of 2023, and with just over 1 billion, representing 18% of total investments.

A certain interest is confirmed for the development of real estate with mixed use interventions, able to guarantee diversification of the risk, characterised by a high percentage of the residential and living component, which breaks down into the different forms of living, such as: built-to-rent, student residences, senior housing. Although they are going through a phase of deceleration, there is no shortage of development projects also located in peripheral areas and in the first conurbations around the main urban centres, particularly if well connected by local public transport services.
In this context, obstacles to sales continued to be present, which slowed down the process, above all as regards the Public Administration, with delays experienced in approvals of the building and urban permits needed to finalise the notarial deeds.

The dynamics of the real estate market illustrated above clearly hindered the negotiations undertaken by the Group in 2023 for the sale of non-operating properties. The sale process was also impacted by some delays on the part of the Public Administration as regards building and urban planning permit procedures, needed to finalise the notarial deeds.
In this context, in 2023 the Group entered into deeds for approximately 45 million (55 million as at 31 December 2022); the properties for which sale negotiations are underway that meet the criteria for classification under assets held for sale, pursuant to IFRS 5, amounted to 159 million (133 million as at 31 December 2022).
Lastly, during the year, the technical and legal activities to guarantee the transferability of the properties continued, in order to be able to pursue the objective of the 2023-2026 business plan, which envisages the disposal of approximately 50% of the Group’s non-operating real estate assets.

On the lease front, the tourism sector is the only one to record positive signs. For the office segment, in the most rewarding locations in Milan and Rome, only grade A spaces are recording an increase in demand, against a certain shortage of products which has led in some cases to a slight increase in rent in prime locations. On the other hand, more marked signs of repricing are being recorded in peripheral or secondary locations and concern medium/large office spaces that no longer meet the requirements of the new hybrid demand (linked to smart working).
In this market context, which also characterised the Group’s operations, activities continued to generate income on the free spaces, including those resulting from the recent branch closures. During 2023, there were no particular

new elements compared to the previous year, either in terms of new lease agreements or in terms of the renegotiation of existing contracts, which involved a limited number of cases.

Lastly, the update of the valuations as at 31 December 2023 of the Group's real estate assets resulted in an overall negative economic effect of 146.8 million (108.3 million as at 31 December 2022). This effect incorporates the new fair value estimates - drawn up with the support of special appraisals issued by leading companies, based on the "RICS Valuation" standards - rather than the presumed sale values inferred from ongoing negotiations. The causes underlying this result are numerous and are attributable both to changes in market parameters and to events involving some specific properties such as to require a revision of the assumptions used in the previous estimates.

RISK MANAGEMENT

Capital adequacy and main risks

The current level of own funds and of risk-weighted assets means that Banco BPM Group is easily able to comply with both the regulatory thresholds and the specific thresholds required by the Supervisory Authority on conclusion of the Supervisory Review and Evaluation Process (SREP).
In order to provide its management team, stakeholders and the Supervisory Authority with a complete and informed disclosure, which confirms the adequacy of its own funds, the first defence against the risks assumed, Banco BPM Group assesses its capital situation from a current and future perspective, both as regards Pillar I and Pillar II, based on Basel 3 rules and the specific guidelines that the banks receive from the ECB. The Group's capital adequacy is substantiated in the continuous monitoring and management of capital ratios, so as to verify compliance with regulatory limits and ensure the maintenance of the minimum levels of capitalisation required by the Supervisory Authority. These ratios are also estimated during the budget or Strategic Plan preparation process, and their consistency with the thresholds established in the Risk Appetite Framework (RAF) is assessed. The RAF is the instrument which makes it possible to establish, formalise, communicate and monitor the consistency of the risk profile of the Group and of individual legal entities with the risk appetite approved by the Board of Directors in a unitary and synergistic manner and constitutes a policy for the development of the main company processes. The Risk Function develops the RAF to support the Body with Management Functions, in collaboration with the Planning and Control Function and the other competent Functions, revising the framework at least annually based on changes in the internal and external conditions in which the Group operates.
From an operating perspective, ex ante risk management activities are also found in the process to manage the Most Significant Transactions - MST (relating to credit, finance, disposal of loans, etc.), which primarily involve the Risk Function, which must express a prior and non-binding opinion on all transactions categorised as such based on criteria established and regulated internally. The scope of application of the ex-ante opinions of the Risk Function has been extended establishing the issue of a prior opinion even for transactions defined as Significant - ST. The latter regard the credit area and enable a considerably greater number of credit transactions to be assessed in advance, both at the time of disbursement - also with reference to the SME portfolio - and when classified from greater to lesser risk and vice versa. The scope of the Group's MST and ST in the credit area was expanded in 2023, including assessments relating to Project finance transactions, the review of the credit line system of the top 10 groups of related customers, as well as the granting of multiple forbearance measures. The starting point of the various strategic processes of Banco BPM Group - including the annual budget, the RAF, the capital adequacy (ICAAP) and liquidity adequacy (ILAAP) assessment processes - is represented by the Risk Identification process. Within the current regulatory context, the Risk Identification process has become increasingly important, as the competent Supervisory Authorities verify whether institutions have an adequate framework for identifying, understanding, measuring and managing risks.
The process of identifying risks (Risk Identification) represents the starting point for the Group's main strategic processes (RAF, ICLAAP, Strategic Plan). This process represents a structured and dynamic process that is carried out annually at Group level by the Risk Function, with the involvement of the top management of the Bank and of the main Group companies and makes it possible to identify the main risk factors and emerging risks to which it is or could be exposed, ensuring that the process itself is actually acted upon and known within the Group. The output of the process enables the long list of risks to be updated, which takes the form of a Risk Inventory, which is a list of all the risks identified by the Group, including those against which an economic capital has been calculated, for which suitable organisational controls are defined for their prevention and mitigation (process monitoring or in terms of RAF indicators), as well as the Risk Map, which is a list of only the risks relevant to Banco BPM Group, quantified through internal methods, for which the materiality is verified, and also includes any additional risks that can be quantified through regulatory methods (e.g. leverage ratio). The outcome of the process represents the basis for defining the RAF indicators and the risks contained in it must be considered in the ICAAP. Risk management activities also include an effective integrated risk reporting system, at Group level and for relevant individual legal entities, which enables all risk measurements and the main risk factors to which the Group and/or legal entities are exposed to be monitored, as well as a periodic assessment of the risk profile of the RAF indicators by comparing it with the thresholds defined in the framework, providing historic and detailed analyses that explain the trends, the areas that need attention and the areas for improvement.

In order to promptly and meticulously oversee the risks to which it is exposed, Banco BPM Group adopts a complex group of policies, processes, methods and instruments, which will be described briefly below, while reference should be made to the Notes to the financial statements (Part E) for more information.

Credit risks

Credit risk is managed by means of a portfolio VaR risk estimation model, belonging to the category of default models, which is applied on a monthly basis to credit exposures of Group banks. This model enables the economic capital against credit risk to be estimated, taking into account the portfolio concentration and the assumption of a joint non-fulfilment of counterparties, in a predefined context of significant macroeconomic variables. The confidence interval used is 99.9% and the time horizon of reference is one year. At the end of the model's simulation process, the maximum potential loss of the loans portfolio is broken down into the expected loss component and the unexpected loss component. For other residual exposures that are not part of the portfolio model, economic capital is calculated for the purpose of management control of risk through the use of supervisory regulatory metrics (Standardised approach).
As regards the processes and the tools used to manage and control the quality of the loans portfolio pertaining to Corporate and Retail customers, a key element is represented by internal ratings calculated by models that are differentiated and estimated specifically for each customer segment. The rating represents a valuation, referring to a time horizon of 12 months, made on the basis of all reasonably accessible information, both quantitative and qualitative, expressed by means of a classification on a ranking scale, of the ability of a party to whom a loan has been granted or is to be granted to honour its contractual obligations.
Rating plays a key role in loan granting, credit product disbursement, monitoring and performance management processes. In particular, it plays a role in deciding which Bodies are competent to approve loans, as well as on the mechanism for the automatic renewal of uncommitted credit facilities, and it contributes to determining automatic interception in the monitoring and management process (Watchlist).
Note that the internal rating is not applied for regulatory purposes to the perimeter of Banca Akros, to which the standardised regulatory approach is applied. Therefore, in operational applications, including the quantification of economic capital and the calculation of the Expected Credit Loss under IFRS 9, proxies with average values are used. Instead, the internal rating is used for Banca Akros as part of the loan granting process for customers in common with the Parent Company. The classification of non-performing exposures is conducted in line with the criteria established by the EBA.
The management of non-performing loans in Banco BPM Group is based, to a great extent, on a model that assigns the management of a specific set of loans (portfolio) to specialist resources.
During 2023, for the fifth consecutive year, work continued on the project to reorganise the management of the Group's non-performing loans, which in 2019 saw the completion of the transfer of a business segment focused on bad loan collection to a specialised partner, with the subsequent assignment of a management mandate for most of the new flows of bad loans for the following ten years. From the finalisation of this agreement, the management of bad loans has mainly been conducted by a leading player in the sector, while the management of the remaining non-performing exposures has been handled by specialised internal personnel. Following the transfer of the business segment mentioned above, it was also agreed that the management of all the non-performing exposures should be unified within the structure reporting to the Chief Lending Officer (CLO).

Credit risk control framework - Credit Risk Controls

In 2023, Enterprise Risk Management (ERM), through the Credit Risk Controls unit, continued to conduct controls on credit risk management processes - carried out on a continuous basis and independently with respect to the line functions, through the analysis of the loan portfolio and of samples carried out with the Credit File Review (CFR) - mainly concerning the processes granting forbearance measures, those classifying positions as non-performing and those managing guarantees.
As regards conducting *ex-ante* controls, ERM promoted a review of the framework of opinions, for which the Bank requires the approval of the Risk Function before any resolution is passed, extending the reference perimeter to Project Finance transactions, the review of the credit line system for the top 10 Groups of related customers, and the granting of multiple forbearance measures - and continued with the prior assessment of credit files authorised by the Non Performing Exposures Committee.
In relation to the controls implemented on processes, ERM, in line with internal regulations, issued ex-ante opinions on the changes made to the same on each occasion within the credit sphere, (credit policies, monitoring, granting of forbearance measures and classification).

As regards the performance of *ex-post* controls, ERM conducted specific Credit File Review activities concerning the performing and non-performing loans portfolio, with the aim of verifying the correct management of individual exposures, as well as the robustness of the underlying processes, making specific recommendations where necessary.
In line with the expectations of the Supervisory Authority (OSI Commercial Real Estate), in 2023 ERM also pursued the review of the real estate collateral management framework, with particular reference to the monitoring processes of the same and the selection of external appraisers.

Financial risks

With regard to counterparty risk, defined as the risk that the counterparty in a transaction defaults before the final settlement of the cash flows of such transaction (EU Regulation no. 575/2013), the Group uses, both for supervisory reporting purposes and for internal management purposes, standardised methods to calculate exposures on the entire reference scope (derivatives, repurchase agreements, securities lending and medium- and long-term loans).
As regards derivative transactions, exposure to counterparty risk is calculated on the basis of the SA-CCR approach (Standardised Approach for Counterparty Credit Risk) (Ref. EU Regulation 2019/876), which makes it possible to calculate capital requirements that better reflect the risks associated with derivative transactions.
Starting from March 2023, the internal method (Shortcut Method), previously used for internal management purposes to estimate risk exposures in OTC derivatives subject to Collateral Agreements (CSA), was prudentially replaced by the standardised approach (SA-CCR) also adopted in the Supervisory reporting area, which entered into force in June 2021 and applied to the entire scope of derivative transactions.
The above cited internal method continues to be implemented in the Parent Company and Banca Akros lending process chain, together with a daily monitoring and reporting system.
Membership of Clearing Houses for transactions in OTC Derivatives and Credit Derivatives has enabled the mitigation of risks. In accordance with the Basel III Framework, additional capital requirements regarding the following are to be calculated:

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

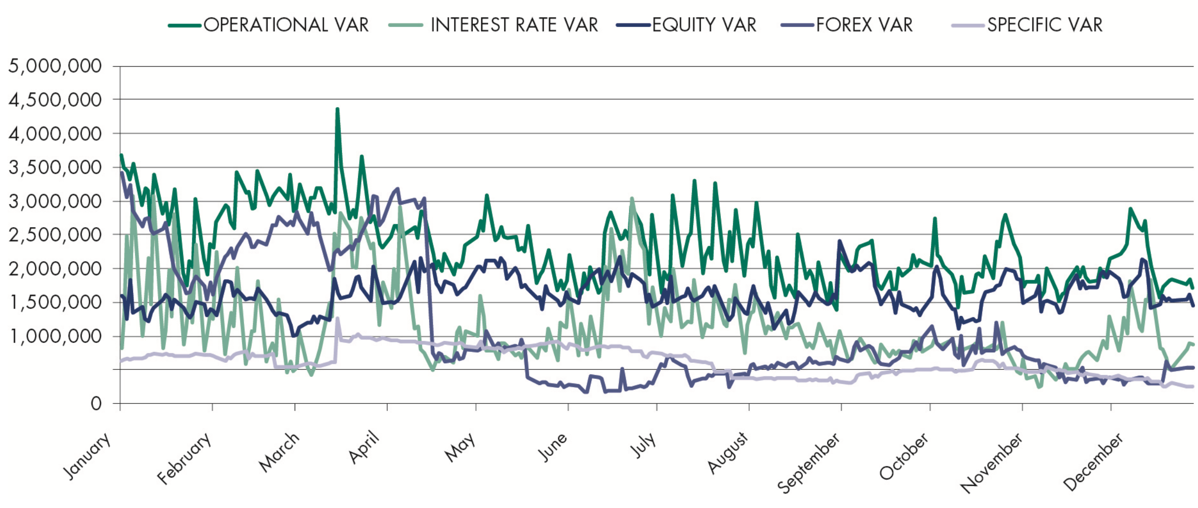
For the remainder of the exposures to derivatives, the exposure is estimated using the standard methodology which is also used for Supervisory reporting purposes.
Furthermore, the Group has met the obligation envisaged by European Legislation (EU Delegated Regulation no. 2016/2251), by exchanging, based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

Regarding the control of financial risk management, the identification, measurement and operating control of the risk positions of Group banks are conducted using an effective position-keeping and risk control system that provides constant monitoring of exposure levels and of the accurate verification of compliance with the operating limits defined by the Board of Directors of the Parent Company and by the Boards of Directors of Group banks.
Financial risks are monitored on a daily basis, both through the use of deterministic indicators (sensitivity to market risk factors and indicators referred to the issuer) and probabilistic indicators (Value at Risk - VaR). The VaR, which indicates the maximum potential loss associated with market movements in unexceptional conditions, over a certain time horizon and with a certain confidence interval, represents a synthetic risk measurement. The approach used to calculate the VaR is based on historical simulation. The values calculated are provided with a confidence interval of 99% and a time horizon of one day. The correlations used are those implicit in the historical scenarios of risk factors applied to estimate the empirical distribution of values in the trading book.
With reference to the IMA (Internal Model Approach) capital requirement, note that starting from 31 December 2020, Banco BPM Group has used the extended model for the calculation of the capital requirement for Market Risk including specific risk on debt securities.

From 17 April 2023, the model to calculate capital requirement 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 – and IRC (Incremental Risk Charge) metrics.
At the end of 2023, the IMA (Internal Model Approach) Capital Absorption of Banca Akros against market risks amounted to approximately 87 million, corresponding to approximately 1,087 million expressed in terms of RWA.
On 11 January 2023, Banco BPM received the Final Decision from the ECB that approved the implementation of the relative change in the IRC calculation method requested in January 2022. The new method guarantees a more accurate estimate of the P&Ls associated with rating migration events through a greater number of financial instruments used to calibrate the spread levels of the worst rating classes. A forward structure with different maturities (1, 3, 5, 7, 10 years) for the different rating classes and sectors was also introduced in the Asset Swap Spread matrix and a CDS spread matrix was created to calculate the P&L associated with the shock spreads of the CDS, with the same forward structure (1, 3, 5, 7, 10 years). Therefore, the new method has been used to calculate capital absorption/RWA starting from the first quarter of 2023. The ECB decision in question led to the removal of the 10% IRC add-on starting from 2 January 2023. As regards the latter metric, a limitation was actually in place with a 10% add-on on an individual and consolidated basis, until several relative methodological findings were resolved. On 14 April 2023, following the remedial activities prepared by the Bank to fulfil obligations 2 and 3 of IMI4145, the ECB granted the authorisation to extend the approach of the IMA model to the exchange rate risk of Banking Book positions.
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.

The performance graph containing the operational VaR figures for 2023 related to the regulatory trading book of Banco BPM Group, is shown below.

Daily VaR and VAR by risk factor
Banco BPM Group: Trading Book



The prevailing risk component in 2023 was that relating to equity risk, followed, in order of importance, by interest rate risk (due to the long delta exposure on the Italian government repo curve). The specific risk component on debt securities was contained and decreased constantly during the year.

Operational risk

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

Also in compliance with the relevant regulations, the Group adopted an operational risk management model that illustrates the management methods and the people involved in risk identification, measurement, monitoring, mitigation and reporting. In particular, the model refers to centralised oversight functions (governance and control functions) and decentralised oversight functions (coordinators and ORM contacts, which are specifically involved in the key processes of collecting operating loss data, continuously assessing the operating scenario and forecasting exposure to risk). This model is governed by a specific Group Regulation approved by the Corporate Bodies.
In line with the mission of Banco BPM Group, the main risk impacts regard the Commercial Practices category, followed by Processes, which together represent the predominant portion of total risk and which, for the most part, arise in the Group's sales networks. With reference to the category of External Fraud, given the trend of increasingly sophisticated techniques (e.g. identity theft, cyber risk phenomena, etc.), the Group is constantly reinforcing physical and logical security, therefore containing these phenomena both in terms of frequency and the average impact on loss events of this kind. The Group takes the appropriate mitigating measures (e.g. training, implementation of application processes/procedures etc.) as protection against the main risk factors that arise.
With reference to the management of operational-reputational risks of Banca Akros, we draw attention to the reputational aspect related to financial research and Investment Banking activities, the potential impact of operational risks due to the size/number of transactions carried out by the Brokerage area and the strategic impact for customers of the activities carried out by both the Investment Banking area and the Corporate & Institutional Banking area.
In particular, note the importance and the related operational risks of the specific structuring and dynamic management of Equity and Fixed Income structured products carried out by Banca Akros as Group Corporate & Investment Bank, inherited from the incorporation of the Corporate & Investment Banking business unit of Banca Aletti (which took place in 2018).
Operational risk, including legal and tax risk, and the reputational risk typically associated with Corporate & Investment Banking activities, including structuring, marketing of structured products and hedging, are present throughout the industry that carries out these activities, given the issues of a contractual nature, pricing, fair value/mark to market and management of structured payoffs, requests for transparency and potential conflicts of interest. The risk of money laundering and proper tax monitoring is also highlighted.

Liquidity risk

Regarding liquidity risk, in 2023 Banco BPM Group effectively carried out its Internal Liquidity Adequacy Assessment Process (ILAAP), which the Corporate Bodies use to ensure that the Group operates with liquidity and funding levels that meet both the minimum regulatory requirements and the risk appetite approved within the RAF.
As part of this process, liquidity risk is monitored regularly, on an intraday, daily (short-term liquidity) and monthly (structural liquidity and funding) basis, for both regulatory metrics (LCR, NSFR, ALMM) and metrics developed internally. In 2023, all regulatory liquidity reports required at the level of Banco BPM Group were prepared.

For further information on credit, financial and operational risk, please refer to Part E in the Notes to the financial statements, which is dedicated to risk management. The same section also contains detailed information on structured credit products, on exposures towards Special Purpose Entities, on securitisation transactions and operations in derivatives.
The models developed internally by Banco BPM Group are subject to periodic tests by the Internal Validation function, which is independent from the functions in charge of developing the models. The results of the tests are illustrated in specific reports shared with the Corporate Bodies. These results did not highlight any significant critical issues on the internal models.

Outlook for Group risks and objectives

The macroeconomic scenario currently forecast for 2024 incorporates moderate growth in the Italian economy, favoured by a fair recovery in household consumption and the return of inflation to levels not far from the objective of the monetary authorities. The labour market should remain strong, helping to support disposable income. The easing of price tensions should allow the ECB to make monetary policies less restrictive. In the background, geopolitical tensions continue (Ukraine, Middle East), but without exacerbations such as to cause shocks to economic activity or significant increases in the prices of energy commodities or worsening inflationary pressure.
The outlook for risks must take into account the consequences that could arise in the event of an escalation of geopolitical tensions and their possible expansion. This with particular regard to the possible repercussions on

international trade and on the dynamics of energy prices. Furthermore, regardless of possible geopolitical events, an element of potential uncertainty concerns the path towards lower inflation. In fact, even in the absence of external tensions, any inflationary upsurge, caused by unexpected accelerations in wage trends or cuts in crude oil production by OPEC member countries, could force the monetary authorities to maintain restrictive monetary policies for a prolonged period of time, with likely effects on yield curves, given current expectations of negative figures.
Any action taken by the Group will in any event be based on a prudent approach, continuously monitoring activities with a view to limiting the impact of potential adverse changes that cannot be predicted in the current economic scenario.
The capital ratios of Banco BPM Group are actually much higher than the minimum levels set by the Supervisory Authorities, guaranteeing adequate coverage of risks also in adverse macroeconomic scenarios.

In view of the above, with regard to credit risk, the Group intends to continue the risk containment process started in recent years, supported by a growth in volumes directed towards sectors characterised by better prospects and lower default rates. Since 2022, the forward-looking assessment of counterparties has incorporated ESG risk factors, mainly related to the transition risk associated with the sector to which they belong. Also in 2023, the careful use of mitigation instruments (guarantees) and the accurate provisioning policy were the foundation for a prudent approach to loan portfolio management.
With regard to the interest rate risk of the Group's portfolio, during the year the Group's risk profile appeared to be generally adequate and consistent with the approved risk thresholds, just as the liquidity profile appeared to be adequate in the short and longer term, complying with the internal risk limits and, where present, with regulatory ones.
The Risk Function coordinated the renewal of insurance coverage relating to the protection of the assets used in operations of the Group, property, plant and equipment and intangible assets, and assets used to guarantee business transactions and to cover damages relating to banking activities, with a view to appropriately managing the transfer of operational risk.
In this context, an analysis of the Group's active coverage was conducted, therefore making any possible rationalisations and boosting the effectiveness of the guarantees acquired.

SUPERVISORY, CONTROL AND SUPPORT ACTIVITIES

Human resources

Human Resources, which has always been attentive to people, has made a particular commitment to the continuous improvement of matters relating to training, sustainability, dissemination of an ESG culture, flexibility so as to guarantee an innovative, attractive and dynamic environment for younger workers.
With a view to boosting the acquisition of new skills and generational turnover, in 2023, also in compliance with trade union agreements relating to the voluntary exit plan, 149 young people were hired, against 250 employees who terminated their employments and gained access to the Solidarity Fund. In addition, to mitigate turnover and ensure proper organisational oversight, additional new hires were made, which contributed to the development of the business through the inclusion of the new skills required by the market and by the changed reference scenario.
Through constant dialogue with personnel and thanks to the synergy of the various Human Resources units, targeted and professional training courses were provided - with particular attention to hiring staff for positions of primary responsibility - planning both technical and managerial coaching, participation in inter-functional company round tables on issues of strategic importance, involving above all younger colleagues, opinion leaders of primary importance for the Company's Strategic Plan.
Within specific personalised career paths, aimed in particular at young people and talents, which have fostered exchange and generational turnover, particular attention was paid to the pursuit of policies aimed at achieving gender equality through the development of female talent, who will enjoy an accelerated career path. The empowerment of women is part of the commitment undertaken by Banco BPM, and at the end of 2023, the presence of female personnel in managerial positions increased by 29.7%.

Banco BPM has also confirmed an attractive welfare system that enables a work-life balance to be achieved, through smart working and flexible working hours. Through careful management by Human Resources, the Group guarantees an inclusive workplace, by promoting a corporate culture centred around respect, maximising talent and potential, and enhancing diversity, without discrimination.

The breakdown of personnel by category and gender as at 31 December 2023 is shown in the table below:

Category	**Men**			**Women**			**Total**
	Full-time	**Part-time**	**Total**	**Full-time**	**Part-time**	**Total**	
Executives	227	-	227	39	-	39	**266**
Middle Managers	5,175	36	5,211	2,177	393	2,570	**7,781**
Professional Areas/Other Personnel	4,943	175	5,118	3,800	2,751	6,551	**11,669**
Foreign employees	26	-	26	17	2	19	**45**
Total workforce	**10,371**	**211**	**10,582**	**6,033**	**3,146**	**9,179**	**19,761**
of which:							
Apprentices	150	-	150	241	1	242	**392**
Permanent contracts	10,219	211	10,430	5,792	3,145	8,937	**19,367**
Fixed-term contracts	2	-	2	-	-	-	**2**
Supply contracts	-	-	-	-	-	-	**-**

Remuneration Policies

With regard to the remuneration policy, the short-term and the long-term incentive schemes are particularly important, as they encourage personnel to achieve company and Group objectives, both in the short and medium-long term.
The short-term incentive scheme represents a management lever to recognise contribution and to reward individual merit. The long-term incentive scheme supports the Strategic Plan and aligns the interests of management with those of the stakeholders that are important to the Group.
Detailed information concerning the Group's remuneration policy can be found in the "Policy-on-remuneration report and payouts awarded", drawn up in accordance with the provisions of the Italian and European supervisory authorities and approved by the Bank's Corporate Bodies.

The Report is published on the Group website www.gruppo.bancobpm.it (Corporate Governance - Remuneration Policies section).

Development and training

This unit oversaw the development, selection and training levers through a combination of investment in people and the dissemination of a culture of sustainable development and management, in order to generate value and achieve strategic objectives, taking into account the fundamental principles of the People Strategy.

Planning and development

In 2023, progress was made on development programmes for Young and Key People targets, who have excelled due to their individual characteristics, commitment, growth aspirations and for whom the Company has decided to make a significant investment in their development. In particular, empowerment courses focused on self-awareness, on developing soft skills, which are useful for understanding new professional scenarios and personal leadership styles. At the end of the year, a managerial development programme was also launched to consolidate their expertise.
More specifically, the Youth Programme involved around 220 people, in addition to the 700 of the previous year, with the aim of recruiting and developing young people professionally in their first few years with the Company. The "Boost your talents" programme involved around 420 people and is dedicated to key people currently in professional/commercial positions to boost the development of more complex roles. The Gender Programme was also concluded, which since 2021 has involved around 280 women, with the aim of boosting self-confidence, by working on personal effectiveness, the power to influence and self-assertiveness. Lastly, the Manager Programme involved a first group of about 250 people, who hold second and third line managerial positions and aims to strengthen the managerial team, by consolidating their leadership styles and the training in the skills needed for managerial positions in the current complex and changing environment.
Personalised development and management levers were also activated, such as mentoring paths, which involved around 150 young people during the year, and some coaching courses to provide training in specific managerial skills.
The 2022 performance assessment was concluded at the beginning of the year, the development objectives for 2023 were established. At the end of the year, self-assessments and assessments were conducted for 2023 on a population of approximately 19,200 people. The system, applied to all Group companies that comply with the National Collective Labour Agreement for the Credit sector, promotes the empowerment of managers and contract workers and promotes the dissemination of responsible behaviour. The principles of fairness and meritocracy contribute to creating a harmonised culture, by empowering employees and enabling managers to develop their own leadership style. In parallel, the 2022 assessment cycle was completed and the 2023 cycle for top management was launched, which also focuses on the ESG dimension as one of the most important performance monitoring subjects.

In 2023, a new Performance Management model was established, which provides a more accurate recognition of a person's contribution and creates greater involvement. It features 4 tools:
- Understanding Professional Aspirations: a tool dedicated to listening to people that allows everyone to communicate their development objectives to the Company. Active since 2023;
- New Performance Assessment System: it will make it possible to assess not only organisational behaviour (how people perform in everyday life), but also the content of their activities (what people do). It will be activated in 2024;
- Continuous Feedback: it will make it possible to guide individual actions in real time through bidirectional, top-down and bottom-up feedback. It will be fully operational from 2025;
- Skill observation: it will make it possible to collect further information on a person's skills. It will be activated in 2024.

The new model will be accompanied by change management actions to facilitate the transition to the new assessment and development culture: at the end of the year, the first module of a training course dedicated to Managers was launched and, at the same time, communication actions were launched on the entire company population.
In 2023, a knowledge survey was carried out, which involved the staff of the Administration and Budget Function (approximately 160 people) to identify the wealth of technical expertise at the present time. The analysis of the data

collected will make it possible to identify areas of improvement as regards expertise, and to define the priorities for an action plan, outlining a training plan that guarantees the development of know-how, based on emerging topics (upskilling and reskilling).
All training courses dedicated to IT and Data Governance functions were also launched, designed in line with the skill matrix (knowledge mapping), carried out as part of the development programme launched in 2020 and aimed at supporting IT transformation and strengthening the role of Data Quality and IT Security.
The courses planned and provided are:

- Data Analytics Skills course: specialist training in advanced analytics relating to technical topics such as an introduction to Data Science, Python Programming and Machine Learning;
- Basic and advanced training on distributed systems;
- Cloud culture and new architectural systems;
- Professional Certifications (TOGAF, SCRUM, ITIL, PMP/PMI);
- Specialised technical training (software and hardware).

Selection and Assessment

The fully digitalised selection process made it possible, already in 2022, to identify the best recent graduates with skills in line with the company's needs and the new professional skills sought. About 1,180 people participated in the selection process, which enabled the recruitment of young people who later became part of the Group.
In 2023, 55 internships were offered to university students and recent graduates, which allowed them to gain experience in what they had learned during their studies and to improve their skills and increase their awareness in relation to future career choices.
Employer Branding initiatives continued to strengthen ties with the local community, as they made the know-how of Banco BPM professionals available to schools and universities through university testimonials, career guidance initiatives and career days. In addition, three Company Visits were organised at our offices in Milan, to allow students to get to know Banco BPM up close. These initiatives involved a total of roughly 1,600 young people and 58 colleagues in collaboration with 16 institutions (universities, business schools and training organisations).
As part of the programme addressed to women (Gender Programme), Assessment activities continued, involving 278 colleagues. The Assessment, placed within a professional growth programme, provides a useful set of information on the person's skills to better identify development actions and is an important moment of personal awareness. The initiative reflects the attention that Banco BPM places on the enhancement of its people.

Training

In 2023, Training consolidated the People Strategy initiatives originating from the 2021-2024 Strategic Plan, specifically focusing on professional refresher courses and building key skills to be able to deal with organisational changes and professional developments. The initiatives, through careful planning that encompasses different training methods, are divided into:

- specialist initiatives, for individual targets (Managers, Development programmes for Young People, Talents, Managers and Women; Career Paths and training initiatives for the Commercial Networks, Group Companies and the Central Units;
- initiatives of common interest, for the entire company population (ESG and Sustainability, NRRP, Digital Transformation, Regulatory Evolution and Regulation, Inclusion, Diversity and Organisational Well-being).

Specialist Initiatives - Professional development paths.

With a view to professional development, career paths have been designed that allow people to grow, experiment and expand their skills over time through training, management experience and activation of development levers. The targets of these dedicated programmes are: Young people, Key People, Women and Managers:

- programmes dedicated to Young People to support their development with the aim of supporting them, involving them and engaging them in company life;
- programme dedicated to Key People to enhance talent and the individual on their career path, by developing useful skills to sustain the bank's future growth. This programme also includes an empowerment process to enhance female talent (Gender Programme), aimed at enhancing self-confidence, working on the power to influence and self-assertiveness;

- Manager programme to develop the key skills that characterise managerial positions in the current environment, which can be followed by an individual coaching path to develop one or more specific skills aimed at enhancing professional performance.

2023 managerial training was divided into different types of initiatives:

- Initiatives dedicated to Front Line managers:
  - Specially designed training initiatives on Mandatory Training topics, including Italian Legislative Decree 231/01 and the Code of Ethics;
  - Networking for a Sustainable Business. The project seeks to encourage a common reflection among the Heads of the Commercial Network of Banco BPM Group (Retail, Corporate, Aletti, Akros) to enhance and strengthen the synergies between the Networks in an integrated and sustainable business logic;
- Initiatives dedicated to other managerial positions: Management training provided support in analysing the current VUCA context (Volatility, Uncertainty, Complexity, Ambiguity), through new and different approaches, in developing greater awareness of their resources and talents, in effective team management, in identifying the most virtuous actions and behaviour to produce lasting "value" over time. Specifically:
  - Circles of value: meetings aimed at second-line managers on the topic "Agile, responsible leadership and respect for sustainable growth";
  - Project management: to strengthen the ability to manage and monitor projects;
  - Career paths: with courses dedicated to new appointments to provide the necessary tools to govern management complexity, both for the Commercial Network (HUB Branch Managers, Business Centre and Corporate Centre Managers) and for central functions (Third-level Managers);
  - Initiatives dedicated to Banca Akros and Banca Aletti Managers;
- Specialist initiatives - Career paths: Training for professional growth through career paths and dedicated initiatives that allow the key skills of the position to be gradually acquired. In addition, it oversees the continuous updating of skills through up-skilling and re-skilling courses, to continuously update the professional skills needed to respond to the changes and dynamics of the environment:
  - to acquire and consolidate skills for professional qualification in line with Apprenticeship Contracts and for starting a job in the Retail and Business Commercial Network through two-year training courses aimed at filling the position efficiently and effectively;
  - to acquire and consolidate specialist skills for the Corporate Network by integrating elements of innovation, in-depth analysis, competitive and strategic scenario with the aim of providing high-profile and distinctive skills. In particular: initiatives that will be consolidated on the issues arising from the opportunities of the NRRP Plan, Net-Zero Banking Alliance (NZBA) and evolution of the Sales4Change project;
  - to acquire and consolidate specialist skills for Banca Aletti with a focus on sustainability, digitalisation and the approach to the new economic and social structure. In particular: the evolution of wealth management; support and enhancement of the implementation of the new service model; expansion of knowledge of the "Company" world; consolidation of technical skills in terms of advanced asset allocation and sustainable investments; strengthening of soft skills and in-depth analysis of some key topics relating to the position, such as private insurance, asset management and construction of ESG portfolios;
  - to acquire and consolidate specialist skills for Banca Akros. Training initiatives were launched to strengthen skills in: advanced analytics such as Data Science, Python Programming, Machine Learning, Advanced Excel, Excel VBA for the application of new analysis models; Financial Modelling; ESG impacts on financial analysis; Technical English with the aim of strengthening technical communication, specific to the sector and consistent with the activities and market counterparties;
  - to acquire and consolidate specialist skills for Central Units;
  - Bancassurance: development of skills to support the evolution of the Insurance Business and recognition of Banco BPM as a Financial Conglomerate;
  - Up-skilling and re-skilling training courses: the evolution of the professions that characterise the current environment has an impact on the skills needed by people and the organisation. In particular, training courses were provided for the IT and Data Governance functions; Integrated Procurement, Audit, Compliance and Risk Management functions, with the aim of developing and updating specialist skills and related certifications.

Initiatives of common interest (for the entire company population)

- Sustainability, ESG: Training enables people to understand and embrace sustainability issues (ESG) through courses dedicated to the different positions in the company, to spread knowledge of the ESG dimension and culture, and knowledge of the Non-Financial Statement, and to develop technical, commercial and managerial skills with reference to the projects originating from this programme;
- NRRP: Training supported the dedicated Banking function (NRRP programme) by co-designing adequate training solutions for the various targets, aimed at promoting the initiatives of the NRRP programme, and introducing a platform to support relationship managers that will make it possible to identify the customers benefiting from the various opportunities offered by the NRRP;
- Inclusion, Diversity and Organisational Well-Being: Training in collaboration with the Inclusion Diversity and Social and People Care units contributes to spreading the culture of inclusion and promoting organisational well-being by setting various initiatives in place: Parenting; Take care (care giver); Disability Management; Comparison between generations; W@W and Work-life balance;
- Digital Transformation: Training accompanies this transformation process, through: the design of training initiatives to support the releases of the DOT programme, training courses dedicated to all positions within the Commercial Network and digital branch, to develop omnichannel topics (Customer Journey, Customer experience, smart selling); development of Digital Soft Skills for central units; Specialist skills for certain functions such as Marketing and Omnichannel, Organisation, IT and Data Governance (agile methodologies, artificial intelligence, big data management);
- Changes in Regulations and Legislation: Training offers programmes to support changes in regulations and legislation to ensure compliance with the same, to protect the company's reputation with a view to good business practices for the worker and for the company, incorporating regulatory changes in training courses. In particular, on the following topics: Anti-money laundering, Italian Legislative Decree 231/01, Occupational Health and Safety, GDPR, Cyber security and Business Continuity, Bankit Transparency, IVASS and ESMA-MIFID II.

In 2023, training was mostly provided virtually (synchronous and asynchronous), following the careful redesign of all training initiatives into different modes (virtual classroom; e-learning; mobile learning). The in-person mode was resumed for some specific courses.

2023	**Man-days/ Hours provided**
Training days	151,842
Training hours	1,138,818
of which in % by training area:	
Mandatory	11.2%
Technical - professional	33.9%
Qualifying technical professional	36.8%
Relational/skills development/commercial	14.9%
Managerial	3.2%

Inclusion, Diversity and Social

As part of the unit responsible for enhancing diversity and respect, attention was paid to the following projects:

- #Respect: Banco BPM Group bases its D&I strategy on "respect". Through the 44 workshops of the #Respect programme, which involved more than 1,800 Group managers, a shared definition of respect was reached, understood as "recognition of the other person for who they are and the opportunity for their self-affirmation and individual fulfilment".
  From this definition and from the outputs generated by the working groups, the 'Manifest Commitment' [Impegno Manifesto] was developed, which indicates the respectful and positive conduct that people would like to see every day in our Group, starting from five key words: listening, empathy, reciprocity, enhancement and cooperation.
  The #Respect programme and the Manifest Commitment were promoted and disseminated through various innovative methods (e.g. Respect Radio and Respect Space Gaming) with the involvement of over 15,000 people from our Group;

- Guardiamo Oltre [Let's Look Beyond]: Starting from the value of Respect, various Bank units, coordinated by Inclusion, Diversity and Social and Brand Identity Communication and Sponsorships, are cooperating in a common and shared project, to overcome physical-sensory/technological and cultural/communication barriers and make the Group increasingly accessible and inclusive of all forms of diversity;
- Disability Management: Programme launched in 2022 to manage and support disability in the company, by promoting cultural change, facilitating actions for the inclusion of people with disabilities, and improving business processes based on their involvement;
  During 2023, the mapping of the needs of all colleagues with disabilities was completed, and a shared database was created with the units concerned, with different levels of visibility to identify the needs related to different disabilities and provide the adjustments needed to enable them to perform their jobs.
  Training initiatives were provided to promote the "Design For All" approach and raise awareness of disability management in the company, involving 280 Managers of people with disabilities.
  Continuity in the support dedicated to people with disabilities was guaranteed to focus on the quality of placement in the workplace and improve the level of work performance and interaction with the team, and give advice to Managers and work teams which include a person with a disability;
- Prendersi Cura [Take Care]: In 2023, the "Prendersi Cura" programme was launched for the families of our Group with sons and daughters in different age groups with the objectives of:
  - improving work well-being, promoting work-life balance and supporting motivation;
  - encouraging dialogue between experts and colleagues on family-related issues;
  - providing support to deal with situations of disorientation, when there is a need for care, assistance, and/or personal or family fragility.

Several webinars were therefore provided, including "Welcome Back Mom", which involved around 120 colleagues on their return from maternity leave, "Future parents" and "Parents in developmental diversity", in which 920 colleagues participated.

Labour policies - industrial relations

The main company activities and initiatives that were examined and discussed with the Trade Unions are summarised below.

Second-level collective bargaining

With reference to second-level collective bargaining, note that on 17 February 2023, the complex and detailed negotiations started with the Trade Unions in the second half of 2022 on numerous issues were concluded. The main agreements reached concerned:

- the provision of welfare services to staff belonging to the Professional Areas and Middle Managers category for the amount of 1,500 euro, in addition to the extraordinary disbursement made in December 2022 through welfare services, amounting to 500 euro to support the Group's employees and their families, to help them deal with the current economic situation;
- the management of the repercussions on personnel resulting from the rationalisation of the commercial network, also with the use - with a view to generational turnover - of the extraordinary benefits of the Sector Solidarity Fund for an additional 250 people (to supplement the agreements of 29 December 2020 and 3 May 2021);
- the extension of second-level collective bargaining and of the agreement on commercial policies and work organisation;
- the financing by the Joint Interprofessional Fund (Banks and Insurance Companies Fund) of a series of training courses;
- the renewal of agreements on smart working, smart learning and voluntary suspension from work.

Furthermore, following the increase in interest rates, meetings were held regarding the impacts of these increases on workers. As a result of these meetings, with an agreement of 6 July 2023, specific solutions were identified regarding the financial conditions reserved to Group employees which, by mitigating the impacts mentioned above, with a view to overall balance, represent a sign of attention and support.
The financial conditions reserved to Group employees on each occasion, were also extended, with a specific agreement, to employees of Banco BPM Vita and Banco BPM Assicurazioni, following the entry of these companies into the Group.

Organisational and management interventions

During the first half of 2023, as a result of the procedure envisaged by the national contract for the industry, the closure of 75 branches of the commercial network, decided in 2022, was concluded, with an analysis of the repercussions for the employees involved in the rationalisation.
The standardisation of the opening hours of Banco BPM branches to the public was also illustrated and discussed, confirming the concentration of cash activities in the morning and the alignment of opening hours to the public in the afternoon only for consulting services. Consequently, the application of regulations on risk indemnity, relating to handling cash and valuables, were illustrated and discussed.
Lastly, the reorganisation - starting from 15 January 2024 - of the Retail and Corporate network of Banco BPM was illustrated and discussed, with a change in the format of some branches, updating of the territorial structure and that of the Business Centres as well as reorganisation of the Corporate Centres.

Company interventions

The agreement made on 10 January 2023 marked the conclusion of the procedure of discussion with the trade union relating to the partial demerger of Tecmarket Servizi in favour of Banco BPM, which was completed with effect from 1 January 2023. This transaction envisaged the transfer of 20 of the 23 resources of Tecmarket to the Parent Company, and consequently to the National Collective Agreement for the Credit sector.

The procedures relating to the transactions to rationalise the Group's corporate and operating structure were also activated, starting from 2024:

- partial demerger of Banca Akros in favour of Banco BPM, with the relative transfer to Banco BPM of the 62 resources belonging to the demerged business unit;
- incorporation of Banco BPM Invest SGR, with the consequent transfer of 10 Banco BPM resources to the Asset Management Company.

Prevention and protection activities as regards health and safety in the workplace

Also in 2023, the Social Partners continued to focus on the issues of prevention and protection as regards health and safety in the workplace. In particular, with the end of the national pandemic emergency on 31 March 2023, the focus on and protection of so-called "fragile" workers continued, in coordination with the changes in the relevant legislation.

Internal audit

On the one hand, the Audit Function of the Parent Company is responsible for monitoring the regular performance of operations and the evolution of risks, with a view to third-level controls, including on-site and off-site checks, and, on the other hand, it strives to assess the efficiency and effectiveness of the Internal Control System overall, reporting the results of its activities to the corporate bodies, as well as the measures that management needs to implement to achieve the full adequacy of the control system and its processes.
The Audit Function is responsible for the internal audit activities relating to all the central and peripheral units of the Italian companies of the banking Group. For the only foreign entity belonging to the Group (Banca Aletti Suisse), it conducts its own audits, in addition to those conducted by the local unit assigned audit activities, and coordinates with the same where necessary. The Audit Function of the Parent Company also carries out the role of guidance, coordination and control of the Internal Audit Functions of the insurance companies belonging to the Financial Conglomerate.
In addition to that envisaged by external legislation, when performing its duties, the Audit Function takes the provisions of international professional standards into account.

The audits conducted in 2023 regarded the following areas:

- governance processes
- risk control and management processes
- finance
- commercial
- credit

- support processes
- banking networks.

With regard to the organisational processes adopted, compliance with internal and external regulations as well as employee conduct, and, more generally, the adequacy of the Internal Control System as a whole.

The most significant activities involving the Audit Function in 2023 included, in addition to obligatory audits (deriving from fulfilments required by external regulations or Internal Regulations), audits regarding credit policies and the granting of credit, the management of irregular or non-performing loans, also through file review credit analyses, the measures for development of the risk measurement processes (with specific regard to the areas interested by the internal models validated for regulatory and Second Pillar purposes). Through specific follow-up activities, the Audit Function also verified the correct implementation of the corrective actions in relation to the findings formalised by the same Function and by the Supervisory Authority, to which it provided its support as part of the audits conducted on-site.
Lastly, in addition to the usual internal audit activity, the Audit Function provided advisory services, offering its experience mostly by participating in projects and working groups, with specific reference to aspects relating to the internal control structure.

Compliance

The Group's Compliance Function carries out its activities, reporting directly to the Chief Executive Officer, both for the Parent Company and for the Group companies that have outsourced the service, and has direct access to the Corporate Bodies, communicating with them without any restrictions or intermediation.
Bank of Italy Circular no. 285/2013 defines compliance risk 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).
The Function oversees the management of compliance risk with regard to all Group activities, according to a risk based approach, verifying that internal procedures are adequate to mitigate that risk.
The Compliance Manager has also been given the role of Data Protection Officer (DPO) in accordance with European Regulation 2016/679 (GDPR) concerning personal data protection.

During the year of reference, the Compliance Function of Banco BPM progressively extended its methodological and operating model to the Compliance Function of Banco BPM Vita, 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 Banco BPM Vita's participation in the Regulatory Services of the external provider Accenture (RegHUB), during 2023, 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 Banco BPM Vita is exposed.
In 2023, the Compliance Function worked on identifying the applicable regulations and assessing their impacts on company processes, models and procedures, providing advice on compliance, as well as assessing compliance with internal regulations as part of the issuing process. In application of the annual or specific plan required by the Corporate Bodies or the Supervisory Authorities, the Function conducted compliance checks to evaluate the existence and adequacy of governance, organisation, control and IT measures of the Group, their strength and effectiveness in mitigating compliance risks, and the compliance of the operating practices and conduct of employees or workers, reporting any situations of non-compliance and identifying possible remediation actions, monitoring their implementation. The Compliance Function also provided advice and assistance to the Group's corporate units on topics where compliance risk is important, particularly as regards preparatory work relating to the issue of internal regulations and sales proposals.

The Function also provided its assistance in conducting personnel training courses, in order to disseminate and promote a solid and robust risk management culture within the Group, adequate knowledge of the regulations and the relative responsibilities, as well as ensure awareness of the supporting instruments and procedures in the fulfilment of obligations.

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 "RI"), in order to improve the ongoing monitoring of certain issues of particular importance.

Anti-Money Laundering

As of 1 July 2022, the Group's Anti-Money Laundering 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, with full autonomy to oversee the risk of money laundering and terrorist financing, as well as reports of suspicious transactions, and has direct access to the Corporate Bodies, communicating with them without any restrictions or intermediation. Furthermore, the Function carries out the activities required under the regulations assigned to the Anti-Money Laundering Function Manager and the Suspicious Transaction Reporting Officer (SOS).
The activities are performed according to a risk-based approach, conducting audits and checks in order to assess exposure to the risk of money laundering and terrorist financing, the effectiveness of the organisational and control oversight measures, when setting them in motion and when established, and any corrective measures to be implemented to remedy the vulnerabilities found.
Among the significant elements that regarded the Anti-Money Laundering Function in 2023, note, in particular: (i) the control activities and the additional measures to strengthen the oversight promoted with reference to the provisions issued by the competent Authorities, also in response to the changed socio-economic and geopolitical context, influenced by the current conflict between Russia and Ukraine, and to the consequent and growing focus on international sanctions and the adequacy of control measures as regards relations with counterparties and countries subject to restrictive measures and; (ii) the various training initiatives, many of which are directly provided by the Anti-Money Laundering Function, addressed to the Commercial Network as well as to Head Office resources, as well as the specific sessions addressed to the Corporate Bodies (board induction), together with the specialist training courses for the Function's resources, provided by highly qualified external teachers.

With reference to the inspections conducted by the Bank of Italy in the field of anti-money laundering, the following should be specified:

- on the subject of combating money laundering in the Private Banking sector of the subsidiary Banca Aletti, particularly with reference to the services offered to customers with significant assets. The on-site phase began on 28 February 2022 and ended on 14 April 2022. On 14 September 2022, Banca Aletti received the outcome of the inspection, which did not result in compliance findings, and on 14 October 2022 sent the corrective action plan, which was concluded in accordance with the deadlines. It should also be noted that the launch of the application to support the improvement of controls as regards the beneficial owner - for which both the solution and the assigned supplier have been identified - will also be monitored as part of the periodic report that the Anti-Money Laundering Function submits, on a quarterly basis, to both the bodies of the Parent Company and those of Banca Aletti.
- as regards the prevention of money laundering, with a view to ascertaining compliance with the obligations envisaged by Italian Legislative Decree no. 231/2007, with specific reference to the cash operations of cooperative banks, also through an assessment of the legislative, procedural and control structure at the Verona offices: the inspection phase (initially on-site) which started on 4 October 2021, was completed off-site on 21 December 2021, the date on which the conclusion of the proceeding was notified. On 18 August 2022, Banco BPM received the outcome of the inspection, which highlighted some areas of weakness in the area of due diligence and in the process of active collaboration with regard to the management of relations pertaining to the cooperatives under analysis. On 29 December 2022, Banco BPM sent the corrective action plan, which was concluded in accordance with the deadlines.

Lastly, the series of projects focused on the continuous expansion and consolidation of technologies to support risk control and monitoring activities, with the aim of promoting a solid and innovative anti-money laundering control system, also in terms of adopting tools based on Artificial Intelligence and Machine Learning logic, continues to be autonomous and transversal with respect to the entire scope of the Function.

Research and development

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

Technological projects and investments

Legal compliance

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

Italian Legislative Decree 231/01 - Administrative liability of Companies

Banco BPM continuously updates its Organisation, Management and Control Model pursuant to Italian Legislative Decree 231/2001 and that of its subsidiaries. During 2023, a number of interventions were carried out, including:

- the updating of the "Regulation of the Organisation, Management and Control Model pursuant to Legislative Decree 231/2001" of the Parent Company, Banca Aletti and Aletti Fiduciaria, to incorporate all the changes that have occurred in the period with reference to both the relevant legislation on the liability of companies and entities, and the safeguards to prevent the commission of the offences referred to in the decree;
- the updating of the 231/2001 risk mapping that involved the commercial network, the central units and top management bodies, to identify the areas that are most exposed to the likelihood of the crimes identified by Italian Legislative Decree 231/2001 being committed.

Italian Legislative Decree 24/23 - Whistleblowing

Concurrently with the entry into force of the provisions of the decree, Banco BPM updated the internal system for reporting violations for the entire Group with reference to:

- the extension of the objective scope of reporting to all unlawful conduct, including alleged, relating to any action, including attempted, acts or omissions of which one has become aware in workplace;
- the possibility for the whistleblower to use, in addition to the IT platform whose references have been updated, a voice channel for reporting or to request a direct meeting;
- the extension of the protection of confidentiality and of retaliation, even if only attempted or threatened, for reasons connected directly or indirectly to the report, in favour of the perpetrators of the same and of the persons and entities related to them, such as any facilitators, persons in the same workplace as the whistleblower, persons linked to them by a stable emotional bond or kinship up to the fourth degree.

Italian Legislative Decree 231/07 – Anti-money laundering and the prevention of terrorist financing

As a result of the issue, on 1 August 2023, of the Bank of Italy Measure which amended the current "Provisions on organisation, procedures and internal controls aimed at preventing the use of intermediaries for money laundering and terrorist financing", Banco BPM updated, for the entire Group, the regulatory framework and the procedures adopted, by revising the Regulations on anti-money laundering and the prevention of terrorist financing, approved by the Board of Directors on 7 November 2023.
During the year, the regulatory recommendations referring to the provisions regarding the restrictive measures of the European Union in the face of the invasion of Ukraine by Russia were continuously updated.

Organisational model

ESG interventions in investment services

As part of the process that aims to gradually integrate ESG dimensions into the provision of investment services, it should be noted that starting from April 2023, steps were taken to:

- enrich, as part of the product governance framework, the classification of products with ESG characteristics through new attributes (i.e. products with the Environmental, Social, Governance label, and that invest in eco-sustainable, sustainable activities or that adopt strategies to manage the main negative effects on sustainability factors - PAI);
- introduce an ESG Consistency check, which works alongside the adequacy check, aimed at verifying the correspondence between the ESG preferences collected from customers through the ESG section of the MiFID questionnaire with the sustainability characteristics of the products.

Technological projects and investments

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

DOT – Digital Omnichannel Transformation

In line with the objectives set for 2023, the programme continued, with significant efforts aimed at the development of digital platforms, the digitalisation of financing procedures and the expansion of the distribution model, through the authorisation to sell products and provide services in Self mode (Web/App) and Online.
As part of the Web and App channels, further functions were completed for Private customers including:

- improving commercial interaction tools through the video collaboration solution via App;
- interventions for the massive dissemination of digital identity;
- extending the third-party banks that can be connected to the YouApp and Webank App through AISP;
- Personal Financial Manager (PFM) and Insight on third-party banks;
- developing the Onboarding Webank by introducing remote digital signatures for joint accounts;
- optimising the Onboarding You process (e.g. appointment at the branch for customers who would like to open a second account, enrichment of customer data obtained from recognitions via SPID);
- numerous improvements of the WeBank and YouApp apps (9 releases).

In addition, the following functions were made available to customers to purchase:

- the new co-badge Debit card on YouWeb and WeBank via Web and App, offered online and within the onboarding process;
- an Agos personal loan on YouWeb and Webank for some target customers;
- the new "Deposit Account" product through the branches of Banco BPM and Banca Aletti, with simultaneous viewing on the Web;
- the "Accident Policy" product of Banco BPM Assicurazioni on-line.

With regard to Corporate customers, the Self mode has been implemented on the YouBusinessWeb channel to request access to loans guaranteed by the Central Guarantee Fund, advance payments on contracts to third parties with credit transfer (CACI) and grants against documents with assignment of credit (SOFI); the latter also implemented on YouInvoice.
The services offered through the App were extended and the user experience was improved in order to align it with the web experience from a mobile first perspective (making appointments online, dark mode, YouCardBusiness management, Amex Business Sale, etc.).
Implementations were also finalised in relation to:

- the inclusion of Insights (commercial suggestions based on specific accounting events) in the Business Financial Manager (BFM) section of YouBusinessWeb;
- the expansion of documents that can be signed in the "signature room" and those that can be signed using the "signature train" on YouBusinessWeb and YouBusinessApp;
- the optimisation of the management of requests to enter/reclassify financial statements, using the Silos platform;

- the implementation on the YouBusinessWeb Portal of new functions for the self-management of customer profile data (changing and certifying reference e-mail/mobile phone, password recovery, request for App token transfer);
- the expansion of products that can be sold in Self mode on the Web and App.

Activities aimed at expanding the services offered by the Digital Branch continued; after the optimisation and digitalisation of customer assistance processes through the improvement of the virtual assistant, development continued, also through Salesforce integrations for App and Web campaigns, and further improvements were made to the VOC (Voice of customer) system and to the customer experience management operating model.
Lastly, remediation activities continued for the subsequent certification of the Group's digital platforms (websites, internet banking, apps) in terms of accessibility, as envisaged by AgID [Agency for Digital Italy] regulations.

Other areas developed:

<u>IT Architecture and Cloud Adoption</u>
During the year, the new agile architecture, designed and implemented in the previous waves, was adopted in various areas of the new Banco BPM information system, both for the purpose of re-engineering existing application layers, and to develop new ones, with particular focus on digital channels, ensuring greater agility, automation, resilience and efficiency.
In addition, to benefit from the advantages in terms of speed, scalability and cost optimisation of the Cloud, in addition to the adoption of further SaaS solutions, the landing zone of the first Cloud Service Provider, fully integrated in hybrid mode, was implemented, leveraging - where appropriate - technologies equivalent to onpremises; it has already been used for 2 application areas of commercial packages that have made use of certified PaaS components.

<u>Data Quality and Data Analytics</u>
To ensure the advancement of the business model and compliance with regulatory and legislative requirements, projects have been launched to increase data reliability and quality and to define analytical synergies to produce information of value in line with the important projects and strategies set in place by the bank.
Activities in the world of credit, risk and ESG are particularly important, with the implementation of the related DWHs and the extension of the data governance framework to relevant processes, in particular in the commercial and finance areas. In line with the development guidelines of Banco BPM, advanced analytical algorithms were identified and implemented, addressed mainly to supporting sales and marketing activities.

<u>Data Centre Evolution and IT System Convergence</u>
In line with the objectives of resilience, modernisation, better performance and to reduce inefficiencies, Banco BPM focused on a project to extend the software solution aimed at ensuring coverage in terms of backup of the distributed world.

<u>Managing Obsolescence</u>
Like every year, to contain operational risks and guarantee service quality and continuity, an overall assessment of the state of obsolescence of applications was conducted, carrying out the consequent updating activities for operating systems, databases, application servers and languages at "End of Life".

Communication

The Brand Identity Partnership and Sponsorship Unit, within the Communication and Sustainability Department, oversees all Group projects and activities that involve and communicate the Bank's image. Banco BPM's institutional and commercial communications are characterised by transparent and clear communication with customers, with a view to continuing the strategic project called "Language R-evolution", pursuing language simplification and transparency.
Starting from the value of Respect, various Bank units, coordinated by Inclusion, Diversity and Social and Brand Identity Communication and Sponsorships, are cooperating in a common and shared project "Guardiamo Oltre" [Let's Look Beyond], to overcome physical-sensory/technological and cultural/communication barriers and make the Group increasingly accessible and inclusive of all forms of diversity.

In the last few months of the year, the Bank launched a new corporate campaign dedicated to businesses with the claim “Let’s encourage doing”.
A campaign that recounts the deep-rooted presence in the territories in which the Bank operates and the strong commitment it has undertaken towards companies, growth and employment engines. “Let’s encourage doing” is a statement that is an integral part of the image. The companies represented are from different sectors: tourism, fashion, crafts, youth entrepreneurship, mechanics, agriculture and logistics. Seven subjects in which the “doing”, the work of individual entrepreneurs, represents the focal point of the message.
In line with developing products in the catalogue, also enabling them for online access, 2023 was characterised by numerous technical implementations aimed at making the digital transformation process of Banco BPM increasingly important, both in the private and corporate spheres. As part of the .DOT program, the customer can now manage sales proposals directly from a PC, smartphone or tablet and can make video calls to their managers via the Teams app.
In support of these important innovations, a detailed “adoption” plan was developed, which entailed sending specific BTL, ATL and “multi-channel digital” communications and reviewing dedicated Customer Journeys. Also for 2023, these communications were characterised by the claim “Always close even online”, with a storytelling process that continues the narrative that began in 2022.
As regards campaigns dedicated to products, 2023 saw the launch of the new Green, national, international and customised Webank Debit Card. The product was again created under the aegis of the ESG trend, using recycled material to protect the environment.
The sudden rise in interest rates that characterised 2023 made it necessary to relaunch and reposition the flagship retail account, Conto You [You Account], both commercially and in terms of its image. Firstly, with a single graphic change to the advertising layout, and secondly with a full advertising repositioning. In October, the campaign dedicated to Banco BPM’s Green Mortgage Loans was launched.
The communication objective, in addition to making the offer known, was to convey the fact that every Banco BPM mortgage loan can become Green, thanks to the Green Factor.
The slogan “open the doors to sustainability” was featured throughout the campaign, which appeared in the main national and local newspapers, as well as in online and social media advertising. With the purchase of a class A or B property or by making a home energy efficient, customer can obtain a reduction in the interest rate.
In 2023, the new campaign dedicated to the agricultural sector and agricultural loans was also launched. The first ad opens with the slogan “With sustainability, the world of agriculture finds the energy to grow”, and is dedicated to agricultural entrepreneurs looking for financing solutions. The second, instead, emphasises a high level of sensitivity to environmental issues, for those who work the land with the slogan “The world of agriculture can only grow if they listen to the Earth”.

The five-year partnership agreement with the AIRC Foundation (Foundation for Cancer Research) as institutional partner of Banco BPM, continued, with a view to raising funds for scientific research and disseminating useful information on the prevention, diagnosis and treatment of cancer.
By sharing the values of sport, which are truly able to educate, bring people together and inspire, Banco BPM and Fondazione Milan provide support to all children and young people hindered by grave social issues, such as poverty, violence and discrimination. As part of the sponsorship of Vero Volley, Banco BPM supports various social projects. During 2023, Banco BPM supported the national Handbike race circuit dedicated to disabled athletes, aimed at promoting inclusion in Italy.

During 2023, Communication underwent a reorganisation that saw the redefinition of the unit that deals with press relations, management of company social media and relations with local institutions, now called “Media and Local Communication”.
In line with the provisions of the 2021-2024 Business Plan, again in 2023, Banco BPM focused on relations with its reference communities, concentrating in particular on listening to the requests made by local communities. Therefore, it continued to provide its support to projects and activities with a strong focus on the social sphere, confirming the Bank’s presence in local events with historical roots, through donations, the administration of which is managed by the Local Communication unit.
Education and instruction continue to be areas of crucial importance to the country, this is why Banco BPM has continued in its commitment to support schools, in the knowledge that education represents the starting point for our country’s future. The “School Project”, launched back in 2018, focused in particular on activities to support public institutions at all levels that need educational, structural and instrumental support, more specifically, in 2023, 46 projects were developed in support of 210 schools throughout Italy.

Also this year, initiatives related to "Financial Awareness" played an important role, through workshops on the topics of economics and finance, with particular attention to retail customers and the world of schools through 28 meetings, of which about 23 in person.
Particular attention was paid to ESG issues for the business world, with the organisation of 15 events that made it possible to meet over 826 entrepreneurs.
In 2023, the unit coordinated the organisational and management of over 150 events and conferences, mostly aimed at raising awareness and discussing ESG issues.
With regard to Media relations, activities focused on strengthening and consolidating relations with national and local newsrooms and press agencies.
In 2023, there were 139 press releases regarding the activities of the entire Banco BPM Group - Parent Company, Group companies and Foundations. Regulated press releases, both price sensitive and non-price sensitive, regard institutional and industrial areas (corporate governance issues, strategic agreements, financial statements results, ECB communications on SREP tests, bond issues, ratings, etc.). Those not regulated concern the areas in which Banco BPM focuses its whole attention on the communities. Efforts also regarded the enhancement of the work of the various units of the Bank with regard to initiatives and results achieved in the ESG sphere, the execution or development of customer loan transactions and the launch of new products and ceilings. These comprehensive communication actions were accompanied by intense media presence, also supported by a programme of dedicated interviews with top management and line managers, and by participation in events and conferences.
On social networks, institutional communication activities focused on the Group's main initiatives in support of communities and businesses. The participation of top management and managers in the numerous events in which they contributed as speakers was appreciated, highlighting the initiatives of the Foundations and corporate voluntary activities. Customer relations were managed by responding to requests received through the main social media channels.

From May 2023, Internal Communication acquired the design, management and supervision of external, institutional and commercial events and the management of owned spaces granted for internal and external events. The "new" Unit, renamed Internal Communication and Events, therefore guarantees a complete and integrated vision and supervision of the Group's activities towards internal and external audiences.
In the first six months of 2023, Internal Communication and Events was involved in the organisation and implementation of "Noi di Banco BPM", the commercial Road Show, addressed to the Network in all its aspects - Retail, Corporate, Banca Aletti and Banca Akros, which saw the return of the Chief Executive Officer, the Chairman, the two CODGs and the front line management to the Bank's main markets (Milan, Novara, Lodi, Bergamo, Modena, Verona, Lucca, Rome, Catania).
The unit oversaw the processes for the preparation and drafting of content, for the CEO, the Chairman, Top Management and for the various Functions of the Bank.
Also in 2023, Internal Communication and Events promoted programmes to foster a culture of respect and conduct consistent with corporate values.
The company Intranet and Corporate TV will also be reconfirmed in 2023 as the priority channels for informing Group colleagues on the most important initiatives in company life.
Below are some of the most significant data relating to the company Intranet:
- 4,103,660 visits recorded;
- 1,025 editorial content managed (carousels, commercial news, human resources news, territorial news);
- 2,604 average views of news and 1,966 average total views of a carousel during its publication.

The unit continued to promote and disseminate a culture of Sustainability both by raising awareness and dissemination, and by enhancing the Bank's work.
During the year, approximately 30 meetings were organised internally, which involved almost 6,000 people: these included Live Commercial Events (on a virtual platform) in the Private and Business worlds, those in Teams with the Chief Executive Officer, Management meetings, Retail Workshops, CIB, Bancassurance, Banca Aletti, and monthly Live Events dedicated to the Business world and Christmas events.
In 2023, the unit coordinated and managed over 70 external events and conferences. The events, held throughout the country, focused on financial issues, market outlooks with particular reference to sustainable investments, sports and artistic areas, and were addressed to both existing and potential customers of the entire Group. We draw attention in particular to the national initiative promoted by the Italian Banking Association, "C'è Cultura" [There's Culture], with 29 events organised in Milan, Bergamo, Genoa, Novara, Verona and Modena.

Investor Relations

During 2023, the Investor Relations team planned, managed and implemented a total of 163 events, meetings and calls, in some cases also with the involvement of the Group's top management. This activity has made it possible to interact with 718 investment companies, financial analysis firms (both in the stock market and in fixed income), rating agencies and other institutional entities. Of these events, 11 with a total of 25 parties attending, focused specifically on ESG issues[1].
During the year, 5 telephone conferences with audio webcasts, during which top management presented the Group's financial performance to the market (results as at 31 December 2022, 31 March 2023, 30 June 2023 and 30 September 2023) and the new 2023-2026 Strategic Plan.

The following table summarises the events held over the year:

	No. of events	% of total	no. of companies met with	% of total
Industry conferences (stock market)	5	3.1%	92	12.8%
Industry conferences (fixed income market)	12	7.4%	132	18.4%
Roadshows & Reverse Roadshows (stock market)	12	7.4%	139	19.4%
Roadshows & Reverse Roadshows (fixed income market)	7	4.3%	81	11.3%
Other individual and/or group meetings, telephone conferences and video conferences (stock market)	104	63.7%	242	33.7%
Other individual and/or group meetings, telephone conferences and video conferences (fixed income market)	7	4.3%	16	2.2%
Meetings/calls with ESG rating agencies	5	3.1%	5	0.7%
Meetings/calls with credit rating companies	11	6.7%	11	1.5%
Total	**163**	**100%**	**718**	**100%**
of which, with a specific ESG focus	11	6.7%	25	3.5%
Presentation to the financial market with conference calls/webcasts	5			

On the stock market front, the Group participated in 5 industry conferences and 12 Roadshows and Reverse Roadshows organised by leading research and brokerage companies. Together, these resulted in meeting 231 counterparties, equal to 32.2% of the total reached overall during the year.
In the fixed income market, Banco BPM participated in 12 industry conferences and 7 Roadshows and Reverse Roadshows, meeting 213 counterparties (29.7% of the total).
The remaining 38.1% of the institutional parties involved had the opportunity to dialogue with the Group on a further 127 occasions (meetings and/or calls, individually and/or as a group).

[1] Includes meetings with exclusively ESG-focused funds or exclusively ESG-focused meetings with "mixed" focus funds and meetings with ESG rating agencies. It should also be noted that it is not unusual for ESG issues to be addressed also in events or meetings without a specific ESG focus or for ESG funds to participate in events or meetings with an exclusively financial focus; nevertheless, these cases are not included in this count, as they are difficult to define.

OTHER INFORMATION

Members and Shareholders

The share capital of Banco BPM, amounting to 7,100,000,000.00 euro, is represented by 1,515,182,126 ordinary shares, with no nominal value.
Banco BPM shares are listed on the Euronext Milan (EXM) market, organised and managed by Borsa Italiana S.p.A.

As at 31 December 2023, the Bank had around 240,000 shareholders, broken down as follows:

- approximately 160,000 depositors at Banco BPM Group;
- around 80,000 depositors with other brokers. This figure represents the situation as at the dividend distribution date (26 April 2023 - payment date), as no accounting transactions regarding the entire share capital were subsequently recorded.

In accordance with Article 120 of the Consolidated Finance Law, anyone who has more than 3% of the capital in a listed share-based company will have to notify the investee company and CONSOB.

As at 31 December 2023, according to the information published on the CONSOB website regarding parties which hold shares exceeding 3% of the share capital of Banco BPM are the following:

- Crédit Agricole with a 9.18% interest;
- Capital Research and Management Company with a 4.99% interest;
- Enasarco Foundation with a 3.01% interest.

Banco BPM stock

In 2023, the value of Banco BPM shares fluctuated in a range of between a minimum closing price of 3.403 euro on 24 March 2023 and a maximum closing price of 5.324 euro on 20 November 2023.
From the beginning of the year, Banco BPM shares recorded a positive performance of +40%. During 2023, average daily volumes were approximately 13.7 million shares.
In addition, it should be noted that at the end of 2023, the Banco BPM share was “covered” by 16 equity research companies (of which: 10 with positive recommendations, 6 neutral and 0 negative), with which continuous dialogue was maintained during the year.

Lastly, the shareholders of Banco BPM have a consultation agreement in place relating to the shares of Banco BPM S.p.A., made public pursuant to Art. 122 of Italian Legislative Decree 58/1998 and Art. 129 of CONSOB Regulation 11971 of 14 May 1999.
This consultation agreement was originally signed on 21 December 2020 between several Italian Foundations, shareholders of Banco BPM for a total share of 5.49% of Banco BPM’s share capital. It was subsequently updated following the entry or exit of new shareholders from the agreement itself, or due to changes in the shareholding held by an individual participant in the agreement, on 20 July 2021, 18 October 2022, 31 December 2022, and 27 March 2023 and 19 December 2023. To date, this agreement encompasses shareholders that hold 8.3% of the Bank’s share capital.

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

Group ratings

Summary table of Banco BPM ratings

Rating Agency	Type of Rating	31/12/2023	31/12/2022
DBRS Morningstar	Long Term on Senior Debt and Long-term Issuer Rating/Trend	BBB/Stable	BBB/Stable
	Short Term on Debt and Short-term Issuer Rating/Trend	R-2 (high)/Stable	R-2 (high)/Stable
	BBB (high)/Stable	BBB (high)/Stable	BBB (high)/Stable
	R-1 (low)/Stable	R-1 (low)/Stable	R-1 (low)/Stable
	Intrinsic Assessment	BBB	BBB
	Support Assessment	SA3	SA3
Fitch Ratings	Long Term Issuer Default Rating (IDR)/Outlook	BBB-/Stable	BBB-/Stable
	Short Term Issuer Default Rating (IDR)	F3	F3
	Long Term Deposits	BBB	BBB
	Short-Term Deposits	F3	F3
	Viability Rating (VR)	bbb-	bbb-
Moody's Investors Service	Long Term on Senior Unsecured Debt and Issuer Rating/Outlook	Baa2/Stable	Ba1/Stable
	Long Term on Deposits/Outlook	Baa1/Stable	Baa2/Stable
	Short Term on Deposits	P-2	P-2
	Baseline Credit Assessment	Baa3	Ba2
	Counterparty Risk Assessment	Baa2(cr)/P-2(cr)	Baa2(cr)/P-2(cr)
S&P Global Ratings	Long Term Issuer Credit Rating/Outlook	BBB-/Positive	-
	Short-Term Issuer Rating/Outlook	A-3	-

Summary table of Banca Akros ratings

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

During 2023, S&P Global Ratings assigned the ratings described above to Banco BPM for the first time, positioned in investment grade area.
As part of normal rating activity, the agencies DBRS Morningstar, Moody's Investors Service and Fitch Ratings monitored Banco BPM's activities through reports, press releases and rating actions; the following were the main events:

- On 12 October 2023, DBRS Morningstar (hereinafter DBRS) confirmed the ratings and the Trend of Banco BPM and its subsidiary Banca Akros, as summarised in the table above. This confirmation follows the upgrade of Banco BPM's ratings carried out by DBRS in October last year and reflects the Group's solid market position in the rich regions of Northern Italy as well as the gradual improvement in profitability. The ratings are also supported by the robust funding and liquidity profile and the solid capital position of the Group;

- On 5 April 2023, Fitch Ratings (hereinafter Fitch), confirmed the Banco BPM ratings in the investment grade area, with a "Stable" Outlook. The ratings are based on the analysis of Banco BPM's profile, which leverages its solid franchise, rooted in Northern Italy, and takes into account good business diversification, the improvement in profitability and asset quality, a disciplined approach to risk and adequate capital reserves, a stable and diversified funding profile and solid liquidity metrics;
- On 21 November 2023, Moody's Investors Service (hereinafter Moody's) improved the main ratings of Banco BPM by 2 notches. In its specific considerations on Banco BPM, Moody's recognises the significant improvements in asset quality and profitability, together with the strengthened capital position and the solid liquidity and funding profile.

PERFORMANCE OF THE MAIN GROUP COMPANIES

A summary of the main equity interests in Group companies is presented below, with an indication of the most significant balance sheet, income statement and operating balances as at 31 December 2023.
As regards the Parent Company, Banco BPM, please refer to the separate financial statements.

Banca Aletti

(millions of euro)	2023	2022	Change
Income statement figures			
Net interest income	47.6	4.9	N.S.
Net fee and commission income	102.3	100.5	1.9%
Operating income	148.5	102.7	44.6%
Operating expenses	(85.4)	(75.9)	12.4%
Profit (loss) from operations	63.2	26.8	135.5%
Profit (loss) before tax from continuing operations	59.2	21.1	180.0%
Profit (loss) for the year	36.2	13.5	169.0%

(millions of euro)	31/12/2023	31/12/2022 (*)	Change
Balance sheet figures			
Total assets	1,805.2	2,607.5	(30.8%)
Loans to customers (net)	572.7	491.8	16.4%
Financial assets and hedging derivatives	0.9	5.0	(82.0%)
Shareholders' equity	394.8	371.3	6.3%
Customers' financial assets			
Direct funding	1,286.9	2,076.6	(38.0%)
Indirect funding	23,095.6	20,243.4	14.1%
- Asset management	10,593.0	10,126.3	4.6%
- Mutual funds and SICAVs	5,280.1	4,922.8	7.3%
- Securities and fund management	3,634.2	3,349.7	8.5%
- Insurance policies	1,678.7	1,853.9	(9.5%)
- Administered assets	12,502.6	10,117.0	23.6%
Information on the Organisation			
Average number of employees	477	471	1.2%
Number of bank branches	53	52	

(*) The figure for indirect funding was restated to allow for a like-for-like comparison.

Financial and economic ratios and other data

	31/12/2023	31/12/2022
Alternative performance measures		
Profitability ratios (%)		
Financial margin / Operating income	32.1%	4.8%
Net fee and commission income / Operating income	68.9%	97.8%
Operating expenses / Operating income	57.5%	73.9%
Return on assets (ROA) (1)	2.00%	0.52%
Return on equity (ROE) (2)	10.09%	3.76%
Return on tangible equity (ROTE) (3)	10.96%	4.13%
Operational productivity figures (thousands of euro)		
Loans to customers (net) per employee	1,201	1,043
Operating income per employee	311	218
Operating expenses per employee	179	161
Regulatory capitalisation and liquidity ratios		
Common equity tier 1 ratio (CET1 capital ratio)	77.2%	87.2%
Tier 1 capital ratio	77.2%	87.2%
Total capital ratio	77.2%	87.2%
Leverage ratio	43.3%	49.1%
Other Ratios		
Loan to deposit ratio (LTD) (4)	44.5%	23.7%

(1) Calculated as the ratio of net profit (loss) for the year to total assets.
(2) Calculated as the ratio of net profit (loss) for the year to shareholders' equity excluding the profit (loss) for the year.
(3) Calculated as the ratio of net profit (loss) for the year to shareholders' equity, determined by excluding the profit (loss) for the year and intangible assets, net of the related tax effects, from shareholders' equity.
(4) Calculated as the ratio of loans to customers to direct funding.

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

Banca Akros

(millions of euro)	2023	2022	change
Income statement figures			
Financial margin	48.3	57.3	(15.7%)
Net fee and commission income	57.6	47.7	20.7%
Operating income	143.1	119.2	20.0%
Operating expenses	(100.8)	(89.0)	13.3%
Profit (loss) from operations	42.3	30.3	39.7%
Profit (loss) before tax from continuing operations (*)	42.4	30.2	40.4%
Profit (loss) after tax from continuing operations	31.1	21.3	45.9%
Net profit for the year	28.9	18.7	54.2%

(*) also gross of contributions to guarantee schemes.

(millions of euro)	31/12/2023	31/12/2022	change
Balance sheet figures			
Total assets	7,702.7	9,445.5	(18.5%)
Loans to customers (net) (*)	296.2	1,773.0	(83.3%)
Financial assets	6,416.7	6,222.7	3.1%
Shareholders' equity	743.1	728.1	2.1%
Customers' financial assets			
Direct funding	803.1	1,839.0	(56.3%)
Information on the organisation			
Average number of employees and other staff	209	204	
Number of bank branches	1	1	

(*) Customers consisting of qualified and professional counterparties.

	31/12/2023	31/12/2022
Alternative performance measures		
Profitability ratios (%)		
Return on Equity (ROE)	4.04%	2.64%
Return on assets (ROA)	0.37%	0.20%
Financial margin/Operating income	33.74%	48.05%
Net fee and commission income/Operating income	40.23%	40.01%
Operating expenses/Operating income	70.46%	74.62%
Profit (loss) before tax from continuing operations (*)/Operating income.	29.64%	25.34%
Operational productivity figures (thousands of euro)		
Loans to customers (net) per employee	1,417.0	8,691.3
Operating income per employee	684.7	584.5
Operating expenses per employee	482.5	436.1
Annual average operational VAR (99%, 1 day)	1,800	2,100
Other ratios		
Financial assets/Total assets	83.30%	65.88%
Derivative assets/Total assets	26.08%	21.76%
- trading derivatives/Total assets	26.08%	21.76%
- hedging derivatives/Total assets	-	-
Net trading derivatives/Total assets	2.32%	0.10%
Net loans/Direct funding	36.88%	96.41%
Regulatory capitalisation ratios		
Common equity tier 1 ratio (CET1 capital ratio)	23.99%	22.42%
Tier 1 capital ratio	23.99%	22.42%
Total capital ratio	23.99%	22.42%
Leverage ratio	14.06%	11.76%

(*) also gross of contributions to guarantee schemes.

It should be noted that, for greater clarity, the above figures do not consider the accounting classifications envisaged by IFRS 5, following the partial demerger concerning the assignment of the business unit relating to "Proprietary finance" activities by Banca Akros to Banco BPM.

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

Other equity interests

(millions of euro)	Total assets	Shareholders' equity (*)	Direct Funding	Indirect Funding	Net loans	Profit (Loss)
Banks						
Banca Aletti & C. (Suisse)	71.6	28.4	39.4	585.0	4.3	(0.8)
Bipielle Bank (Suisse) in liquidation	24.6	23.0	-	-	-	(0.4)
Insurance companies						
Banco BPM Vita	6,827.2	838.3	5,864.9	-	-	80.5
Vera Vita	7,551.4	307.3	6,913.0	-	-	58.1
Vera Financial	2,500.0	77.7	2,364.4	-	-	5.8
Financial companies						
Aletti Fiduciaria	8.8	6.9	-	839.9	1.0	(0.3)
Oaklins Italy	3.1	2.2	-	-	-	0.5
Other companies						
Tecmarket Servizi (**)	19.6	6.3	-	-	-	0.1
Ge.Se.So.	1.5	0.4	-	-	-	0.02

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

The figures shown in the previous table refer to the balance sheets and income statements as at 31 December 2023 used to prepare the consolidated financial statements.

Relations with subsidiaries and associates

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

Own shares of the Parent Company and of subsidiaries

The disclosure relating to own shares of the Parent Company and to changes in the year is provided in section 13 - Group Equity in Part B of the Notes to the Consolidated Financial Statements.
As illustrated in the Section dedicated to significant events during the year in this report, in February 2023, the Parent Company launched a purchase programme for its own shares to support existing short and long-term incentive plans.

The programme, carried out between 28 February and 6 March 2023, regarded 2,418,855 Banco BPM ordinary shares for a total value of 10 million.

Consolidated non-financial statement

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

Report on corporate governance and ownership structures

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

Remuneration report

Banco BPM Group prepares the Policy-on-remuneration report and payouts awarded of Banco BPM Group's staff pursuant to the Supervisory Provisions of the Bank of Italy (Circular no. 285/2013, 37th update, Part I, Title IV, Chapter 2 "Remuneration and incentive policies and practices"), of Art. 123-ter of Italian Legislative Decree 58/1998 as amended, of Art. 84-quater of the Issuers' Regulation (CONSOB resolution no. 11971/1999 as amended) and of IVASS Regulation 38/2018 and related Guidelines, in separate documents, published on the website www.gruppo.bancobpm.it, in the "Corporate Governance – Remuneration Policies" section.

Preparation of the financial statements in XBRL format

According to the provisions of European Commission Regulation 815/2019 (European Single Electronic Format – ESEF Regulation), Banco BPM has drawn up this Annual financial report in the ESEF format, which represents a combination between xHTML language (for the presentation of the financial reports in a legible format for human users) and the XBRL markup (eXtensible Business Reporting Language).
Furthermore, the information contained in the schedules of the consolidated financial statements (balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity and cash flow statement) and in the Notes to the Consolidated Financial Statements were mapped according to "inline XBRL" specifications contained in the basic taxonomy issued by the ESMA (European Securities and Markets Authority).
It should also be noted that, to fulfil the communication obligations envisaged by the Transparency directive (Directive 2004/109/EC), the Annual financial report drawn up by Banco BPM in the format envisaged by the ESEF Regulation will be published within the legal terms.
For further details, please refer to the Notes to the consolidated financial statements - "Part A Accounting policies - Section 5 - Other aspects".

OUTLOOK FOR BUSINESS OPERATIONS

After the positive start of January, confirmed by the resilience of employment and encouraged by fiscal measures that are still moderately expansionary, the Italian economy could also record a trend in 2024 comparable to the 0.7% growth reported in 2023, even if negative effects deriving, in particular, from the uncertainty of the geopolitical framework, especially in Ukraine and the Middle East, cannot be excluded. The return of inflation towards the medium/long-term objective of 2% set by the ECB may continue if the weak prices of commodities and energy persist, offsetting the potential upward pressure on wages. In this context, a cycle of expansionary monetary policy can be expected to start in the second half of the year.

The competitive pressure on direct funding created by the high yields of government issues will tend to lessen as the expected decline in the curve takes place; on this front, however, forms of time deposits will continue to make an important contribution, which will enable outflows on the segments most attracted by the highest returns to be contained. Overall, the net interest income should in any case show a positive trend, benefiting from a higher average level of rates, over the 12 months as a whole, than that of the previous year.

After the volatility of 2023, fee and commission income will increase, with the support of investment products, thanks to the expected positive trend in placements, as well as the recovery of credit disbursements after a year of weak demand from households and businesses. A decisive boost will also come from the product factories, which will make it possible to support the contribution from the e-money and non-life insurance sectors, and to benefit from the full potential of the revenues of the life segment following the integration of Vera Vita completed in December 2023.

The trend in operating expenses will be affected by inflation and the recent renewal of the national contract, the effect of which will be gradually reabsorbed thanks to the assumed implementation of the early retirement plan starting from the second half of the year; in terms of expenses, operations will benefit from specific rationalisation programmes, also by leveraging progressive technological support within production and back-office processes. With regard to provisions, substantial stability is expected as potential increases in the default rate - albeit mitigated by the reversal of the monetary cycle - offset the lack of adjustments aimed at supporting the additional programme to reduce non-performing assets. The Group’s credit policies will in any event continue to be prudent, with a careful selection of industrial sectors and customers; similarly, coverage will remain stable at precautionary levels, confirming the rigour in the valuations adopted in recent years on both performing and non-performing exposures.

For the entire year, the upward trend of the Group’s net profit was confirmed, with an estimated EPS 2024 of approximately 90 cents, net of non-recurring components (greater than 1.1 euro considering the one-off components that can be assumed), in line with the profitability trajectories outlined in the Strategic Plan presented in December. In light of the trends described above and the ability to generate stable increases in profitability and to create organic capital, all profitability and shareholder remuneration targets announced in the latest Plan are confirmed.

SIGNIFICANT EVENTS OCCURRING AFTER THE END OF THE FINANCIAL YEAR

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

Verona, Italy, 27 February 2024

The Board of Directors

Consolidated financial statements

CONSOLIDATED BALANCE SHEET

Asset items	**31/12/2023**	**31/12/2022 (*)**
10. Cash and cash equivalents	18,297,496	13,130,815
20. Financial assets at fair value through profit and loss	12,767,534	8,935,495
a) financial assets held for trading	4,354,003	4,508,497
c) other financial assets mandatorily measured at fair value	8,413,531	4,426,998
30. Financial assets measured at fair value through other comprehensive income	19,679,644	12,826,691
40. Financial assets at amortised cost	135,192,553	139,139,766
a) loans to banks	5,926,109	5,492,238
b) loans to customers	129,266,444	133,647,528
50. Hedging derivatives	980,017	1,717,211
60. Fair value change of financial assets in macro fair value hedge portfolios (+/-)	(68,964)	(488,403)
70. Interests in associates and joint ventures	1,454,249	1,652,548
80. Insurance assets	37,124	7,192
a) insurance contracts issued - assets	29,209	-
b) reinsurance assets	7,915	7,192
90. Property, plant and equipment	2,857,953	3,034,689
100. Intangible assets	1,257,425	1,255,124
of which:		
- goodwill	56,709	56,709
110. Tax assets	4,201,154	4,585,484
a) current	351,374	265,552
b) deferred	3,849,780	4,319,932
120. Non-current assets and disposal groups held for sale	468,685	195,792
130. Other assets	5,007,103	3,815,730
Total assets	**202,131,973**	**189,808,134**

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

Liabilities and shareholders' equity items	31/12/2023	31/12/2022 (*)
10. Financial liabilities at amortised cost	143,185,876	153,874,094
a) due to banks	21,765,750	32,636,506
b) due to customers	102,530,321	108,307,067
c) debt securities in issue	18,889,805	12,930,521
20. Financial liabilities held for trading	20,894,156	10,181,692
30. Financial liabilities designated at fair value	6,580,165	3,955,763
40. Hedging derivatives	1,041,678	948,424
50. Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	(710,938)	(1,173,078)
60. Tax liabilities	453,929	267,873
a) current	63,342	1,610
b) deferred	390,587	266,263
70. Liabilities associated with assets classified as held for sale	212,011	25,821
80. Other liabilities	3,302,454	3,438,671
90. Provisions for employee severance pay	246,192	258,457
100. Provisions for risks and charges	648,649	730,395
a) commitments and guarantees given	133,798	144,164
b) post-employment benefits and similar obligations	91,743	99,330
c) other provisions	423,108	486,901
110. Insurance liabilities	12,239,641	4,283,526
a) insurance contracts issued - liabilities	12,239,630	4,283,526
b) reinsurance liabilities	11	-
120. Valuation reserves	(276,378)	(390,030)
140. Equity instruments	1,465,843	1,389,794
150. Reserves	4,507,110	4,249,231
170. Share capital	7,100,000	7,100,000
180. Own shares (-)	(22,936)	(18,266)
190. Non-controlling interests (+/-)	68	720
200. Profit (loss) for the year (+/-)	1,264,453	685,047
Total liabilities and shareholders' equity	**202,131,973**	**189,808,134**

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

CONSOLIDATED INCOME STATEMENT

Items	2023	2022 (*)
10. Interest and similar income	6,559,149	2,937,053
of which: interest income using the effective interest method	6,016,868	2,656,868
20. Interest and similar expense	(3,188,347)	(595,587)
30. Net interest income	**3,370,802**	**2,341,466**
40. Fee and commission income	1,992,338	1,998,389
50. Fee and commission expense	(202,201)	(143,896)
60. Net fee and commission income	**1,790,137**	**1,854,493**
70. Dividends and similar income	79,489	60,840
80. Net trading income	84,615	174,105
90. Fair value gains/losses on hedging derivatives	(1,246)	1,402
100. Gains (losses) on disposal or repurchase of:	(26,383)	(165,927)
a) financial assets at amortised cost	(42,592)	(60,948)
b) financial assets measured at fair value through other comprehensive income	14,942	(101,636)
c) financial liabilities	1,267	(3,343)
110. Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss	(112,065)	9,781
a) financial assets and liabilities designated at fair value	(197,768)	163,348
b) other financial assets mandatorily measured at fair value	85,703	(153,567)
120. Operating income	**5,185,349**	**4,276,160**
130. Net credit impairment losses/recoveries relating to:	(516,031)	(482,702)
a) financial assets at amortised cost	(515,231)	(480,574)
b) financial assets measured at fair value through other comprehensive income	(800)	(2,128)
140. Gains (losses) from contractual modification without derecognition	465	1,713
150. Net income from financial activities	**4,669,783**	**3,795,171**
160. Profit (loss) on insurance services	31,040	15,707
a) insurance revenues deriving from insurance contracts issued	105,019	44,847
b) costs for insurance services deriving from insurance contracts issued	(73,389)	(26,941)
c) insurance revenues from reinsurance	4,390	842
d) costs for insurance services deriving from reinsurance	(4,980)	(3,041)
170. Balance of revenues and costs of a financial nature relating to insurance activities	(144,544)	(51,753)
a) net costs/revenues of a financial nature relating to insurance contracts issued	(145,703)	(51,655)
b) net revenues/costs of a financial nature relating to reinsurance	1,159	(98)
180. Net income from financial and insurance activities	**4,556,279**	**3,759,125**
190. Administrative expenses:	(2,772,828)	(2,741,670)
a) personnel expenses	(1,657,170)	(1,596,860)
b) other administrative expenses	(1,115,658)	(1,144,810)
200. Net provisions for risks and charges	(9,689)	(57,214)
a) commitments and guarantees given	10,366	(14,407)
b) other net provisions	(20,055)	(42,807)
210. Depreciation and impairment losses on property, plant and equipment	(145,990)	(181,400)
220. Amortisation and impairment losses on intangible assets	(131,717)	(130,822)
230. Other operating expenses/income	357,001	345,882
240. Operating expenses	**(2,703,223)**	**(2,765,224)**
250. Gains (losses) of associates and joint ventures	40,817	125,281
260. Fair value gains (losses) on property, plant and equipment and intangible assets	(146,847)	(108,347)
270. Value adjustments to goodwill	-	(8,132)
280. Gains (losses) on disposal of investments	30,628	2,258
290. Profit (loss) before tax from continuing operations	**1,777,654**	**1,004,961**
300. Taxation charge related to profit or loss from continuing operations	(513,223)	(320,700)
310. Profit (loss) after tax from continuing operations	**1,264,431**	**684,261**
330. Profit (loss) for the year	**1,264,431**	**684,261**
340. Profit (loss) for the year attributable to non-controlling interests	22	786
350. Parent Company's profit (loss) for the year	**1,264,453**	**685,047**
Basic EPS (euro)	0.84	0.45
Diluted EPS (euro)	0.84	0.45

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

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Items		31/12/2023	31/12/2022 (*)
10.	**Profit (loss) for the year**	**1,264,431**	**684,261**
	Other comprehensive income after tax without reclassification to the income statement	**(71,551)**	**2,018**
20.	Equity instruments designated at fair value through other comprehensive income	7,498	(35,428)
30.	Financial liabilities designated at fair value through profit and loss (changes to its own credit risk)	(29,945)	(8,478)
50.	Property, plant and equipment	(53,793)	4,883
70.	Defined benefit plans	1,847	40,378
90.	Share of valuation reserves related to interests in associates and joint ventures carried at equity	2,842	663
	Other comprehensive income after tax with reclassification to the income statement	**160,103**	**(719,586)**
110.	Foreign investment hedges	(1,331)	(872)
120.	Exchange rate differences	3,081	2,371
130.	Cash flow hedges	7,174	(11,239)
150.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income	266,826	(829,422)
170.	Share of valuation reserves related to interests in associates and joint ventures carried at equity	4,713	(37,030)
180.	Revenues or costs of a financial nature relating to insurance contracts issued	(120,360)	156,606
200.	**Total other comprehensive income after tax**	**88,552**	**(717,568)**
210.	**Comprehensive income (Items 10+200)**	**1,352,983**	**(33,307)**
220.	Consolidated comprehensive income attributable to non-controlling interests	(22)	(786)
230.	**Consolidated comprehensive income attributable to the Parent Company**	**1,353,005**	**(32,521)**

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

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

31 December 2023	Balance as at 31/12/2022 (*)	Changes in opening balances	Balance as at 01/01/2023	Allocation of profit from previous year		Changes in the year									Shareholders' equity as at 31/12/2023	Group shareholders' equity as at 31/12/2023	Non-controlling interests as at 31/12/2023
						Changes in reserves	Operations on shareholders' equity							Comprehensive income for 2023			
				Reserves	Dividends and other allocations		Issue of new shares	Purchase of own shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on own shares	Stock options	Changes in equity interests				
Share capital:	**7,100,731**		**7,100,731**	**-**			**-**	**-**					**(671)**		**7,100,060**	**7,100,000**	**60**
a) ordinary shares	7,100,731		7,100,731	-			-	-					(671)		7,100,060	7,100,000	60
b) other shares	-		-	-			-	-					-		-	-	-
Share premium reserve	**-**		**-**	**-**		**-**	**-**						**-**		**-**	**-**	**-**
Reserves:	**4,250,006**	**-**	**4,250,006**	**334,742**		**(73,262)**	**(4,413)**	**-**	**-**		**-**	**-**	**67**		**4,507,140**	**4,507,110**	**30**
a) retained earnings	3,905,564	-	3,905,564	334,742		(78,931)	(4,413)	-	-				48		4,157,010	4,156,997	13
b) other	344,442	-	344,442	-		5,669	-		-		-	-	19		350,130	350,113	17
Valuation reserves	**(390,030)**	**-**	**(390,030)**			**25,100**							**-**	**88,552**	**(276,378)**	**(276,378)**	**-**
Equity instruments	**1,389,794**		**1,389,794**							**76,049**					**1,465,843**	**1,465,843**	**-**
Own shares	**(18,266)**		**(18,266)**			**-**	**5,338**	**(10,008)**							**(22,936)**	**(22,936)**	**-**
Profit (loss) for the year	**684,261**	**-**	**684,261**	**(334,742)**	**(349,519)**									**1,264,431**	**1,264,431**	**1,264,453**	**(22)**
Shareholders' equity	**13,016,496**	**-**	**13,016,496**	**-**	**(349,519)**	**(48,162)**	**925**	**(10,008)**	**-**	**76,049**	**-**	**-**	**(604)**	**1,352,983**	**14,038,160**	**14,038,092**	**68**
- of the Group	**13,015,776**	**-**	**13,015,776**	**-**	**(349,519)**	**(48,162)**	**925**	**(10,008)**	**-**	**76,049**	**-**	**-**	**26**	**1,353,005**	**14,038,092**		
- of non-controlling interests	**720**	**-**	**720**	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(630)**	**(22)**	**68**		

(*) The figures relating to the previous year have been restated following the retrospective application of IFRS 17 by the Group's insurance companies, as well as IFRS 9 for associates. For further details on the restatement of the opening balance as at 31 December 2022, please refer to the paragraph entitled "Impacts of the transition to IFRS 17 Insurance contracts" contained in "Section 5 - Other Aspects" of Part A of these notes to the financial statements.

31 December 2022 (*)	Balance as at 31/12/2021	Changes in opening balances	Balance as at 1/01/2022	Allocation of profit from previous year		Changes in the year										Shareholders ' equity as at 31/12/2022	Group shareholders' equity as at 31/12/2022	Non-controlling interests as at 31/12/2022
							Operations on shareholders' equity											
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of own shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on own shares	Stock options	Changes in equity interests	Comprehensive income for 2022				
Share capital:	**7,100,736**	**-**	**7,100,736**	**-**		**-**	**-**	**-**					**(5)**		**7,100,731**	**7,100,000**	**731**
a) ordinary shares	7,100,736	-	7.100.7360	-		-	-	-					(5)		7,100,731	7,100,000	731
b) other shares	-	-	-	-		-	-	-					-		-	-	-
Share premium reserve	**-**	**-**	**-**	**-**		**-**	**-**	**-**					**-**		**-**	**-**	**-**
Reserves:	**4,000,506**	**52,596**	**4,053,102**	**280,448**		**(77,609)**	**(5,935)**	**-**			**-**	**-**			**4,250,006**	**4,249,231**	**775**
a) retained earnings	3,670,845	52,596	3,723,441	280,448		(92,390)	(5,935)	-							3,905,564	3,904,787	777
b) other	329,661	-	329,661	-		14,781	-	-			-	-	-		344,442	344,444	(2)
Valuation reserves	**341,360**	**1,237**	**342,597**	**-**		**(15,059)**							**-**	**(717,568)**	**(390,030)**	**(390,030)**	**-**
Equity instruments	**1,092,832**	**-**	**1,092,832**							**296,962**					**1,389,794**	**1,389,794**	**-**
Own shares	**(8,159)**	**-**	**(8,159)**			**-**	**5,909**	**(16,016)**							**(18,266)**	**(18,266)**	**-**
Profit (loss) for the year	**568,784**	**-**	**568,784**	**(284,448)**	**(288,336)**									**684,261**	**684,261**	**685,047**	**(786)**
Shareholders' equity	**13,096,059**	**53,833**	**13,149,892**	**-**	**(288,336)**	**(92,668)**	**(26)**	**(16,016)**		**296,962**	**-**	**-**	**(5)**	**(33,307)**	**13,016,496**	**13,015,776**	**720**
- of the Group	**13,094,951**	**53,833**	**13,148,784**	**-**	**(288,336)**	**(93,071)**	**(26)**	**(16,016)**		**296,962**	**-**	**-**	**-**	**(32,521)**	**13,015,776**		
- of non-controlling interests	**1,108**	**-**	**1,108**	**-**	**-**	**403**	**-**	**-**	**-**	**-**	**-**	**-**	**(5)**	**(786)**	**720**		

(*) The figures relating to the previous year have been restated following the retrospective application of IFRS 17 by the Group's insurance companies, as well as IFRS 9 for associates. For further details on the restatement of the balances, please refer to the paragraph entitled "Impacts of the transition to IFRS 17 Insurance contracts" contained in "Section 5 - Other Aspects" of Part A of these notes to the financial statements.

CONSOLIDATED CASH FLOW STATEMENT

Indirect method

A. Operating activities	**31/12/2023**	**31/12/2022 (*)**
1. Cash flow from operations	**2,423,444**	**1,739,416**
- profit (loss) for the year (+/-)	1,264,431	684,261
- gains/losses on financial assets held for trading and on other financial assets/liabilities at fair value through profit and loss (-/+)	(126,322)	(14,535)
- capital gains/losses on hedging derivatives (-/+)	1,246	(1,402)
- net credit impairment losses/recoveries (-/+)	515,566	480,989
- net impairment losses/recoveries on property, plant and equipment and intangible assets (+/-)	277,707	320,354
- net provisions for risks and charges and other costs/revenues (+/-)	23,363	63,260
- net revenues and costs of insurance contracts issued and reinsurance (-/+)	113,504	36,046
- taxes, duties and tax credits not settled (+/-)	498,046	305,640
- net impairment losses/recoveries on discontinued operations net of taxes (-/+)	-	-
- other adjustments (+/-)	(144,097)	(135,197)
2. Cash flow from/used in financial assets	**(7,673,093)**	**(6,155,356)**
- financial assets held for trading	365,181	40,287
- financial assets designated at fair value	-	-
- other financial assets mandatorily measured at fair value	(3,943,017)	(2,793,070)
- financial assets measured at fair value through other comprehensive income	(6,853,753)	(2,153,740)
- financial assets at amortised cost	3,432,447	829,761
- other assets	(673,951)	(2,078,594)
3. Cash flow from/used in financial liabilities	**3,216,906**	**(15,536,122)**
- financial liabilities at amortised cost	(10,993,827)	(12,490,168)
- financial liabilities held for trading	11,848,767	(6,336,795)
- financial liabilities designated at fair value	1,067,124	1,246,802
- other liabilities	1,294,842	2,044,039
4. Cash flow from/used by insurance contracts issued and reinsurance	**7,926,183**	**4,276,334**
- insurance contracts issued - liabilities/assets (-/+)	7,926,895	4,283,526
- reinsurance assets/liabilities (+/-)	(712)	(7,192)
Net cash flow from/used in operating activities	**5,893,440**	**(15,675,728)**
B. Investing activities		
1. Cash flow from:	**203,997**	**76,839**
- sales of interests in associates and joint ventures	198,479	75,000
- dividends collected on interests in associates and joint ventures	-	-
- sales of property, plant and equipment	5,518	1,839
- sales of intangible assets	-	-
- sales of subsidiaries and business segments	-	-
2. Cash flow used in:	**(346,840)**	**(327,275)**
- purchases of interests in associates and joint ventures	(157,843)	(700)
- purchases of property, plant and equipment	(73,535)	(122,290)
- purchases of intangible assets	(115,462)	(204,285)
- purchases of subsidiaries and business segments	-	-
Net cash flow from/used in investing activities	**(142,843)**	**(250,436)**
C. Financing activities		
- issues/purchases of own shares	(10,008)	(16,016)
- issues/purchases of equity instruments	(20,080)	208,015
- dividend distribution and other allocations	(349,519)	(288,336)
- third-party sales/purchases	-	-
Net cash flow from/used in financing activities	**(379,607)**	**(96,337)**
Net cash flow from/used during the year	**5,370,990**	**(16,022,501)**

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

Reconciliation	31/12/2023	31/12/2022 (*)
- Cash and cash equivalents at the beginning of the year	13,130,815	29,153,316
- Net cash flow from/used during the year	5,370,990	(16,022,501)
- Cash and cash equivalents: foreign exchange effect	-	-
Cash and cash equivalents at the end of the year (**)	**18,501,805**	**13,130,815**

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

(**) Cash and cash equivalents at the end of the year are represented for 18,297.5 million in item 10) Cash and cash equivalents and for 204.3 million in item 120) Non-current assets and disposal groups held for sale.

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

(thousands of euro)	31/12/2022 (*)	Cash flows	Non-monetary changes			31/12/2023
			Business combinations / loss of control of companies	Fair value changes	Other	
Liabilities deriving from loan activities (items 10, 20 and 30 in the liabilities)	168,011,549	1,922,064	1,595,368	(967,337)	98,553	170,660,197

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

Notes to the consolidated financial statements

PART A – ACCOUNTING POLICIES

A.1 - GENERAL PART

Section 1- Statement of compliance with international accounting standards

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

For the interpretation and application of international accounting standards, the following documents, although not endorsed by the European Commission, have been referenced:
- Conceptual Framework;
- Implementation Guidance, Basis for Conclusions and any other documents prepared by the IASB or IFRIC to complete the accounting standards issued.

The accounting standards applied in the preparation of these financial statements are those in force on 31 December 2023 (including the SIC and IFRIC interpretation documents).

For an overview of the accounting standards and the related interpretations endorsed by the European Commission, whose application is planned for 2023 or future years, refer to "Section 5 - Other aspects", below, which also illustrates the main impacts on the Group.
The attachments to the financial statements contain a list of the IAS/IFRS standards endorsed (including the SIC and IFRIC interpretation documents in force on 31 December 2023).

The communications of the Supervisory Authorities (Bank of Italy, ECB, EBA, CONSOB and ESMA) and the interpretation documents on the application of IAS/IFRS prepared by the Italian Accounting Body (OIC) and by the Italian Banking Association (ABI), with which recommendations were provided on the information to be included in the Annual Report, on certain important aspects in the accounting field, on the accounting treatment of particular transactions, on uncertainties in the macroeconomic scenario, on the impacts of climate change have also been considered, where applicable.

Section 2 - General preparation principles

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

The financial statements and the content of the notes to the financial statements have been prepared in keeping with the provisions of Circular no. 262 of 22 December 2005 "Bank financial statements: layouts and rules for preparation" and the subsequent updates, most recently, the eighth update published on 17 November 2022, which incorporated the new regulations set forth in IFRS 17 "Insurance Contracts". Specifically, this was a Circular issued by the Bank of Italy in exercising its powers established by the above-mentioned Legislative Decree 38/2005 (hereinafter also referred to as "Circular no. 262").
The Bank of Italy communication dated 14 March 2023, entitled "Update of the provisions of Circular no. 262 - Bank financial statements: layouts and rules for preparation - regarding the impacts of Covid-19 and the measures to support the economy" has also been considered. The aforementioned communication repealed the disclosure, envisaged from the 2021 financial statements, on loans backed by Covid-19 moratoria, taking into account the expiry of the suspension period, requesting, in free format, only the financial statement information on loans subject to public guarantees, which are reported in the paragraph "Covid-19 - Declaration of the end of the pandemic emergency and related support measures granted by the Group" contained in "Section 5 - Other aspects" below.

The financial statements provide, in addition to the accounting data as at 31 December 2023, comparative information relating to the last financial statements approved as at 31 December 2022. In line with the aforementioned Circular, items that do not show any amounts for the current period and the corresponding period of the previous year are not included in the above-mentioned schedules.

In this regard, it should be noted that with the entry into force of IFRS 17 "Insurance contracts", an accounting standard to be applied on a retrospective basis, the balances relating to the previous year were recalculated with respect to the originally published amount. For information on the impacts relating to the first-time application of IFRS 17, for insurance subsidiaries and associates, please refer to the specific paragraph entitled "Impacts of the transition to IFRS 17 Insurance contracts" in "Section 5 - Other Aspects".

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

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

The consolidated financial statements are drawn up clearly and provide a true and fair view of the balance sheet and income statement result for the year of Banco BPM and its subsidiaries, as detailed in "Section 3 - Scope of consolidation and methods". The financial statements used to prepare the consolidated financial statements are those prepared by the subsidiaries with reference to 31 December 2023, adjusted, where necessary, to adapt them to IAS/IFRS used by the Group.

If, in exceptional cases, the application of a provision of international accounting standards were to be considered incompatible with a faithful representation of the equity and financial situation and economic result, it is not applied. In such case, the reasons for such possible derogation and its influence on the representation of the balance sheet and income statement result are explained in the Notes to the financial statements.
In this regard, it should be noted that for 2023, as for the previous year, no exceptions were made to the application of the IAS/IFRS accounting standards.
In addition, if the information required by international accounting standards and by the provisions contained in the aforementioned Circular were to be considered insufficient to give a faithful representation, additional information required for such purpose would be provided in the Notes.

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

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

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

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

Notes for a proper comparison of the comparative financial statements

As illustrated in the section dedicated to significant events during the year contained in the Report on Operations, on 14 December 2023, the Group completed the reorganisation of its bancassurance business, which involved, among other things, acquiring control of Vera Vita and of BBPM Life, already 35% owned, and losing control of Banco BPM Assicurazioni.
As at 31 December 2023, the consolidated balance sheet figures therefore reflect the line-by-line contribution of Vera Vita and BBPM Life; as at 31 December 2022, the aforementioned equity investments, held for an interest of 35%, were included in item "70. Interests in associates and joint ventures". In order to be able to appreciate the effects of the consolidation of the companies in question, part "G - Business combinations regarding companies or divisions" provides an illustration of the identifiable net assets acquired, based on the provisions of the Purchase Price Allocation (PPA) process. In addition, for a more immediate understanding of the changes in the balance sheet items resulting from the aforementioned business combination, the annexes to the financial statements provide evidence of the contribution of the aforementioned companies on the balance sheet as at 31 December 2023, constructed on the basis of the PPA values, net the elimination of intercompany transactions and other consolidation adjustments ("Consolidated balance sheet: contribution of insurance companies").

Considering that the date of acquisition of control is conventionally established as 31 December 2023, the relative economic contribution, measured on the basis of the equity method and for the share previously held (35%), is shown under item "250. Gains (losses) of associates and joint ventures" for the whole of 2023, therefore comparable with 2022.
The investment held in the former subsidiary Banco BPM Assicurazioni, whose balance sheet figures were included in the financial statements for 2022 under assets and liabilities held for sale, is represented in the asset item "70. Interests in associates and joint ventures", qualifying as an interest in an associate as at 31 December 2023. Considering that the date of loss of control is conventionally established as 31 December 2023, the relative economic contribution is represented, line by line, in the consolidated income statement for the whole of 2023, as the case envisaged by IFRS 5 does not apply to discontinued operations. For 2022, the contribution was reflected, line by line, only from the date of 1 July 2022, i.e. from the date of acquisition of control, while the contribution of the first half of 2022, when the interest held in the company was 19%, it was indicated in item "250. Gains (losses) of associates and joint ventures".
Lastly, again to ensure an accurate comparison of the relative balances, note that the contribution of the subsidiary Banco BPM Vita, recognised on a "line by line" basis in the income statement for 2023, was only reflected consistently from 1 July 2022, namely from the date of acquisition of control; instead, the contribution in the first half of 2022, relating to the 19% interest held, was shown under item "250. Gains (losses) of associates and joint ventures".

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

The application of certain accounting standards necessarily involves the use of estimates and assumptions which affect the values of the assets and liabilities recorded in the financial statements and the disclosures made on contingent assets and liabilities.
The assumptions underlying the estimates made take into account all the information available as of the date of preparation of this annual report, as well as assumptions considered reasonable, also in the light of past experience.
Due to their nature, it thus cannot be excluded that the assumptions adopted, however reasonable, might not be confirmed by future scenarios in which the Group will operate.
In this regard, it should be noted that there continue to be significant elements of uncertainty in the reference macroeconomic scenario in which the Group operates. Even though 2023 was characterised by a more reassuring macroeconomic scenario in terms of growth, with respect to the forecasts at the end of 2022, the economic recovery is influenced by the effects of restrictive monetary and credit conditions for businesses and households, as a direct consequence of rising inflation, the obstacles linked to geopolitical tensions between Russia and Ukraine and to the recent conflict in the Middle East, as well as the increasingly severe and frequent impacts associated with climate change.
These uncertainties influence the financial statement estimates, requiring the use of significant elements of judgement when selecting hypotheses and assumptions underlying said estimates.
The results, which will be achieved in the future, could therefore differ from the estimates made for the purpose of drawing up this report and could consequently make adjustments necessary, which at present cannot be foreseen or estimated, with respect to the book value of the assets and liabilities recorded in the financial statements. In that regard, note that it may be necessary to adjust the financial statement estimates as a result of changes in the underlying circumstances, of new information or increased experience.
The accounting policies considered most critical for giving a faithful representation of the Group’s equity, economic and financial situation, both in terms of the materiality of the values recognised in the financial statements affected by such policies and the high level of judgement required for assessments entailing the use of estimates and assumptions by the management, are illustrated below with reference to the specific sections of the Notes to the financial statements for detailed information on the assessment processes conducted as at 31 December 2023.

Determining the impairment on loans disbursed recognised in balance sheet assets

Loans represent one of the valuation items that is most exposed to the choices made by the Group in terms of disbursement, risk management and monitoring.
More specifically, the Group manages the risk of default of the borrowing counterparties by continuously monitoring any changes in customer accounts in order to assess their repayment ability, based on their economic-financial situation. This monitoring activity seeks to intercept any signs of impairment of the loans also to promptly classify them as non-performing, and an accurate estimate of the relative total value adjustments. This estimate may be made on the basis of a materiality threshold of the exposure under valuation, on an analytical basis taking account of the recoverable cash flows or on a lump-sum basis, taking into consideration the losses recorded historically on loans with similar characteristics.

With regard to loans for which objective impairment losses have not been identified singularly, namely performing loans, the impairment model, based on expected losses, requires adequate monitoring systems to be implemented to identify the existence or otherwise of significant impairment with respect to the initial date of recognition of the exposure. The IFRS 9 impairment model requires that losses be determined with reference to the time horizon of one year for financial assets that have not suffered a significant deterioration in their credit risk with respect to initial recognition (Stage 1) rather than with reference to the entire life of the financial asset if a significant deterioration is found (Stage 2).
On the basis of the above, it follows that losses on receivables must be recorded with reference not only to the objective evidence of impairment already seen at the reporting date, but also on the basis of expectations of future impairment losses not yet evident, which must be reflected:

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

This means that calculating expected losses is a complex exercise that requires a substantial level of judgement and estimation. Specifically:

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

Given the array of possible approaches relating to estimation models permitted by the reference international accounting standards, the use of a methodology or the selection of certain estimative parameters may have a significant influence on the valuation of the loans. These methods and parameters are necessarily updated through a continuous process also in light of historic data available, in order to best represent the estimated realisable value of the credit exposure. For updates introduced in the measurement of expected losses, please refer to the paragraph "2.3 Methods for measuring expected losses" contained in the "Credit risk" section of "Part E - Information on risks and related hedging policies" of these Notes.

Given the above, it cannot be excluded that alternative monitoring criteria or different methodologies, parameters or assumptions in determining the recoverable value of the Group's credit exposures - influenced, however, also by possible alternative strategies for their recovery approved by the competent corporate bodies as well as by the evolution of the economic and financial context and reference regulations - may result in valuations different from those conducted for the purposes of the preparation of the consolidated financial statements as at 31 December 2023.

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

To estimate the expected losses of credit exposures, one of the most complex aspects to assess is the effective relevance of climate and environmental risks, given the uncertainty that inevitably surrounds forecasting events which, by nature, may arise in a long-term time horizon.
Generally, it can be said that the risks resulting from the exposure of the borrower to aspects relating to climate and environment are indirectly considered when calculating the expected losses (ECL) of performing exposures, insofar as the risk parameters (PD - Probability of Default and LGD - Loss Given Default) used in the calculation of ECL take into account, through satellite models, changes in macroeconomic variables, in turn influenced by the risks in question.
Starting from the 2022 financial statements, the Group has carried out preliminary assessments on how climate and environmental risks can have a direct impact on the PD and LGD risk parameters used to quantify expected losses on performing exposures. In particular, account was taken of:

- the physical risk resulting from the financial impact on the debtor related to climate change, including more frequent extreme weather events and gradual changes in the climate, as well as environmental degradation, i.e. air, water and soil pollution, water stress, loss of biodiversity and deforestation;

- the transition risk resulting from the negative impact that the counterparty may incur, directly or indirectly, as a result of the adjustment process towards a low-carbon and more environmentally sustainable economy.

For the 2023 financial statements, the estimate of the aforementioned risks was carried out through managerial adjustments with respect to the results of the core models (so-called "post model adjustment" or "management overlay"), with a consequent increase in expected losses on performing exposures of 20.3 million.
Therefore, it cannot be ruled out that the possible development of models able to better factor in climate and environmental risks, may lead to different valuations with respect to those conducted for the preparation of the consolidated financial statements as at 31 December 2023.
For an illustration of how the Group is assessing environmental aspects as regards its credit policies and policies to measure expected credit losses, please refer to the content of "Part E – Information on risks and related hedging policies" of these Notes.

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

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

As at 31 December 2023, the assets in question totalled 561.0 million, in line with the previous year, and referred to:
- 56.7 million in goodwill originating from the business combination of Banca Popolare Italiana (Bancassurance Protection CGU for 42.9 million), from the acquisition of the controlling interest in Oaklins Italy S.r.l. (3.8 million), and from the acquisition of control of Banco BPM Vita (10.0 million);
- 504.3 million from business trademarks recognised following the business combination transactions with the former Banca Popolare Italiana Group (222.2 million) and with the former BPM Group (282.1 million), all allocated to the Retail CGU with the exception of 18.6 million relating to the valuation of the trademark of Banca Akros (Banca Akros CGU).

More specifically, as regards the intangible assets relating to the Retail CGU, which represent around 90% of total intangible assets with an indefinite useful life, valuation analyses were conducted using the cash flow forecasts contained in the latest 2023-2026 Business Plan, approved by the Board of Directors of Banco BPM on 11 December 2023 as reference.
In line with the best valuation practices and with the recommendations of the ESMA, the aforementioned forecasts, considered to portray the most up-to-date macroeconomic scenarios, were formulated according to a multi-scenario approach, with a view to considering uncertainties existing on the date of preparation of the financial statements. These calculations were developed in line with the hypotheses and assumptions used in the ICLAAP exercise, approved by the Board of Directors on 11 December 2023, to assess the adequacy of the Group's capital and liquidity. In particular, three different reference macroeconomic scenarios were considered, to which different probabilities of occurrence were attributed, according to an expert opinion: 50% for the baseline one, 30% for the adverse one and 20% for the favourable ("benign") one.
It should be noted that the above-mentioned flows and/or reference scenarios with the relative weighting percentages were considered, for consistency, in all relevant valuation years of the Group (measurement of expected losses on credit exposures and verification of the recoverability of deferred tax assets).
The results of the impairment tests conducted as at 31 December 2023 confirmed the recoverability of the book values of intangible assets with an indefinite useful life, as illustrated in "Section 10 Intangible assets – item 100" contained in "Part B – Information on the consolidated balance sheet" of these Notes, to which reference should be made for further details.

In this regard, it should be noted in any event that the verification of the recoverability of the intangible assets in question is a complex exercise, the results of which are affected by the valuation methods adopted, as well as by the underlying parameters and assumptions, which may need to be modified to take account of new information or developments that could not be foreseen when this Report was prepared. In order to be able to appreciate whether the recoverable value is maintained with respect to alternative assumptions and situations, please refer to the sensitivity analysis contained in "Section 10 - Intangible assets - Item 100", of "Part B - Information on the consolidated balance sheet" of these Notes.

Determining the fair value of financial assets and liabilities

In the presence of financial instruments not listed in active markets or of illiquid and complex instruments, adequate measurement processes must be undertaken characterised by significant elements of judgement as regards the choice of the measurement models and of the relative input parameters, which on occasion may not be observable in the market.
There are margins of subjectivity in the measurement as regards the observability or not of certain parameters and in the consequent classification in correspondence of the fair value hierarchy levels.
For qualitative and quantitative information on the method adopted to measure the fair value of financial assets and liabilities, as well as for the sensitivity analysis of the fair value relating to financial instruments measured at fair value and classified as level 3 of the fair value hierarchy, please refer to the contents of part "A.4 – Fair value disclosure" of these Notes.

Estimating the recoverability of deferred tax assets

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

The taxable income forecasts were developed on the basis of the income projections and the multi-scenario calculations approved by the Board of Directors of Banco BPM on 11 December 2023, as better detailed in the previous paragraph "Estimating impairment losses in relation to intangible assets with an indefinite useful life".
Considering that the recoverability of DTAs could be negatively influenced by a revision of the cash flows assumed as the basis of the probability test - in line with that suggested by the literature on valuation exercises characterised by uncertainty - the estimate of future taxable income was conducted on the basis of a multi-scenario approach, consistent with the projections and the scenarios used for the impairment testing of intangible assets with an indefinite useful life, illustrated above, to which reference should be made for further details.

The macroeconomic scenarios used as the basis for the estimate of future income and related probabilities are also consistent with the measurement of expected losses on credit exposures.

Lastly, it should be noted that the recoverability of all DTAs could be negatively influenced by changes in the current tax legislation, which cannot be foreseen at the present time.

"Section 11 - Tax assets and liabilities - Item 110 of assets and Item 60 of liabilities" contained in Part B - "Information on the consolidated balance sheet" of these Notes provides the disclosure on the breakdown of deferred tax assets, on the checks carried out with regard to their recoverability, on the sensitivity analyses conducted to permit an appreciation of the time horizon for the recovery of the same, based on reasonable changes in the main underlying hypotheses and assumptions.

Estimating provisions for risks and charges

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

For information on the Group's main risk positions in relation to legal disputes (actions to void and pending lawsuits) and tax disputes with the Tax Authorities, reference should be made to "Section 10 - Provisions for risks and charges - Item 100" contained in "Part B - Information on the consolidated balance sheet" of these Notes.

In addition, the provisions for risks and charges may become necessary following commitments made by the Group at the time of the sale of interests in associates or joint ventures, divisions, portfolios of non-performing loans and related partnership agreements. More specifically, the above-mentioned commitments consist essentially of providing protection and guarantee mechanisms for the investment made by the purchasing counterparties. Said mechanisms envisage the acknowledgement, in favour of the purchaser, of an indemnity in the event that specific sales objectives are not met, or the event of inconsistent declarations as to the quality of the information and the documentation on the loans with respect to that provided at the time of the sale. The likely outlay of financial resources to cover said commitments has to be estimated, based on the reasonable evolution of the sales objectives, also considering the time horizon in which the Group may take corrective action to avoid the payment of penalties. For commitments relating to the sale of non-performing loans, the quantification of the provision must instead consider the expected evolution of the outlays relating to claims received from purchasers for alleged breaches of contractual guarantees.
For a more detailed description, reference should be made to "Section 10 - Provisions for risks and charges - Item 100" contained in "Part B - Information on the consolidated balance sheet" of these Notes.

Determination of the fair value of property

The Group's accounting policies envisage that real estate assets are measured at fair value, according to the measurement criteria established by accounting standard IAS 40 for investment property or by standard IAS 16 - and in particular by the revalued amount criterion - for properties used in operations, i.e. those used for administrative and/or commercial purposes. The update of the fair value, in compliance with the requirements laid out by IFRS 13, is supported by a dedicated appraisal issued by a leading company, on the basis of the "RICS Valuation" standards[1].

In more detail, for properties for investment purposes, the Group's accounting policies require fair value to be updated annually, unless there is evidence that an earlier update is necessary. Instead, for properties used in operations, the fair value may be restated more frequently than once a year; this frequency may depend on whether there are significant deviations in property market prices, based on a scenario analysis, on its relevance or on the distinctive characteristics of properties. In particular, based on the current policy, for properties used in operations, the appraisal is updated every two or three years depending on whether the property has a value of more than or less than 5 million, unless the scenario analysis is such that an earlier revision is required.

In line with the aforementioned policy, as at 31 December 2023, the perimeter for updating fair value concerned all properties held for investment purposes, and those used in operations with a unit amount exceeding the threshold of 5 million, as well as operating properties, for which the scenario analysis showed significant market changes (above the threshold of +/-10%).
Overall, the properties for which the fair value was updated represent approximately 85% of the Group's total real estate assets, also considering the revision made following any sales prices agreed, resulting from the resolutions of the Corporate Bodies and/or functions authorised for said sales.

For the above-cited perimeter, the fair value was calculated by using specific appraisals drawn up by qualified, independent experts, in compliance with the criteria laid out by IFRS 13 for fair value measurement. Given the array of possible valuation approaches permitted by the above-cited standard, the selection of a specific valuation methodology, as well as the selection of the specific estimation parameters and/or assumptions, may have a significant influence on the determination of the fair value, also considering the specific nature and distinctive characteristics of the asset to be valued.
With particular reference to land and real estate development initiatives, their value is traditionally very volatile and subject to rapid change. In fact, a specific type of purchaser is targeted for these assets, and they may suffer significant impacts due to various factors, such as changes in construction costs, availability and cost of loans for their development, fluctuations in product demand and supply, in turn significantly influenced by the volatility of the reference macroeconomic scenario.
In this regard, it should be noted that the current global inflationary pressures, with a consequent and rapid increase in interest rates, have accentuated the potential for negative changes in capital values, causing greater volatility in the real estate markets in the short to medium term. In fact, experience has shown that investor behaviour can change rapidly in periods of greater volatility, with consequent negative impacts on property prices, which could continue to the extent that if inflation figures were to remain high, the fair value would need updating in light of the new information available.

One of the significant assumptions, for the purpose of measuring fair value, is the assessment of the highest and best use of the properties, defined as the condition which, of all reasonably feasible uses, is able to confer the highest value to the property. In this regard, the fair value measurement of property used in operations uses the continuity of their use by the Group in the foreseeable future as reference, insofar as strictly dependent on commercial and administrative activities. More specifically, it was assumed that the Group will continue to occupy the properties on the basis of a lease agreement in line with standard market practices, with a duration of 12 years (6+6 years), starting from the valuation date.

Margins of subjectivity are also present when identifying the perimeter of properties used in operations, for which the appraisals need to be updated, based on the ability to identify significant changes in value in property market prices, which make the request for an updated valuation necessary.

In light of the above, it cannot be ruled out that the use of different methods or estimation parameters - influenced by forecasts relating to the reference scenarios of the real estate market pertinent to the Group, as well as the strategies that the Group could adopt to manage real estate assets, also through disposals of portfolios - may lead to different valuations with respect to those conducted for the 2023 financial statements, with consequent negative impacts on the Group's balance sheet and income statement.

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

For further details on the breakdown and changes in real estate assets, please refer to “Section 9 - Property, plant and equipment - Item 90” and to “Section 12 - Non-current assets and disposal groups held for sale and associated liabilities – Item 120 in the assets and item 70 in the liabilities” contained in “Part B – Information on the consolidated balance sheet” of these Notes; for the disclosure on the methods used to determine fair value, please refer instead to part “A.4 - Fair value disclosure”.

Estimating obligations relating to employee benefits

Determining the liabilities associated to employee benefits, with specific reference to defined benefit plans and to long-term benefits, implies a certain degree of complexity; the outcome of the valuations depends, to a significant extent, on the actuarial assumptions used, both in demographic terms (such as mortality rates and rates of employee turnover) and in financial terms (such as discounting rates and inflation rates). Therefore, the judgement of management is fundamental, when selecting the most suitable technical basis to evaluate the cases, which may be influenced by the socio-economic context in which the Group operates at the time, as well as the performance of the financial markets.
In particular, with regard to employee benefits represented by the provisions for employee severance pay and defined benefit pension funds, changes in actuarial assumptions (demographic and financial), as well as the actual experience recognised with respect to initial forecasts, led to an overall reduction in liabilities of 2.5 million.
This change is mainly influenced by the effect of experience, as the increase in benefits resulting from the reduction in discount rates due to the lower returns required by the market is offset by the reduction in benefits attributable to the decrease in the expected inflation rate.
This reduction is recognised as a balancing entry to a positive income component in the statement of comprehensive income, as shown in “Part D - Statement of Consolidated Comprehensive Income” of these Notes to the consolidated financial statements (+1.8 million net of the related tax effect, which compares with a corresponding positive effect of +40.4 million recognised in the previous year).

An illustration of the main actuarial assumptions and related impacts, together with a sensitivity analysis of the liabilities with respect to the most significant actuarial assumptions, are provided in sections 9 and 10 of the liabilities, contained in “Part B - Information on the consolidated balance sheet” of these Notes, respectively for provisions for employee severance pay and for defined benefit company pension funds.

Estimating insurance liabilities for commitments to policyholders

For the Group’s insurance companies, the measurement of the technical reserves envisaged by insurance regulations to cover commitments to policyholders requires the development of a series of demographic and financial assumptions capable of significantly influencing the amount of insurance liabilities.

In particular, the valuation of insurance liabilities is affected by the typical risks of the sector, which are duly analysed and assessed according to what is set forth in the Solvency II regulatory framework; the “Solvency and Financial Condition Report”, published annually by the Companies, provides a representation of these risks.
In greater detail, the main risks relating to the Life business are represented by the change in mortality and longevity assumptions, the unpredictability of policyholders’ choices, as well as uncertainties relating to higher inflation rates and the resulting increase in future expenses. For the Non-Life business, the main risk is linked to estimates of the severity, frequency and value of claims, as well as uncertainties relating to inflation rates that may affect the growth in claim management expenses. In addition, in order to calculate reserves, the assumptions used to determine the discount rates, as well as the methods to measure the adjustment for non-financial risk are particularly important.

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

Lastly, the value of the aforementioned liability may be influenced by the valuation approaches adopted in terms of those permitted by IFRS 17 on insurance contracts; therefore, it cannot be ruled out that the use of alternative methods may lead to a different estimate of commitments to policyholders.

Ongoing inspections by the Supervisory Authority

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

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The list of valuation processes shown above is included simply to provide readers with a better understanding of the main areas of uncertainty, and it should in no way be considered as implying that, to date, alternative assumptions can prove more appropriate.

In any event, to enable an assessment of any negative effects on the financial statements related to the aforementioned factors of uncertainty, the specific sections of the Notes to the Financial Statements provide information on the main assumptions used in the estimate, as well as a sensitivity analysis with respect to alternative assumptions.

Declaration of going concern

With regard to that required by the Bank of Italy, CONSOB and ISVAP in the Joint Document no. 4 of 3 March 2010, the consolidated financial statements as at 31 December 2023 were prepared on a going concern basis.
In this regard, the Directors believe that no risks and uncertainties have emerged such as to give rise to doubts regarding business continuity, considering that the Group has a reasonable expectation of being able to continue to operate in the foreseeable future.

In order to make the above judgement, the Directors also assessed the effects resulting from the uncertainties of the reference macroeconomic scenario, considering the current geopolitical tensions, which could reasonably have negative repercussions on future company results. However, the extent of these effects is not considered sufficient to create uncertainty on business continuity, also considering the current and future soundness of the Group's equity and financial structure.

For information on Group risks and relative management, refer to the content of "Part E – Information on risks and related hedging policies" of these Notes, as well as in the Group Report on operations.

Section 3 - Scope of consolidation and methods

(A) Subsidiaries

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

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

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

In light of the above-mentioned regulatory references, the Group must therefore consolidate all types of entity where all three control requirements are met.
Generally, when an entity is considered direct by virtue of voting rights, control results from holding over half of those rights.

In the other cases, establishing the scope of consolidation requires all factors and circumstances that give the investor the practical ability to unilaterally conduct the relevant activities of the entity (actual control). To this end, a set of factors has to be considered, such as, merely by way of example:

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

The following paragraphs provide further details on the scope of entities controlled exclusively as at 31 December 2023, broken down into companies controlled through voting rights and structured entities.

Companies controlled through voting rights

With reference to the Group's situation as at 31 December 2023, companies in which a majority of voting rights in the ordinary shareholders' meeting is held are considered to be exclusively controlled, insofar as there is no evidence that other investors have the practical ability to direct the relevant activities.

As regards companies in which half or a lower amount of voting rights are held, as at 31 December 2023, there are no arrangements, statutory clauses, or situations able to establish that the Group has the practical ability to unilaterally direct the relevant activities.

Consolidated structured entities

The control of structured entities, namely entities for which voting rights are not considered relevant to establish control, is deemed to exist where the Group has contractual rights to manage the relevant activities of the entity and is exposed to the variable returns of the same.

On this basis, the structured entities for which consolidation for the purpose of the financial statements as at 31 December 2023 is necessary, are represented by the several SPEs for securitisation transactions originated by the Group. For those SPEs, the elements deemed significant for identifying control and the resulting consolidation are:
- the purpose of said SPEs;
- exposure to the outcome of the transaction;
- the ability to structure transactions and to direct the relevant activities and take critical decisions through servicing contracts;
- the ability to arrange for their liquidation.

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

As at 31 December 2023, the analyses conducted on the investments held by the Group in mutual investment funds and similar, resulted in the exclusion of the existence of control over the same; therefore no fund is included in the scope of consolidation.

Line-by-line consolidation method

Controlled entities are consolidated from the date on which the Group acquires control, according to the purchase method, and cease to be consolidated from the moment a situation of control no longer exists, as described in paragraph "16 - Other information, Business combinations, goodwill and changes in interest holdings" below, in part A.2, which should be referenced.
Full consolidation consists of the "line-by-line" acquisition of the balance sheet and income statement aggregates of subsidiary entities. For consolidation purposes, the book value of the equity interests held by the Parent Company or by the other Group companies is eliminated against the acquisition of the assets and liabilities of the investees, as a balancing entry to the corresponding portion of shareholders' equity attributable to the Group and the portion held by non-controlling interests, also taking into account the purchase price allocation upon acquisition of control.
For subsidiary entities, the portion of shareholders' equity, profit (loss) for the year and comprehensive income attributable to non-controlling interests is indicated as a separate item in the respective schedules of the consolidated financial statements (respectively in items: "190. Non-controlling interests", "340. Profit (loss) for the year attributable to non-controlling interests", "190. Consolidated comprehensive income attributable to non-controlling interests").
In this regard, please note that there is no effect on the balance sheet, the profit (loss) or comprehensive income attributable to non-controlling interests resulting from the consolidation of the separate equities held by the SPEs for securitisations originated by the Group, not subject to derecognition in the separate financial statements of the assigning Group banks. For a description of the effects of the consolidation of these equities, please refer to the information contained in part A.2 below, paragraph "16 - Other information, Securitisations - derecognition from financial statements of financial assets transferred".

The costs and revenues of the subsidiary entity are consolidated from the date on which control was acquired. The costs and revenues of a subsidiary sold are included in the income statement up until the date of sale; the difference between the sale price and the book value of the net assets of the same is recognised under the income statement item "280. Gains (losses) on disposal of investments". In the event of the partial sale of a subsidiary entity, which

does not result in a loss of control, the difference between the sale price and the relative book value is recognised as a balancing entry of shareholders' equity.
The assets, liabilities, off-balance sheet transactions, income and expenses relating to transactions between consolidated companies are eliminated in full.

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

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

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

In order to prepare the consolidated financial statements as at 31 December 2023, all of the exclusively controlled companies have prepared a balance sheet and income statement in accordance with the Group's accounting principles.
Interests in associates and joint ventures held for sale are recorded in compliance with the reference international accounting standard IFRS 5, which regulates the recording of non-current assets held for sale. In this case, the assets and liabilities held for sale are included in the balance sheet items "120. Non-current assets and disposal groups held for sale" and "70. Liabilities associated with assets classified as held for sale".

If the disposal of the associates and joint ventures is classified as discontinued operations (under the terms of IFRS 5), the relative income and expenses are recognised in the income statement, net of taxes, under item "320. Profit (loss) after tax from discontinued operations". Otherwise, the contribution of the investee is shown in the income statement "line by line". For further details please refer to the content of paragraph "8 - Non-current assets and disposal groups held for sale" contained in part A.2 below.

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

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

Associates, i.e. companies not controlled in which a notable influence is exercised, are considered to be companies subject to significant influence. The company is assumed to exercise a significant influence in all cases where it holds 20% or more of voting rights in the investee, and, irrespective of the shareholding percentage, whenever it has the power to participate in business and financial decisions of the investees, by virtue of specific legal relations, such as shareholders' agreements, the purpose of which is to ensure that the members of the agreement are represented in the management bodies and to safeguard a consistent management approach, without, however, controlling the same.

Interests in companies subject to joint control and subject to significant influence are measured according to the equity method, based on the most recent financial statements available of the associated company/company subject to joint control, suitably adjusted to take into account any significant events or transactions; for a description of the classification, recognition, measurement and derecognition criteria, please refer to part "A.2 – paragraph 5 – Interests in associates and joint ventures".

1. Interests in exclusively controlled companies

The table below lists the interests in exclusively controlled companies. For information on interests in companies subject to joint control and significant influence by Banco BPM Group, please refer to "Part B - Information on the Consolidated Balance Sheet" - "Section 7 - Interests in associates and joint ventures – Item 70" in these Notes.

	Company name	Operational headquarters	Registered office	Type of relationship (1)	Investment relationship		Available
					Holder	% held	% of votes (2)
	Banco BPM S.p.A.	**Verona**	**Milan**	**Parent Company**			
1.	Agriurbe S.r.l. in liquidation Share capital € 10,000.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
2.	Aletti Fiduciaria S.p.A. Share capital € 1,040,000.00	Milan	Milan	1	Banca Aletti	100.000%	100.000%
3.	Banca Akros S.p.A. Share capital € 39,433,803.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
4.	Banca Aletti S.p.A. Share capital € 121,163,538.96	Milan	Milan	1	Banco BPM	100.000%	100.000%
5.	Banca Aletti & C. (Suisse) S.A. Share capital CHF 35,000,000	CH - Lugano	CH - Lugano	1	Banca Aletti	100.000%	100.000%
6.	Banco BPM Invest SGR S.p.A. Share capital € 2,500,000.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
7.	Banco BPM Vita S.p.A. Share capital € 179,125,000.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
8.	BBPM Life DAC Share capital € 802,884.81	Dublin	Dublin	1	Vera Vita	100.000%	100.000%
9.	Bipielle Bank (Suisse) S.A. in liquidation Share capital CHF 25,000,000	CH - Lugano	CH - Lugano	1	Banco BPM	100.000%	100.000%
10.	BPM Covered Bond S.r.l. Share capital € 10,000.00	Rome	Rome	1	Banco BPM	80.000%	80.000%
11.	BPM Covered Bond 2 S.r.l. Share capital € 10,000.00	Rome	Rome	1	Banco BPM	80.000%	80.000%
12.	BP Covered Bond S.r.l. Share capital € 10,000.00	Milan	Milan	1	Banco BPM	60.000%	60.000%
13.	BRF Property S.p.A. Share capital € 2,000,000.00	Parma	Parma	1	Banco BPM	99.000%	99.000%
14.	Ge.Se.So. S.r.l. Share capital € 10,329.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
15.	Lido dei Coralli S.r.l. Share capital € 10,000.00	Sassari	Sassari	1	Banco BPM	100.000%	100.000%
16.	Oaklins Italy S.r.l. Share capital € 109,000.00	Milan	Milan	1	Banca Akros	100.000%	100.000%
17.	Partecipazioni Italiane S.p.A. in liquidation Share capital € 350,000.00	Milan	Milan	1	Banco BPM	99.966%	100.000%
18.	P.M.G. S.r.l. in liquidation Share capital € 52,000.00	Milan	Milan	1	Banco BPM	84.000%	84.000%
19.	Sagim S.r.l. Società Agricola Share capital € 7,746,853.00	Asciano (SI)	Asciano (SI)	1	Agriurbe	100.000%	100.000%
20.	Sirio Immobiliare S.r.l. Share capital € 10,000.00	Lodi	Lodi	1	Banco BPM	100.000%	100.000%
21.	Tecmarket Servizi S.p.A. (*) Share capital € 983,880.00	Verona	Verona	1	Banco BPM	100.000%	100.000%
22.	Terme Ioniche S.r.l. Share capital € 881,924.00	Cosenza	Lodi	1	Banco BPM	100.000%	100.000%
23.	Terme Ioniche Società Agricola S.r.l.	Cosenza	Cosenza	1	Banco BPM	100.000%	100.000%

Company name	Operational headquarters	Registered office	Type of relationship (1)	Investment relationship		Available
				Holder	% held	% of votes (2)
Share capital € 100,000.00						
24. Vera Vita S.p.A. Share capital € 219,600,005.00	Milan	Milan	1	Banco BPM Vita	100.000%	100.000%
24. BP Mortgages S.r.l. (**) Share capital € 10,000.00	Milan	Milan	4	-	0.000%	
25. BPL Mortgages S.r.l. (**) Share capital € 12,000.00	Conegliano V. (TV)	Conegliano V. (TV)	4	-	0.000%	
26. ProFamily SPV S.r.l. (**) Share capital € 10,000.00	Conegliano V. (TV)	Conegliano V. (TV)	4	-	0.000%	

(1) Type of relationship:
1 = majority of voting rights in the ordinary shareholders' meeting
4 = other forms of control
(2) Availability of votes in the ordinary shareholders' meeting, distinguishing between actual and potential
(*) Company held for sale pursuant to IFRS 5
(**) Special Purpose Entity for securitisation transactions originated by the Group.

Changes in the scope of consolidation

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 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 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 companies consolidated on a line-by-line basis	
Vera Vita S.p.A.	35.00%

For further details on the transactions shown in the previous tables, please refer to the section dedicated to the significant events during the year in the Report on operations. For an examination of the accounting impacts related to the acquisition of control of Vera Vita and BBPM Life and the loss of control of Banco BPM Assicurazioni, please refer to part "G - Business combinations regarding companies or divisions" of these Notes.

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

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

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

As at 31 December 2023, there were no non-controlling interests in subsidiaries deemed significant for the Group, either individually or as a whole, as shown in the table in "Section 14 - Non-controlling interests - Item 190" in "Part B - Information on the consolidated balance sheet" of these Notes. The same is true for the financial statements as at 31 December 2022.

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

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

No information is given for the reasons explained above.

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

No information is given for the reasons explained above.

4. Significant restrictions

As at 31 December 2023, there were no legal or substantial constraints or restrictions capable of obstructing the rapid transfer of capital resources within the Group. The only constraints are those attributable to the regulatory legislation, which may require the maintenance of a minimum amount of own funds, or to the provisions of the Italian Civil Code on distributable profits and reserves.
It should also be pointed out that there are no protective rights held by minorities able to limit the Group's ability to access or transfer assets between Group companies or to settle Group liabilities, in part due to the fact that there are no subsidiaries with significant non-controlling interests, as explained in the previous paragraph.

5. Other information

All the subsidiaries prepare financial statements as at 31 December 2023, the date of closure of the consolidated financial statements (and separate financial statements of the Parent Company).

Section 4 - Events subsequent to the reporting date

The significant events that occurred in the period between the reporting date (31 December 2023) and the date of approval of the draft financial statements by the Board of Directors (27 February 2024) are highlighted below.
With the exception of the recognition of the impacts resulting from the realignment of the tax value of properties to their respective book values, as illustrated below, the other events are considered "non-adjusting events" pursuant to IAS 10, i.e. events that do not entail any adjustment of the balances in the financial statements, as they represent situations that arose after the reporting date.

Impacts resulting from the realignment of the tax value of properties to their respective book values

Pursuant to the provisions of Art. 110 of Decree Law 104 of 14 August 2020 converted with amendments by Law no. 126 of 13 October 2020, in 2021, Banco BPM and several subsidiaries[1] had exercised the right to align the fiscally recognised value of the properties owned to their higher book values.

[1] Bipielle Real Estate and Release, merged into Banco BPM as of 1 January 2022, and Banca Akros.

The aforementioned legislation envisaged a recapture mechanism, according to which, for properties subject to realignment, but sold by 31 December 2023, the adjustment of the tax value to the book value would not have been made and the substitute tax paid would have been subject to reimbursement.
On the basis of the option adopted, for properties used in operations, a capital benefit totalling 202.9 million had been recognised in the 2021 financial statements, of which 81.7 million against the income statement and 121.2 million against valuation reserves. This benefit had been calculated at the level of the individual registration number present in the record of depreciable assets, distinguishing between land and buildings, and resulted from the reversal of deferred tax liabilities, recognised against the tax misalignment, partly offset by the recognition of the cost of substitute tax. Otherwise, for properties held for investment, given that they could have been sold even before the recapture deadline, no benefit had been recognised in the income statement, postponing it to 2023, when it would have been certain.

On 26 January 2024, the Italian Tax Authority responded to the request for a ruling submitted by Banco BPM, in which it was clarified that, in order to determine the value subject to realignment of the individual property unit, the total book and tax value must be considered, given by the sum of the individual tax/book values of the land and buildings, even if recognised separately in the register of depreciable assets. By virtue of the clarifications provided by the Italian Tax Authority, the overall values of the realignment, the relative substitute tax and the consequent benefit were restated.
For operating properties, given that the benefit had been recognised in 2021, the restatement had a negative capital impact of -46.3 million (of which -7.9 million charged to the income statement and -38.4 million as a balancing entry to valuation reserves).
For investment properties, the capital benefit amounted to +19.4 million (of which +16.7 million to the income statement and +2.7 million as a balancing entry to valuation reserves). As previously illustrated, this benefit had been recognised in the 2023 financial statements, taking into account the recapture mechanism and in line with the aforementioned clarifications.
The capital impacts recognised in 2023 as a result of the realignment are therefore negative for 26.9 million, equal to the imbalance of a positive impact of 8.8 million credited to the income statement and a negative impact of 35.7 million recognised as a balancing entry to valuation reserves.

Streamlining of the Group structure

As better described in the section dedicated to the significant events that occurred during the year of the Report on operations, on 1 January 2024 the legal effects of the partial spin-off of Banca Akros in favour of Banco BPM relating to the business unit comprising the set of assets and resources organised for the performance of the "Proprietary Finance" activities of Banca Akros took effect.

Important funding and capital transactions completed

In January 2024, the Parent Company completed an issue of Green Senior Preferred securities, with a six-year maturity for an amount of 750 million. The security, which has a fixed coupon of 4.875% and is reserved to institutional investors, was issued as part of the Euro Medium Term Notes Programme and is aimed at financing and/or refinancing Eligible Green Loans, as defined in the Bank's new Green, Social and Sustainability Bond Framework, published on 7 November 2023.
This is the eighth ESG issue placed so far, with total funding of 5 billion.

Again in January 2024, Banco BPM concluded the placement of a new issue of Covered Bonds (Premium) reserved to institutional investors for an amount of 750 million, with a six-year maturity as part of its 10 billion Covered Bank Bond programme (BPM Covered Bond 2).

Section 5 - Other aspects

Most significant aspects for 2023 financial statement valuations

Environmental and climate aspects and impact on accounts

Below is the disclosure on environmental and climate risks and the related impacts for the Group in line with the recommendations provided by ESMA in the communication of 25 October 2023 entitled "European common enforcement priorities for 2023 annual financial reports". With reference to the management of ESG factors by the Group, please refer to the paragraph "Inclusion of ESG aspects in Group strategy" in the Group Report on operations and to "Section 2 - Risks of prudential consolidation - Climate and environmental risks" of Part E of these Notes to the Financial Statements, as well as the information contained in the Group's Consolidated Non-Financial Statement.

The consideration of environmental and climate aspects represents an important element of attention in the strategy pursued by the Group, capable of affecting its operating activities, objectives and business conduct, in the knowledge that it can play a leading role in the action against climate change. In the 2023-2026 Strategic Plan, particular attention has been paid to supporting the green transition by offering products and solutions aligned with the EU Taxonomy, as well as consolidating its leadership as an issuer of green, social and sustainability bonds through a new framework of ESG emissions, fully aligned with the EU Taxonomy.

Issues relating to ESG factors and their implications for financial statement estimates are not explicitly addressed by IAS/IFRS international accounting standards. However, these factors must be considered when their impact on the financial statements is considered material, as stated in the document published by the IFRS Foundation in 2020 entitled "Effects of climate-related matters on financial statements", containing educational material on how climate risks may have an impact on the valuation of financial statement items, including financial assets and liabilities.
As evidence of the growing importance of ESG issues for banking and financial intermediaries, as part of the Post-implementation review (PIR) of IFRS 9, the industry urged the IASB to provide clarifications on how climate risks should be considered in the classification of financial assets and forward-looking information to measure expected losses on credit exposures.
Although ESG factors - and specifically climate risks - can theoretically have a pervasive impact on various aspects of the financial statements, given the Group's activities, it is reasonable to expect that the main impacts regard the classification and assessment of financial assets, estimates of expected losses on credit exposures and the measurement of fair value, with particular reference to investment property.

Classification and valuation of financial instruments

The Group's ESG strategy includes the commercial offer of loans for sustainable projects, whose contracts include clauses that link the amount of contractual cash flows to the achievement of specific environmental sustainability objectives ("ESG covenants"), with a view to rewarding companies that undertake virtuous paths of sustainability, in terms of lower environmental impact (Environmental), the pursuit of inclusion and community support policies (Social) or strengthening the organisational structure (Governance). This reward entails reducing the spread of the loan, to a maximum extent established contractually (usually 10 basis points), which occurs if the achievement of certain specific sustainability objectives (hereinafter also "ESG covenants") for the individual debtor is certified.

From an accounting perspective, for financial instruments not held for trading, whose remuneration depends on a contingent event represented by the achievement of ESG objectives, the key theme is represented by the application of the SPPI (Solely Payment of Principal and Interest) test, for which the reference accounting standard (IFRS 9) does not envisage express regulations. More specifically, for instruments held with a Hold To Collect (HTC) business model, failure to pass the SPPI test means that they cannot be measured at amortised cost, consequently the entire instrument is measured at fair value, with a balancing entry in the income statement.
In this regard, note that the Group's credit products with "ESG covenants" are fully classified in the portfolio of "Financial assets at amortised cost", in line with the HTC business model, as the related contractual flows were deemed consistent with the SPPI test. Passing the aforementioned test is substantially based on the following considerations:

- the timing and variability of the contractual flows are specified in the contract;

- the change in cash flows is linked to a specific contingent event of the debtor, such as the objectives of reducing the debtor's gas emissions, and not to market parameters/indices;
- the cash flows deriving from the occurrence or otherwise of the contingent event do not represent an investment in the debtor or an exposure to the performance of specific assets.

The same considerations apply to the investments made by the Group in securities with ESG covenants, in order to allow their classification in portfolios of "Financial assets at amortised cost" and "Financial assets measured at fair value through other comprehensive income".

In this regard, it should be noted that the aforementioned Group accounting treatment is substantially aligned with the clarifications provided by the IASB, contained in the Exposure Draft (ED) of IFRS 9 issued in March 2023, although not applicable since, at today's date, the final text of the amendments has not yet been published. Confirming the growing importance of ESG issues and the consequent need to guarantee the application of uniform accounting policies, as part of the Post Implementation Review phase of IFRS 9, various stakeholders have in fact asked the IASB to provide more detailed indications with respect to the current regulations, on how the contractual clauses connected with ESG factors must be assessed, for the purposes of the application of the SPPI test, which the IASB responded to through the publication of the ED in question.

Impairment of financial instruments

Climate risks can influence credit risk and consequently the measurement of impairment on credit exposures.
In greater detail, the impacts related to physical risk - such as fires, floods - or to transition risk - linked to the process of transition to a low-carbon economy - could negatively affect the debtor's ability to fulfil the obligations assumed. In addition, the occurrence of environmental events could lead to a deterioration of the assets guaranteeing the credit (e.g. property, plant), with consequent implications on the estimate of the cash flows recoverable from the enforcement of the collateral.
In addition, in the valuation of expected credit losses, reasonable and supporting information must be taken into account, available without excessive costs, relating to both past events and current conditions and future economic forecasts (forward looking). In this context, factors inherent in climate risks are also relevant, which could, for example, influence future macroeconomic scenarios used for IFRS 9 purposes, the assessment of the significant increase in credit risk (SICR) and, more generally, the calculation of expected credit losses.

The Group's current core models for measuring expected credit losses do not incorporate ESG factors, as the time series used do not include data on the correlation between climate factors and counterparty creditworthiness. Whilst awaiting the methodological adjustments to the core models, expected in 2024, the risk factors in question have been included since FY 2022 through the application of specific overlays with respect to the expected level of losses emerging from the application of the models in use. As at 31 December 2023, the highest value adjustments to include the effects of physical risk and transition risk amounted to 20.3 million, as illustrated in the paragraph entitled "2.3 Measurement methods for expected losses" contained in the credit risk section of Part A of these Notes to the Financial Statements.

Measuring the fair value of property

IFRS 13 requires that the assumptions that market participants would use to determine the price of an asset or liability be taken into account when estimating the fair value.
The fair value measurement of properties, conducted through independent experts, therefore took sustainability factors into account, to the extent that they are considered relevant in the offers of market operators. In greater detail, the four key areas of greatest impact, considered in the estimate of fair value, are related to energy performance, "green" certification, renewable fuel and energy sources, and physical and climate risks.
In particular, for the corporate segment, in addition to physical risk, there is an increasing interest in ESG issues related to the energy transition of buildings, which impacts the ability of the property to generate income, as illustrated in the paragraph "Real estate sector", contained in the Group Report on Operations.
In light of the above, note that to measure the fair value of properties as at 31 December 2023, no substantial adjustments were made to take climate and environmental risks into account in addition to those already covered by the indicators that can be recorded in the reference market.

Impairment of non-financial assets and provisions for contingent liabilities

When conducting impairment testing on intangible assets with an indefinite useful life (trademarks and goodwill), the cash flows considered in the estimate of the recoverable amount of the Retail Cash Generating Unit used the projections of the business plan approved in December 2023 as reference, without any particular refinements introduced to factor in climate and environmental risks. In fact, it was deemed that the latter were not able to influence the results of the test, due to the significant excess of the recoverable value of the CGU with respect to the book value. In order to estimate the change in value of these intangibles with respect to changes in projected income flows, please refer to the specific sensitivity analyses provided in "Section 10 – Intangible assets – Item 100" in Part B of these Notes to the financial statements.
In addition, considering the Group's specific business operations, there are no probable or potential liabilities of a material amount related to environmental risk, due to disputes, commitments to remedy environmental damage or related penalties, onerous contracts or restructuring necessary to achieve the objectives of climate-related emissions.

Below are two types of transactions for which, in theory, it would be necessary to describe the accounting treatment. However, given the Group's business operations, no profile emerged that warranted a specific selection of accounting policies to be adopted, as better specified below.

GHG Credit emissions

As regards the Greenhouse Gases Credit (GHG Credit) emission programmes, the Group intervenes solely as a buyer of Carbon Credit, with the aim of pursuing a net zero strategy.
In fact, the Group considers the efficiency and reduction of consumption as the most important tools to directly contribute to reducing its environmental impact. In 2023, in addition to pursuing activities aimed at increasing efficiency, 15,000 Carbon Credits were purchased with the aim of offsetting the residual direct and indirect CO2 emissions (scope 1 and 2), for a total cost of approximately 100 thousand euro, charged to the income statement under item "190. Administrative expenses: b) other administrative expenses".
The Group thus achieved Carbon Neutrality earlier than envisaged in the business plan.
Through this action, the Group has contributed to investing in projects, diversified by country, that promote the conservation of forests, habitats and fauna at risk, the mitigation of climate change, and supporting the employment of local populations.

Power Purchase Agreements (PPAs)

The Group has not signed any supply contract related to the PPAs; these are, in particular, long-term agreements entered into with a producer for the supply of renewable electricity at a fixed price.
At present, the electricity supply contracts entered into by the Group have a two-year duration, without any predefined price, and with certification of origin from renewable sources (Guarantee of Origin (GO)).

Impacts of the Russia-Ukraine and Middle East conflicts

The geopolitical tensions existing at the date of preparation of these financial statements, relating to the Russia-Ukraine conflict and the recent conflict in the Middle East, add new challenges and uncertainties to the macroeconomic environment, increasing the risk of limited predictions. Looking ahead, these uncertainties could lead to a revision of the estimates of financial statement items, based on the availability of new information, which cannot be predicted at present.
In line with the recommendations of the supervisory authorities (ESMA and CONSOB)[1] aimed at guaranteeing proper oversight over valuation issues impacted by the conflicts in question and a full and transparent disclosure in

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

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

the financial statements, information is provided below on the Group's credit exposures directly or indirectly impacted by the same.

Direct exposures to Russia and Ukraine

The Group's direct risks related to the Russia-Ukraine conflict are entirely marginal, as there are no operating activities located in Russia or Ukraine and the credit exposures to customers residing in these countries or indirectly related to Russian or Ukrainian counterparties are not significant.
More specifically, gross direct exposures to Russian customers, entirely represented by loans, are constantly decreasing. As at 31 December 2023, the above exposures amounted to 7.8 million, almost entirely referring to a counterparty classified as unlikely to pay; net of the relevant adjustment provisions, the book value is 2.7 million. The reduction in gross exposure compared to the previous year, which amounted to 19 million, is attributable to collections received in 2023.
Furthermore, the exposures referring to counterparties belonging to groups with direct control by Russian, Belarusian or Ukrainian entities declined compared to the previous year and refer to two Italian counterparties with an overall authorised credit amount of 46.1 million (63.4 million as at 31 December 2022); the relative utilisation amounts to 1.1 million for unsecured loans (10.1 million as at 31 December 2022).
Gross direct exposures to banks resident in Russia - for letters of credit issued by the same, referring to letters confirmed and not yet used and letters confirmed and used with a discount without recourse and commitment of the Bank to the beneficiary - totalled 3.3 million, a sharp reduction (as at 31 December 2022, unused letters of credit amounted to 14.8 million, while those used amounted to 15.4 million).
Commercial risks associated with the operations of the Group's main customers and related to ongoing transactions with Russian and Ukrainian counterparties were down significantly and amounted to 7.5 million (96 million as at 31 December 2022).

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

As at 31 December 2023, as well as at 31 December 2022, there were no exposures deriving from contracts governed by Russian law, which are subject to the Russian Decree 95/22 according to which payments originally envisaged in currencies other than the rouble can be made in the rouble currency.

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

With reference to impacts on credit quality, contact campaigns with customers belonging to the sectors potentially most vulnerable to the conflict, as more exposed to the increase in energy prices and difficulties in the procurement of raw materials, ended in 2022. As a result of these initiatives, no elements emerged that require action different from that already envisaged as part of ordinary credit monitoring activities.

Exposures to the Middle East

As regards the Israeli-Palestinian crisis, the risks inherent in the countries directly involved in the conflict are marginal. The credit exposure to the counterparties of Israel and the Palestine territories is nil, against an agreement of 12 million; the exposure in Israeli government securities amounts to 45 million, in terms of nominal value, while that in equities and funds to Israeli counterparties amounts to 9.4 million. Indirect risks for guarantees issued amount to 4 million, referring to Israeli counterparties.

Adopting a more conservative approach, the analysis extended to the surrounding countries potentially involved (Egypt, Lebanon, Iran, and Qatar), highlights an effective, but low risk: the direct exposure to the counterparties of the aforementioned countries is less than 20 million, while indirect risks for guarantees issued amount to 75 million.

- CONSOB notification of 19/05/22 entitled "Conflict in Ukraine - Notification on financial disclosure and obligations relating to compliance with the restrictive measures adopted by the European Union against Russia".

Covid-19 - Declaration of the end of the pandemic emergency and related support measures granted by the Group

After 2022, characterised by a scenario of progressive normalisation of life and social habits, on 5 May 2023 the World Health Organisation officially declared the end of the health emergency that broke out just over three years earlier, with the declaration of the start of the pandemic on 11 March 2020.
In this context, the analyses conducted at the end of 2022 on the support measures undertaken by the Group during the pandemic period (moratoria and loans with Covid-19 public guarantees) had not indicated, with segments and rating ranges remaining the same, different risk profiles with respect to the remaining credit portfolio. For this reason, starting from 2023, the exposures in question are not subject to separate monitoring and reporting, as they are managed as part of ordinary credit processes.
In this regard, it should be noted that for the support measures represented by moratoria, at the end of December 2023, no moratorium was active, as the period of suspension of payments has now elapsed.
For loans granted with a public guarantee[1], the residual gross exposure as at 31 December 2023 amounted to approximately 12.5 billion, mainly referring to the guarantee received from MCC/Small-Medium Enterprises Management Fund for 10.1 billion, from SACE for 2.4 billion and for the remaining to the minority share from ISMEA and Confidi. The public guarantees received cover approximately 85% of the volumes agreed.
In terms of credit quality, the aforementioned exposures are classified for 11.8 billion as performing exposures (of which 2.3 billion in Stage 2) and for 0.7 billion as non-performing. Net of adjustment provisions, the net exposure in the financial statements is reduced to 12.3 billion.

Terms for approval and publication of the financial statements

Art. 154-ter of Italian Legislative Decree 58/98 (Consolidated Finance Law or CFL) states that, within one hundred and twenty days from the end of the financial year, the separate financial statements must be approved and the annual financial report must be published. The latter must contain the draft separate financial statements, the consolidated financial statements, the report on operations and the declaration of the Manager responsible for preparing the Company's financial reports pursuant to Art. 154-bis, paragraph 5.
The draft financial statements of Banco BPM S.p.A. were approved by the Board of Directors at its meeting on 27 February 2024 and will be submitted for approval by the Shareholders' Meeting convened for 18 April 2024.

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

The European Commission Regulation 815/2019 (European Single Electronic Format Regulation - ESEF), issued to implement the Transparency directive (Directive 2004/109/EC), introduced the obligation for issuers with securities listed on EU regulated markets to draw up annual financial reports in the ESEF format, which represents a combination between xHTML language (for the presentation of the financial reports in a legible format for human users) and the XBRL machine readable markup (eXtensible Business Reporting Language), with a view to facilitating the accessibility, analysis and comparability of consolidated financial statements drawn up according to International Financial Reporting Standards (IFRS).
The use of this new format entails the mapping of the information contained in the consolidated financial statements according to the "Inline XBRL" specifications of the basic taxonomy issued by the ESMA (European Securities and Markets Authority); this compulsory mapping process consisted of two phases:
- the first phase, applied from financial year 2021, involved the markup of all numerical values contained in the consolidated financial statements: balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity and cash flow statement;
- the second phase, applied starting from financial year 2022, involved the markup of a more extensive set of information: in addition to the numerical values of the consolidated financial statements, all the information contained in the Notes to the consolidated financial statements that correspond to the mandatory elements is mapped.

[1] Loans granted as part of the Covid-19 support measures, pursuant to the provisions of Legislative Decree 8 April 2020 converted into Law on 5 June 2020 (which entered into force on 7 June 2020).

In greater detail, from an operational perspective, the markup process was carried out according to two methods:

- the detailed markup, relating to the numeric items of the consolidated financial statements, marks each numeric value contained in the statements themselves, identifying the appropriate label in the core taxonomy;
- the block markup, relating to the content of the Notes to the financial statements, sets out that for each applicable element of the taxonomy, the conceptually corresponding portion of the Notes to the financial statements, consisting of text and tables (so-called "bloc tag") is identified.

The core taxonomy to be used for the single electronic reporting format is updated every year to take into account, among other aspects, the issue of new IFRS, the amendment of those in force and the analysis of the information published by the issuers. In December 2022, ESMA issued the updated version of the taxonomy, applicable to annual financial reports for financial years beginning on 1 January 2023.

Lastly, on 31 August 2023, ESMA published an update of the Reporting Manual which confirms the requirement, in line with the provisions issued for the preparation of last year's annual financial reports, to render the information extracted in XBRL format, which must maintain the semantic and tabular structure of the information contained in the financial statements in XHTML format.

In this regard, however, it should be specified that, due to certain technical limitations arising from the use of current IT systems for the production of XHTML documents, some "bloc tags" extracted from XHTML documents in an XBRL application may not be reproduced in a manner identical to the corresponding information reported in the consolidated financial statements in XHTML format.

Independent audit

The separate financial statements and the consolidated financial statements as at 31 December 2023 are subject to independent auditing by the auditing firm PricewaterhouseCoopers S.p.A., in application of the appointment conferred on this firm with resolutions of the shareholders' meetings of Banco Popolare Soc. Coop. and Banca Popolare di Milano S.c. a r.l. of 15 October 2016. The aforementioned engagement was assigned for the years from 31 December 2017 to 31 December 2025, in compliance with the duration envisaged by law (9 financial years). The full auditors' report, together with the annual financial report, is made available to the public, pursuant to Art. 154-ter of Italian Legislative Decree 58/98.

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

It should be noted that on 13 August 2023, Regulation (EU) no. 1803/2023 containing the IAS/IFRS international accounting standards and relative interpretations adopted by the Commission until 8 September 2022, in accordance with Regulation (EC) no. 1606/2002 was endorsed; this action had the objective of bringing together in a single regulatory body all the amendments made with respect to the standards approved until 18 October 2008, contained in Regulation no. 1126/2008, which was therefore repealed.

Given the above, the new accounting standards or the amendments to existing standards approved by the IASB are illustrated below, as well as new interpretations or amendments to existing ones, published by the IFRIC, with separate disclosure of those applicable in 2023 from those applicable in subsequent years, also showing, in any event, any amendments made in 2023.

IAS/IFRS accounting standards and related SIC/IFRIC interpretations endorsed that must be applied when preparing the 2023 financial statements

<u>Regulation (EU) no. 2036 of 19 November 2021 - IFRS 17 "Insurance Contracts" and no. 1491 of 8 September 2022 - Amendments to IFRS 17 "Insurance contracts: Initial application of IFRS 17 and IFRS 9 – Comparative Information" (incorporated in Regulation (EU) no. 1803/2023)</u>

On 18 May 2017, the IASB issued the new accounting standard IFRS 17, which governs the accounting treatment of insurance contracts; on 25 June 2020, the standard was amended to simplify its implementation and the disclosure

of financial performance, as well as to defer the first-time application of IFRS 17, making it simultaneous to that of IFRS 9.

Subsequently, on 9 December 2021, a further amendment was issued to the rules for the transition to IFRS 17, for entities that apply the transition to IFRS 9 at the same time, taking into account the different requirements established by such accounting standards for the restatement of comparative balances; indeed, IFRS 17 requires the restatement of comparative information, which is allowed but not required by IFRS 9.

For an illustration of the main aspects of IFRS 17, the choices of the Group's insurance subsidiaries and the impacts of the transition for subsidiaries and associates, please refer to the following paragraph "Impacts of the transition to IFRS 17 Insurance contracts".

Regulation (EU) no. 357 of 2 March 2022 - Amendments to IAS 1 "Presentation of financial statements" and IFRS Practice Statement 2 (incorporated in Regulation (EU) no. 1803/2023)

On 12 February 2021, the IASB published the amendments in question with a view to developing guidelines and examples in the application of relevance and materiality judgements to disclosures on the accounting standards (accounting policy). The information on accounting standards is material if, considered along with other information included in an entity's financial statements, it can be reasonably expected that it will influence the decisions taken by users of the financial statements.
In other words, information on accounting policies is material if it makes it possible to clearly understand the information reported in the financial statements on significant transactions. On the other hand, it is not necessary to illustrate the accounting policies relating to immaterial transactions or events, and in any case this information must not obscure significant information.

The above-mentioned amendment also regarded the IFRS Practice Statement 2 "Making Materiality Judgements (Materiality Practice Statement)", which provides guidance on how to formulate materiality judgements in the preparation of IFRS financial statements.

The amendments in question represent useful references for the analyses and to improve the disclosure of the financial statements, but there are no significant impacts on the preparation of this Financial Report, given that the rules for the preparation of bank financial statements are those indicated in Bank of Italy Circular No. 262.

Regulation (EU) no. 357 of 2 March 2022 - Amendments to IAS 8 "Accounting standards, changes in accounting estimates and errors" (incorporated in Regulation (EU) no. 1803/2023)

On 12 February 2021, the IASB published the amendment in question with a view to distinguishing the concepts of "accounting policies" and "accounting estimates", introducing a definition of accounting estimate that was previously not included. This distinction is important because changes in accounting estimates are applied prospectively only to transactions and other future events, while changes in accounting policies are generally applied retrospectively to transactions and other past events. Previously, IAS 8 envisaged the definition of "accounting policies" and "changes in accounting estimates", but did not include the concept of "accounting estimates", which is introduced by the amendments in question and defined as "monetary amounts in financial statements subject to measurement uncertainty".
It is also specified that:

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

Although the amendments in question represent useful references to describe the concept of change in the estimate and related disclosure in the financial statements, they have not had significant impacts on the preparation of this Financial Report.

Regulation (EU) no. 1392 of 11 November 2022 - Amendments to IAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction" (incorporated in Regulation (EU) no. 1803/2023)

IAS 12 establishes in paragraphs 15 and 24 that a deferred tax asset and a deferred tax liability must be recognised for all taxable and deductible differences, with the exception of several specific cases for which an exemption is provided on initial recognition. Applying the amendments in question restricts the scope of application of the exemption, which will no longer be applicable to transactions which, on initial recognition, give rise to taxable and deductible temporary differences. The amendments clarify how companies must account for deferred taxes on transactions such as leases and decommissioning obligations, and aim to reduce the diversity in the recognition in the financial statements of deferred tax assets and liabilities on these transactions.
In particular, for lease transactions, the lessee must recognise the Right of Use (ROU) in balance sheet assets and the corresponding liability (Lease Liability) in liabilities. Depending on the applicable tax regulations, taxable and deductible temporary differences of equal amounts may arise at the time of initial recognition of the asset and liability. With the amendments in question, it was specified that in such cases the entity must recognise any resulting tax liabilities and assets; therefore, the exemption envisaged by paragraphs 15 and 24 of IAS 12 - which makes it possible not to recognise deferred taxes in cases where the transaction as a whole does not affect profit - does not apply to these cases.

For the Group, the case potentially affected by the regulation in question relates to taxation on rental contracts, falling within the scope of application of IFRS 16 "Leases". However, there is no impact in this regard, taking into account that there are no taxable or deductible temporary differences for which tax is recognised. On the basis of Italian tax legislation, the statutory values of the ROU and the liability are also relevant for tax purposes, as well as the relative economic components (amortisation and interest) are treated for tax purposes on the basis of the principle of derivation from the financial statements.

Regulation (EU) no. 2468 of 8 November 2023 - Amendments to IAS 12 "International Tax Reform - Pillar Two Model Rules"

On 23 May 2023, the IASB issued the amendment in question, following the OECD's publication in December 2021 of a series of internationally agreed standards (by more than 135 countries representing over 90% of global GDP) aimed at resolving the tax problems deriving from the digitalisation of the economy, through which a two-pillar model has been introduced (Pillar One and Two).
In particular, Pillar Two aims to limit tax competition by introducing a minimum global tax rate of 15% in each jurisdiction in which large multinationals operate. In general, the Parent Company will be required to pay any top-up tax for subsidiaries that operate in low tax jurisdictions (for which the current tax is lower than the minimum threshold of 15%). The additional tax will be paid in the jurisdiction of the Parent Company.
In Europe, the minimum tax of the OECD reform was implemented through Directive (EU) no. 2022/2053 of 14 December 2022, to be transposed into the national laws of EU countries by the end of 2023, with application from the 2024 tax period. In Italy, the provisions of the aforementioned Directive were implemented by Legislative Decree no. 209 of 27 December 2023.

Given the doubts that emerged on the accounting of deferred taxes relating to the top-up tax, the IASB introduced:

- a mandatory temporary exception, which envisages not recognising the deferred taxation that would result from the implementation of the Pillar Two Framework;
- some specific additional disclosure obligations for the companies affected, with different disclosure obligations to be met in the periods in which the legislation is in force. In particular, in the periods in which the Pillar Two legislation is in force or substantially in force, but not yet effective, it is required to provide an estimate of the impacts related to the entity's exposure to Pillar Two income taxes.

In this regard, it should be noted that as at 31 December 2023, the Group is present abroad only with two subsidiaries of insignificant size, in Switzerland and Ireland respectively. As a result, the Group's exposure to Pillar Two taxes and related impacts are entirely marginal. In addition, as at 31 December 2023 no deferred taxes were recognised as a result of the legislation in question.

In light of the new regulatory elements, also taking into account the reference to disclosure contained in the document published by ESMA on 25 October 2023 ("European common enforcement priorities for 2023 annual financial reports"), in "Section 11 - Tax assets and liabilities - Item 10 of the assets and Item 60 of the liabilities" of these Notes to the financial statements, a more detailed examination is provided.

Endorsed IAS/IFRS accounting standards and SIC/IFRIC interpretations, the application of which takes effect after 31 December 2023

<u>Regulation (EU) no. 2579 of 20 November 2023 - Amendments to IFRS 16 "Lease Liability in a Sale and Leaseback"</u>

On 22 September 2022, the IASB issued, in response to an IFRIC recommendation, the above amendments, with the aim of clarifying how a seller-lessee should carry out the subsequent measurement of liabilities in sale and leaseback transactions that meet the requirements of IFRS 15 for the purposes of accounting as a sale. The sale and leaseback is a transaction whereby a lessee sells an asset and subsequently rents it for a period of time from the new owner. IFRS 16 already included the information for the recognition of a sale and leaseback at the date on which the transaction takes place, but not the subsequent treatment.
In particular, the lessee must determine the liability of such a transaction in such a way as not to recognise in the income statement amounts that refer to the RoU (which the lessee in question has withheld), with the exception of any gain or loss relating to the partial or total termination of the contract.
These amendments will enter into force for annual reporting periods beginning on or after 1 January 2024 and will concern sales and leaseback transactions concluded after the date of first application.
The above-mentioned amendments are not expected to have significant impacts on the Group's financial position.

<u>Regulation (EU) no. 2822 of 19 December 2023 - Amendments to IAS 1 "Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants"</u>

On 23 January 2020, the IASB issued the amendment to IAS 1 "Classification of Liabilities as Current or Non-current", with a view to clarifying that the classification of liabilities as current or non-current depends on the rights existing at the end of the reporting period. Its application, initially scheduled for the year 2022, was first deferred to 1 January 2023, with the amendments approved by the IASB on 15 July 2020, and finally deferred to 1 January 2024, with the amendments issued on 31 October 2022 "Non-current Liabilities with Covenants". This latter amendment requires that only those covenants that an entity is required to comply with on or before the reporting date are likely to affect the classification of a liability as current or non-current. It is also required to indicate in the Notes the information that allows the users of the financial statements to understand the risk that the non-current liabilities with covenants may become repayable within twelve months.
These amendments will enter into force for annual reporting periods beginning on or after 1 January 2024.
The above-mentioned amendments are not expected to have significant impacts on the Group's financial position.

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

The following is a summary of the standards, interpretations or amendments that have been approved by the IASB, but are pending endorsement, which are expected to have a significant impact on the Group's balance sheet and income statement.

<u>Amendments to IAS 7 and IFRS 7 "Disclosure: Supplier Finance Arrangements"</u>

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

Amendments to IAS 21: "The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability"

On 15 August 2023, the IAS published an amendment to IAS 21 with the aim of specifying the situations in which one currency is convertible into another, the methods for determining the exchange rate to be applied when a currency is not exchangeable with the others and the disclosure which must be provided in this case. The amendments are applicable starting from 1 January 2025.

Impacts of the transition to IFRS 17 Insurance contracts

Introduction

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

The version of IFRS 17 approved by the IASB in May 2017 was subject to subsequent amendments published on 25 June 2020 and 9 December 2021.
The endorsement took place with Regulation (EU) no. 2036/2021 of 19 November 2021, in turn amended by Regulation (EU) no. 1491/2022 of 8 September 2022, which introduced some changes of limited scope for the preparation of comparative information for the first-time application of IFRS 17 and IFRS 9. It should be noted that during the endorsement phase, in line with the wishes of the Italian and European industry, the possibility was introduced to exempt intergenerationally-mutualised and cash flow matched contracts from the annual cohort requirement, which was not permitted by the version of the standard approved by the IASB (the "carve out option").

That being stated, in line with the provisions set forth in IAS 8 – and in particular by paragraphs 30 and 31 – provided below are the qualitative and quantitative information useful for understanding the impacts on the consolidated statement of financial position, cash flows and profit and loss correlated with the adoption of the new standard, which for Banco BPM Group regarded both the subsidiary insurance companies on the date of first-time application (Banco BPM Vita and Banco BPM Assicurazioni) and the insurance companies considered associated for the purposes of the FTA (Vera Vita and Vera Assicurazioni).
An illustration is provided below of the main methodological choices adopted in the application of the standard in question and the relative implementations.
Note that as regards the insurance company Vera Vita, which joined the Group in December 2023, the transition was carried out by the previous parent company, Generali Italia, with methods substantially in line with those adopted by Banco BPM Group, with the exception of liabilities relating to Class III insurance contracts (Unit-Linked), mainly recognised under "Insurance liabilities", based on the technical characteristics of the underlying portfolio, in line with the provisions of IFRS 17.
In addition, with regard to the Non-Life business, it should be noted that the information on the transition to IFRS 17 provided below is valid until the date of sale of the interest in Banco BPM Assicurazioni to Credit Agricole Assurances S.A. as part of the twenty-year partnership in the Non-Life Protection sector. For further information in this regard, please refer to "Part G - Business combinations regarding companies or divisions" of these Notes to the financial statements.

For the purposes of this disclosure, the guidelines provided by ESMA in the Public Statement "Transparency on implementation of IFRS 17 Insurance Contracts" of 13 May 2022, as referred to in the joint statement of the Bank of Italy, CONSOB and IVASS of 27 October 2022 ("IAS/IFRS Financial Statements as at 31/12/2022 - Disclosure on the transition to IFRS 17 and IFRS 9") and in the subsequent ESMA communication of 28 October 2022 ("European common enforcement priorities for 2022 annual financial reports"), were also taken into due consideration.
In its most recent statement of 25 October 2023 ("European common enforcement priorities for 2023 annual financial reports"), ESMA reiterates its invitation for transparency in the application of the new accounting standard on insurance contracts in terms of significant judgements, estimates and accounting policies, including an adequate disclosure of the interactions between the implementation of IFRS 17 and IFRS 9.

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

For the insurance companies, the adoption of IFRS 17 represents the most significant change in accounting requirements after the initial application of the international accounting standards since it required an extensive review of the accounting policies for representing the insurance business – both life and non-life business – and the methodologies for measuring the associated liabilities.

In particular, the accounting models proposed by the standard led to a fundamental change from the previous accounting policies, with particular reference to the following critical aspects:
- concept of insurance revenue;
- timing of recognition of losses deriving from onerous contracts;
- greater complexity of measurement processes, quantitative requirements, determination of actuarial and financial assumptions, disclosure requirements and analysis of the results;
- misalignment with the amounts used to measure regulatory capital.

Aiming to introduce greater transparency and clarity of information to stakeholders, IFRS 17 defines the principles to be applied for the recognition, measurement and accounting of all insurance and reinsurance contracts and states:
- a clear definition of the insurance contract;
- a consistent standard for accounting;
- a unified valuation model for all types of contracts;
- consistent reporting standards for the assets and liabilities of the companies.

In light of the above, the Group's insurance companies launched, with different timescales, the project to implement the accounting standard in question: Banco BPM Vita and Banco BPM Assicurazioni, internally, from July 2022, while for Vera Vita (and its Irish subsidiary BBPM Life), the transition to IFRS 17 was carried out by the previous parent company, Generali Italia, with methods essentially in line with those adopted by Banco BPM Group.
The project, which transversally involved numerous operating structures of the companies, was divided into several workstreams, in order to complete, in 2023, the alignment of all accounting and administrative processes necessary for the production of the data and information required by IFRS 17.

In greater detail, the workstreams were defined as follows:
- *methodological-accounting workstream*: this is the workstream aimed at defining the methodological choices of the key aspects of the standard, set out in specific technical documentation. In this regard, the reference accounting framework was also defined, with particular regard to the identification of the chart of accounts and the development of accounting records;
- *IT developments workstream*: this is the workstream dedicated to aligning IT procedures to the new requirements of the standard, which has involved the life actuarial engine, the non-life actuarial engine, the data warehouse, the IFRS 17 engine, the accounting and financial statements system;
- *target operating model workstream*: the objective of this project was to design the new end-to-end IFRS 17 valuation process, identifying the roles, responsibilities and time-frames for carrying out the various activities;
- *parallel run and transition workstream*: this workstream processed data production in parallel for the preparation of the necessary data for the opening balances and comparative balances for the financial year 2022.

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

Interactions between IFRS 17 and IFRS 9 for the insurance companies

With reference to the valuation of the assets and liabilities held by the consolidated insurance companies, on the transition date, it should first be noted that the Group was not able to avail itself of the possibility to defer IFRS 9 to 1 January 2023, with simultaneous application with IFRS 17, as that possibility was reserved to financial conglomerates, namely to groups with significant activities both in the banking/investment services sector and in the insurance sector.

In this regard, it must be noted that, based on Regulations (EU) no. 1988/2017 and no. 2097/2020, for entities primarily engaged in insurance activities - including the insurance sector of a financial conglomerate falling within the scope of Directive 2002/87/EC - it is permitted to postpone the application of IFRS 9 (so-called "deferral approach") in place of IAS 39 until 1 January 2023, in order to allow its simultaneous application with the new insurance standard IFRS 17, thus ensuring a more consistent representation of the economic and equity impacts of insurance liabilities and related financial assets, in accordance with the provisions of the new standard.

As the Group received notice of its status as a financial conglomerate on 7 March 2023, the financial assets and liabilities held by the Group's insurance companies on the transition date, were valued on the basis of IFRS 9 as of the date of initial consolidation (1 July 2022). Therefore, for the purposes of the consolidated financial statements, the financial assets and liabilities held by Group insurance companies, already before 1 January 2023 (date of first application of IFRS 17), were classified and valued in line with the accounting standards applied by the Group's other non-insurance entities.

On the other hand, for the insurance companies Vera Vita and BBPM Life, the previous parent company had made use, at the time, of the option to adopt the deferral approach, postponing the first-time application of IFRS 9 to the time of the FTA of IFRS 17.

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

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

For further details on the recognition criteria and valuation of the aforementioned financial instruments, please refer to the explanation in part A.2 below.

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

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

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

<u>Definition of insurance contract and identification of the investment component</u>

IFRS 17 applies to contracts falling within the following scope:

- insurance contracts issued, including reinsurance contracts;
- reinsurance contracts held; and
- investment contracts with discretionary participation features issued, provided that the entity also issues insurance contracts.

An insurance contract is defined as a contract based on which one party (the issuer) accepts a "significant insurance risk" from another party (the policyholder), agreeing to indemnify the policyholder if the latter suffers damages as a result of a specific uncertain future event (the insured event).

Therefore, IFRS 17 proposes the definition of "insurance contract" included in IFRS 4. The guidelines for identifying the presence of "significant insurance risk" establish, however, that this must be based on the present value of the potential cash flows of a given contract, rather than on the absolute value.

IFRS 17 also requires the separation of the distinct investment component in the host insurance contract only if the following requirements are met simultaneously:

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

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

With reference to the classification of insurance contracts, both non-life and life, the Group did not deem it necessary to change the scope, with respect to the valuations carried out on the basis of the previous IFRS 4. Therefore, the scope of application includes all contracts, non-life and life, with the exception of Class III products represented by Unit Linked products, for which no significant insurance risk has been identified.

With reference to the separation of components from an insurance contract referring to the Life business, on the basis of a qualitative analysis, the Group considers it necessary to activate the Multi-segment tariff unbundling procedure. Consequently, the Class I component – i.e. the investment component with discretionary participation features – is accounted for in accordance with IFRS 17, while the Unit Linked Class III component – Investment component - will be accounted for in accordance with IFRS 9.

<u>Identification of contract boundaries</u>

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

<u>Level of aggregation (unit of account): grouping of contracts</u>

IFRS 17 provides that, upon initial recognition, insurance contracts must be aggregated into groups of contracts and that the provisions relating to their recognition, measurement and presentation in the financial statements must be applied to the group of contracts.

The level of aggregation is therefore not a merely abstract concept, but it directly affects the ability of companies to aggregate contracts in order to proceed with their initial recognition and subsequent measurement. The level of aggregation is relevant for the purposes of identifying onerous contracts, with the consequence that losses attributable to the contracts must be recognised from the beginning ("onerous contract test").

The level of aggregation is determined on the basis of the following grouping hierarchy:

- portfolio: a group of contracts subject to similar risks and managed together as a single pool;
- cohorts: this is a segmentation of portfolios on the basis of the initial recognition date of the contract;
- profitability "buckets": these refer to a further division of each cohort, depending on the profitability expected at the time of initial recognition of the contract, according to the following three buckets:

- onerous contract that is considered unprofitable, and therefore onerous, at the time of initial recognition;
- contract considered profitable at the time of initial recognition that does not present a significant risk of becoming onerous in the future;
- other cases, i.e. a profitable contract that presents a significant risk of becoming onerous in the future.

IFRS 17 requires an entity not to include contracts issued more than one year later in the same group. Therefore, each portfolio must be disaggregated into annual cohorts or cohorts that include periods of less than one year. As reported in the introduction, at the time of endorsement by the European Commission with Regulation (EU) no. 2036/2021, the text of IFRS 17 was amended to provide for the possibility of not applying the requirement of annual cohorts (so-called carve-out option).
In light of the above, for the Life business, the aggregation into groups of contracts takes place according to the following characteristics: products included in the same Segregated Fund, Class I component of Multi-segment products and pure risk products (e.g. Term Life Insurance – TLI).

With regard to contracts belonging to Multi-segment products or linked to a Segregated Fund, it was decided to exercise the option not to apply the annual cohort requirement ("carve-out option"), as provided for in the IFRS 17 endorsement Regulation at European level, and therefore to aggregate these types of contracts only with regard to the concept of similar risks managed together and belonging to the same profitability bucket.

For the products of the Non-Life business, it is deemed that the related legal form also reflects the substance, and it is therefore considered reasonable to classify a contract that provides for the combination of several guarantees based on the prevailing risk it presents. Based on these considerations, the following portfolios of insurance contracts were identified: Motor vehicles, Income, Home, Fire, Accident, Health.

Accounting models for the measurement of insurance liabilities

IFRS 17 provides for three methods for the valuation of insurance contracts applicable to the various business lines.
The Building Block Approach (BBA) is the standard method for the valuation of insurance contracts structured on a block approach whereby, at the time of signature of the contract[1], the insurance liability is equal to the algebraic sum of the present value of the expected contractual cash flows on the basis of an appropriate discount rate (Present Value of Future Cash Flow – PVFCF), the adjustment for non-financial risks related to the uncertainty in the realisation of cash flows (Risk Adjustment - RA) and the expected economic margin (Contractual Service Margin – CSM). This model is applicable to all insurance contracts with the exception of those with direct participation features for which the "Variable Fee Approach" model is applied or those measured on the basis of the "Premium Allocation Approach" simplified methodology.
The subsequent measurement of liability requires an assessment of the aforementioned features, in order to reflect the changes between the initial estimates and those in effect at the reporting date. Specifically:
- changes in the present value of cash flows, deriving from changes in the discount rate used, result in the corresponding adjustment of the former with a balancing entry in the income statement or, if the so-called "OCI Option" (Other Comprehensive Income) is used, in the statement of comprehensive income;
- changes in the estimate of liabilities relating to future services determine an adjustment of the CSM, to be released to the income statement on the basis of the coverage unit;
- changes arising from the difference between the expected cash flows for the period, recognised in revenues for insurance services, and those actually incurred in the same period, recognised in the costs for insurance services, have an impact on the income statement for the year.

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

The Variable Fee Approach (VFA) is the mandatory measurement model established for insurance contracts with direct participation features, i.e. contracts that, on the basis of an underlying participation feature, provide a significant additional benefit when the insured event occurs (e.g., contracts linked to Segregated Funds). The model

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

in question is structured in blocks, in line with the standard model: in this case, the CSM represents the fee for the financial management service provided by the company. Based on this model, any changes in the estimate of the CSM, which derive from the performance of the underlying financial assets and therefore affected by market variables, determine a change in the CSM itself, without having a direct impact on the income statement or the statement of comprehensive income, as is the case with the BAA model.

In light of the above, the Life business uses the following valuation models:

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

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

Inputs and parameters on valuation models

Discount Rate

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

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

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

Risk Adjustment (RA)

As already described above, a further block for the determination of the financial liability is the so-called "Risk Adjustment", i.e. the non-financial adjustment that represents, in substance, the remuneration that the entity requires to assume the risk arising from the uncertainty about the amount and timing of cash flows. The risks covered by the adjustment in question are insurance risk and other non-financial risks, such as lapse risk or expense risk.
Considering that IFRS 17 does not define a specific calculation method, the Group deemed it appropriate to estimate the Risk Adjustment using a Value At Risk (VAR) approach.

CSM release pattern (Coverage Unit)

The Contractual Service Margin represents the expected profit from the insurance contracts in the portfolio and is estimated as the difference between the cash flows due to the entity (premiums) and the total contractual liabilities assumed, including the risk adjustment. The aforementioned margins will be recognised in the income statement throughout the entire period in which the insurance coverage is provided; no profit is therefore recorded at the date of initial recognition of the contracts as they relate to insurance services that will be provided in the future. The release of the CSM is based on the definition of the coverage units, which are determined by identifying for each contract the quantity of service provided to the policyholder and the expected duration of the group of contracts.

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

Financial revenues and costs and accounting options adopted to mitigate accounting mismatches

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

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

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

<u>Determination of the CSM at consolidated level</u>

In theory, for groups within which entities issuing insurance contracts and entities placing insurance contracts coexist, the calculation of the CSM at consolidated level must take place according to a different calculation track than the one that would be followed for the CSM of the IAS/IFRS financial statements of the insurance companies, if required. This circumstance is recalled by the ESMA communication of 28 October 2022, cited in the introduction, which emphasises the importance that the IFRS 10 consolidation requirements must be applied consistently to all intra-group transactions, including those falling within the scope of IFRS 17, in order to guarantee the proper application of the new standard in the consolidated financial statements. Specifically, ESMA reports that if the group banks distribute insurance products, the CSM at consolidated level will often differ from the insurance one.

The need to determine a CSM at consolidated level is relevant for Banco BPM Group as the Parent Company distributes the insurance products of the subsidiaries, charging the placement fee to the latter. As part of the consolidation process, the elimination of intra-group fees charged to insurance companies requires an adjustment to consider the costs actually incurred by the Parent Company for the distribution of policies. This transaction may therefore entail the recognition of a different consolidated CSM from the one that would be calculated in the financial statements of the individual companies, to the extent that the costs incurred by the Group towards third-party economies differ from the placement fees paid by the same companies to the banking distribution network.
Taking into account the above, the Group chose to calculate, in the first instance, the CSM at the level of individual insurance companies and, subsequently, determine the Group CSM through appropriate adjustments at the time of consolidation. To this end, the actual costs incurred by the Group are estimated on the basis of a "Cost/income ratio", determined according to operational metrics, based on the historical observation of the actual distribution costs incurred by the Group's networks with respect to the fees paid to the Group's insurance companies, broken down by homogeneous categories of policies and distribution models. The aforementioned operating drivers are also considered in order to identify costs represented by personnel expenses, other administrative expenses, net

value adjustments on property, plant and equipment, to be reclassified to the consolidated financial statement item relating to the result of insurance operations.

Presentation and financial statements

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

In fact, IFRS 17 introduces a separate representation of the two components that contribute to the profitability of the insurance business:

- the insurance margin shown under item "160. Profit (loss) on insurance services", equal to the difference between:
  - insurance revenues: mainly represented by the expenses that are expected to be incurred during the year, by the evolution of the liability for the explicit adjustment for the risk, as well as by the allocation to the financial year of a share of the CSM in relation to the services provided;
  - the related costs mainly represented by the amount of expenses for insurance services actually incurred in the current year (claims), fees and other acquisition costs, losses for onerous contracts.
- the margin related to the financial components is instead shown under item "170. Balance of revenues and costs of a financial nature relating to insurance activities". In particular, these are interest accrued during the year due to the time value of money, the effects related to changes in the time value of money and the financial risks of insurance contracts, changes in the fair value of the underlying assets of issued insurance contracts valued using the VFA approach, other than those recognised in the statement of comprehensive income as a result of the OCI option.

In particular, IFRS 17 provides that profitability is shown by margins achieved over the life of the policies (i.e. when services are provided to policyholders), as it does not envisage the recognition of revenues at the time of signing the contract. On this aspect, there is an asymmetry of the standard in that the losses on "groups of onerous contracts" are immediately recognised in the income statement.
In terms of disclosure, the standard requires different statements of changes, occurred during the year, of the individual components making up the insurance liabilities.

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

Procedures for transition to the new standard

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

- the full retrospective approach. This approach requires that the contracts in the portfolio are accounted for as if the rules introduced had always been in force from the date they were entered into;
- the simplified approach (the so-called "modified retrospective approach"), where the complete approach is not feasible. This method introduces a number of simplifications with reference to the estimate of the CSM, the level of aggregation of contracts, the use of annual cohorts and the discount rates to be used. In any case, the objective of this method is to determine a CSM at the date of initial recognition of the contract and reconstruct its value at the transition date;

- the fair value approach. This transition method is based on the possibility of calculating the CSM at the transition date as the difference between the fair value of the group of insurance contracts - determined according to the logic envisaged by IFRS 13 – and the so-called “fulfilment cash flows” at the transition date, equal to the sum between the “Present Value of Future Cash Flow – PVFCF” and the “Risk Adjustment - RA”. Therefore, this method does not call for the reconstruction of the historical values of the contract starting from the signing date, and is based only on the data available at the transition date.

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

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

For Banco BPM Group, the impact of the adoption of IFRS 17 at the “transition date” was:
- direct, with starting date 1 July 2022, for the reasons specified above, resulting from the valuation of the insurance contracts issued by the Group’s insurance subsidiaries - Banco BPM Vita and Banco BPM Assicurazioni;
- indirect with transition date 1 January 2022, related to the valuation at equity of the interests, at the time of association, held in the insurance companies Vera Vita and Vera Assicurazioni and of their respective subsidiaries Vera Financial (now BBPM Life) and Vera Protezione.

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

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

Impacts of the transition to IFRS 17

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

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

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

(*) For the associated insurance companies, the initial application of IFRS 17 was simultaneous with that of IFRS 9.
(**) In the statement of changes in consolidated shareholders' equity as at 31 December 2022, the values indicated in the column "Changes in opening balances" refer to the impacts of the transition of the associated companies as at 1 January 2022. The impacts relating to the subsidiaries Banco BPM Vita and Banco BPM Assicurazioni are in fact reflected from 1 July 2022, for the reasons illustrated in the introduction to this paragraph.

As shown in the table above, the overall impact on shareholders' equity at the transition date depends on the combined effect of the new criterion for measuring insurance liabilities (+281.5 million), and the reversal of the intangible assets represented by the VoBA (-35.3 million).

In greater detail, the different criterion for measuring financial liabilities follows the derecognition of the technical reserves and other equity components calculated on the basis of IFRS 4 and the recognition of the new value of the insurance liabilities calculated pursuant to IFRS 17 (Present Value of Future Cash Flows - PVFCF, Risk Adjustment - RA, Contractual Service Margin – CSM).

The cancellation of the "VoBa – Value of Business acquired", i.e. the intangible asset recognised during the Purchase Price Acquisition (PPA) of Banco BPM Vita and Banco BPM Assicurazioni, pursuant to IFRS 3, against the capacity of the contracts outstanding at the date of acquisition to generate revenues over the residual useful life of the relationships acquired, derives from the fact that such capacity is included in the Contractual Service Margin component, determined pursuant to IFRS 17.

With reference to the individual shareholders' equity items, the overall impact on valuation reserves as at 1 January 2023 was positive for 234.0 million, while that on profit reserves was a positive 12.3 million. This last impact is equal to the sum of the positive effect recorded as an increase in profit reserves during First Time Adoption (+29.8 million) and the negative impact on the net income for 2022 (-17.5 million).
More specifically, the positive change in valuation reserves is mainly due to the new measurement model ("Variable Fee Approach") applied to insurance contracts with direct participation features (segregated funds).

The negative impact on the net income is instead attributable to certain insurance contracts of the associate Vera Vita considered to be onerous, the loss component of which - also generated as a result of the higher interest rates recorded in 2022 - had to be charged in full to income statement pursuant to paragraph 47 of IFRS 17.

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

The table below shows the reconciliation between the balance sheet as at 31 December 2022 and the 2022 income statement, as originally published, and those restated to take into account the first-time application of IFRS 17 (and IFRS 9 for associated insurance companies), as shown in the comparative balances of the financial statements at 31 December 2023.

The formats used and the relative rules for completion comply with those contained in the 8th update of Bank of Italy Circular no. 262 of 22 December 2005 "Bank financial statements: layouts and rules for preparation", which incorporated the amendments to the new accounting standard IFRS 17, also by referring to ISVAP Regulation no. 7 of 13 July 2007, as amended by Measure no. 121 of 7 June 2022. This update confirmed the balance sheet and income statement items already previously established to represent the specific insurance business, albeit with a different name and with information content aligned with the requirements of IFRS 17, as shown schematically in the following table.

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

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

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

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

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

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

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

- higher value of associates, which at the transition date, were valued at equity for 198.6 million;
- cancellation of the VoBA that affected items "100. Intangible assets" for the share of Banco BPM Vita (31.6 million) and "120. Non-current assets held for sale" for the share of Banco BPM Assicurazioni (19.1 million);
- new measurement criteria for insurance contracts represented in items "80. Insurance assets" and "110. Insurance liabilities", replacing the previous items pursuant to IFRS 4 "80. Technical reserves of reinsurers" and 110. Technical reserves;
- 17.2 million reclassified from item "110. Technical reserves" to item "30. Financial liabilities designated at fair value" in relation to contracts of a financial nature, without significant insurance risk, not included in segregated funds and which therefore do not envisage discretionary participation features, for which the fair value option has been exercised;
- the related tax effects of the items identified.

Reconciliation between the originally published and restated 2022 consolidated income statement

Items	2022	Impact IFRS 17 (*)	2022 Restated
10. Interest and similar income	2,937,053		2,937,053
of which: interest income using the effective interest method	2,656,868		2,656,868
20. Interest and similar expense	(595,587)		(595,587)
30. Net interest income	**2,341,466**		**2,341,466**
40. Fee and commission income	1,998,389		1,998,389
50. Fee and commission expense	(143,896)		(143,896)
60. Net fee and commission income	**1,854,493**		**1,854,493**
70. Dividends and similar income	60,840		60,840
80. Net trading income	174,105		174,105
90. Fair value gains/losses on hedging derivatives	1,402		1,402
100. Gains (losses) on disposal or repurchase of:	(165,927)		(165,927)
a) financial assets at amortised cost	(60,948)		(60,948)
b) financial assets measured at fair value through other comprehensive income	(101,636)		(101,636)
c) financial liabilities	(3,343)		(3,343)
110. Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss	(9,146)	18,927	9,781
a) financial assets and liabilities designated at fair value	163,348		163,348
b) other financial assets mandatorily measured at fair value	(172,494)	18,927	(153,567)
120. Operating income	**4,257,233**	**18,927**	**4,276,160**
130. Net credit impairment losses/recoveries relating to:	(482,702)		(482,702)
a) financial assets at amortised cost	(480,574)		(480,574)
b) financial assets measured at fair value through other comprehensive income	(2,128)		(2,128)
140. Gains (losses) from contractual modification without derecognition	1,713		1,713
150. Net income from financial activities	**3,776,244**	**18,927**	**3,795,171**
160. Net premiums	359,803	(359,803)	
160. Profit (loss) on insurance services		15,707	15,707
a) insurance revenues deriving from insurance contracts issued		44,847	44,847
b) costs for insurance services deriving from insurance contracts issued		(26,941)	(26,941)
c) insurance revenues from reinsurance		842	842
d) costs for insurance services deriving from reinsurance		(3,041)	(3,041)
170. Balance of other income/expenses from insurance activities	(357,484)	357,484	
170. Balance of revenues and costs of a financial nature relating to insurance activities		(51,753)	(51,753)
a) net costs/revenues of a financial nature relating to insurance contracts issued		(51,655)	(51,655)
b) net revenues/costs of a financial nature relating to reinsurance		(98)	(98)
180. Net income from financial and insurance activities	**3,778,563**	**(19,438)**	**3,759,125**
190. Administrative expenses:	(2,758,642)	16,972	(2,741,670)
a) personnel expenses	(1,609,881)	13,021	(1,596,860)
b) other administrative expenses	(1,148,761)	3,951	(1,144,810)
200. Net provisions for risks and charges	(57,214)		(57,214)
a) commitments and guarantees given	(14,407)		(14,407)
b) other net provisions	(42,807)		(42,807)
210. Depreciation and impairment losses on property, plant and equipment	(183,093)	1,693	(181,400)
220. Amortisation and impairment losses on intangible assets	(135,102)	4,280	(130,822)
230. Other operating expenses/income	345,930	(48)	345,882
240. Operating expenses	**(2,788,121)**	**22,897**	**(2,765,224)**
250. Gains (losses) of associates and joint ventures	146,781	(21,500)	125,281
260. Fair value gains (losses) on property, plant and equipment and intangible assets	(108,347)		(108,347)
270. Value adjustments to goodwill	(8,132)		(8,132)
280. Gains (losses) on disposal of investments	2,258		2,258
290. Profit (loss) before tax from continuing operations	**1,023,002**	**(18,041)**	**1,004,961**
300. Taxation charge related to profit or loss from continuing operations	(321,199)	499	(320,700)
310. Profit (loss) after tax from continuing operations	**701,803**	**(17,542)**	**684,261**
330. Profit (loss) for the year	**701,803**	**(17,542)**	**684,261**
340. Profit (loss) for the year attributable to non-controlling interests	786		786
350. Parent Company's profit (loss) for the year	**702,589**	**(17,542)**	**685,047**

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

With reference to the 2022 consolidated income statement, the restatement of the balances, resulting from the application of IFRS 17, had a negative impact of -17.5 million, equal to the imbalance of a positive impact of +4.0 million for Banco BPM Vita and Banco BPM Assicurazioni and a negative impact of -21.5 million for Vera Vita and Vera Assicurazioni, mainly caused by the asset management of Vera Vita considered as onerous, following the increase in interest rates recorded in 2022, as previously illustrated.

Below are some explanatory notes on the impacts on the individual items of the income statement, as shown in the previous table:

- the economic effects of the insurance contracts issued by Banco BPM Vita and Banco BPM Assicurazioni, measured on the basis of IFRS 17, are included in items "160. Profit (loss) on insurance services" and "170. Balance of revenues and costs of a financial nature relating to insurance activities", replacing the previous items "160. Net premiums" and "170. Balance of other income/expenses from insurance activities", determined on the basis of the previous IFRS 4 standard;
- the overall impact related to the first-time application of Vera Vita and Vera Assicurazioni, net of the tax effect, is shown under item "250. Gains (losses) of associates and joint ventures", as they are qualified as interests in associates on the transition date;
- the reduction in administrative expenses and value adjustments to property, plant and equipment and intangible assets (items 190, 210 and 220, respectively) is related to the new criterion for measuring insurance contracts, on the basis of which the expenses related to the acquisition of insurance contracts are included in the measurement of the Contractual Service Margin (CSM), the release of which is included in item "160. Profit (loss) on insurance services". As previously illustrated, to prepare the consolidated financial statements, the reclassification of costs in the insurance result took into account the actual costs incurred by the Group's networks for the distribution of insurance contracts, replacing the fee and commission expense considered for the purposes of the CSM of the companies' financial statements.

In addition to that already illustrated, the trend of the contractual service margin relating only to contracts issued is shown (without considering the reinsurance component) for Life business products only; note that Banco BPM Vita and Banco BPM Assicurazioni adopted, at the time of Transition, the Fair Value Approach to estimate the CSM, in line with the "Purchase Price Allocation - PPA" process pursuant to IFRS 3.
Furthermore, as regards the contracts valued according to the VFA accounting model, Banco BPM Vita decided not to apply the annual cohort requirement (adopting the "carve out option");
Banco BPM Assicurazioni, on the other hand, valued all contracts using the PAA accounting method.

Trends in insurance revenues and the contractual service margin of insurance contracts issued broken down on the basis of the most significant contracts in place at the time of transition to IFRS 17 are shown below:

	31/12/2023					31/12/2022				
	New contracts and contracts measured at the transition date applying the full retrospective approach	Contracts measured at the transition date applying the modified retrospective approach	Contracts measured at the transition date with the fair value approach	Contracts subject to carve-out	Total	New contracts and contracts measured at the transition date applying the full retrospective approach	Contracts measured at the transition date applying the modified retrospective approach	Contracts measured at the transition date with the fair value approach	Contracts subject to carve-out	Total
Insurance revenues (*)			**6,971**	**58,592**	**65,563**			**3,056**	**22,756**	**25,812**
Contractual service margin										
Opening balance (*)			**8,123**	**52,031**	**60,155**			**5,995**	**65,883**	**71,878**
Changes relating to current services			**(1,285)**	**(19,757)**	**(21,042)**			**(650)**	**(5,606)**	**(6,256)**
- Contractual service margin recognised in the income statement to reflect the services provided			(1,285)	(19,757)	(21,042)			(650)	(5,606)	(6,256)
Changes relating to future services			**3,369**	**(82,364)**	**(78,995)**			**2,759**	**(59,842)**	**(57,083)**
- Changes in estimates that adjust the contractual service margin			(1,507)	(101,504)	(103,011)			836	(66,430)	(65,594)
- Effects of contracts initially recognised in the reference year			4,876	19,141	24,017			1,923	6,588	8,511
Revenues/costs of a financial nature										
1. Relating to insurance contracts issued			280	145,553	145,833			19	51,596	51,616
2. Effects associated with changes in exchange rates			-	-	-			-	-	-
3. Total			280	145,553	145,833			19	51,596	51,616
Total changes recognised in the income statement and in the statement of comprehensive income			**2,364**	**43,432**	**45,796**			**2,109**	**(65,448)**	**(63,339)**
Closing balance			**10,487**	**95,464**	**105,951**			**8,123**	**52,031**	**60,155**

(*) For 2022, the date of the "Opening balance" is to be understood as 1 July 2022, the date of acquisition of the Companies; for the same reason, revenues refer only to the second half of 2022.

Lastly, it should be noted that during the transition to IFRS 17, the Group determined the cumulative insurance financial income in accordance with the provisions of the new standard for Banco BPM Vita and Banco BPM Assicurazioni, which already applied IFRS 9 at the Transition date. For Banco BPM Vita, therefore, the change in the fair value reserve of the debt of the investments at FVOCI as at 1 January 2023, is attributable to the elimination of the so-called "shadow accounting", offset by the effects of the application of the OCI option of IFRS 17.

Interest Rate Benchmark Reform ("IBOR Reform")

Note that in 2019, Banco BPM Group launched a project called "IBOR Transition" to implement all the necessary interventions in order to adapt the operating and application processes to the new "Risk Free" rates, with a view to the gradual replacement of IBOR rates, the termination of which was planned between 2021 and 2023, according to a calendar defined by the Regulator.
The internal operating processes were therefore redesigned, intervening both on the legal aspects, by amending the contracts of instalment loans indexed to IBOR rates, and on the IT ones for the necessary application implementations. At the same time, an ad hoc commercial initiative was developed, with the main purpose of renegotiating foreign accounts indexed to maturing LIBOR rates to bring them back to the new Risk Free rates (e.g. SOFR, SONIA, EONIA).

During 2023, in conjunction with the termination of the USD LIBOR - published for the last time on 30 June - the remaining activities of the projects were completed. In this context, the Group's commitment was to intensify negotiations with its counterparties in order to reduce the stock of accounts still indexed to the rates being discontinued and definitively switch to SOFR rates.

Information on the instruments that have yet to shift to an alternative rate, disaggregated by benchmark rate, pursuant to paragraphs 24I and 24J of IFRS 7

With regard to the Group's exposure to IBOR rates, it should be noted that as at 31 December 2023, positions relating to OTC derivatives indexed to LIBOR, in all currencies, were fully closed; a limited number of contracts with a significant exposure still remains, relating to multi-currency current accounts and loans, mostly referring to the USD LIBOR rate, as shown in the table below.

Exposure to discontinued "IBOR transition" rates: data as at 31 December 2023 (amounts in millions of euro/units of euro by number of contracts)

Exposure to discontinued "IBOR Transition" rates Figures as at 31 December 2023				
Amounts in millions of euro	**Product categories**			
	Non-derivative financial assets		**Non-derivative financial liabilities**	
	Loans and advances		**Current accounts and deposits**	
	number of contracts	**amount**	**number of contracts**	**amount**
Contracts indexed to IBOR rates:				
LIBOR	**80**	**183.6**	**1,435**	**(74.5)**
of which: USD	74	183.3	1,225	(63.4)
of which: GBP	5	0.3	97	(2.1)
of which: CHF	1	0.0	83	(4.0)
of which: JPY	-	-	30	(4.9)

In greater detail, the remaining exposures are quantified as follows:

- Loans and advances: almost all of the 80 outstanding positions (for an amount of 183.6 million) are indexed to the USD LIBOR, including:
  - o 52 loans refer to structured finance pool contracts for a total value of 172.3 million, for which Banco BPM, as participant bank, follows the instructions of the lead banks responsible for negotiations for the replacement of the discontinued rates (as at 31 December 2022, there were 94, totalling 613 million);
  - o 28 multi-currency accounts with loans for a total value of 11.3 million (48 as at December 2022, for a total value of 35 million), the majority of which are accounts in USD (22), the amount of which is almost entirely attributable to the position of a single corporate customer (11 million), classified as UTP since May 2023, in relation to the fact that relations with banks are blocked by international courts;
- Current accounts and deposits: 1,435 multi-currency current accounts for a total balance of 74.5 million (as at 31 December 2022, there were 2,435 accounts for a value of 217 million), mainly indexed to the USD Libor (1,225 for a value of 63.5 million).

Hedge accounting

As regards hedge accounting, as at 31 December 2023 there are no residual derivative contracts indexed to the rates impacted by the Reform.

Risks deriving from financial instruments subject to the IBOR reform and related management methods

The most critical part of the transition of the Group's IBOR rates can be considered completed at the end of 2023, with the almost full mitigation of the risks associated with the discontinuation of the EONIA and LIBOR indices (including the USD LIBOR discontinued on 30 June 2023).
In the area of loans, there are two areas of potential risk relating to:

- the use of the Compounded ESTR as a replacement rate for the Euribor in new contracts (this rate is characterised by its dependence on past values, and in conditions of high volatility it may present significant discontinuities with respect to the Euribor);
- the stock of loans indexed to the Euribor, which mostly have the EUR LIBOR (discontinued) as an alternative rate or use other rates that are no longer adequate.

It should also be noted that the aforementioned risks are partly mitigated by:

- the publication, in May 2023, of the Guidance on Euro Risk Free Rates by the "Working Group on Euro Risk-free rates", which recommends the use of the Term ESTR as the first alternative rate to the Euribor (instead of the Compounded ESTR, which is demoted to the second alternative). Both rates are based on a transparent and objective methodology, but, unlike the Compounded ESTR, the Term ESTR is "forward looking" and, in principle, more aligned to the evolution of the Euribor;
- the issue on 7 December 2023 of Italian Legislative Decree no. 207 which, implementing the indications of European Delegation Law (DE) no. 127 of 4 August 2022, introduces Article 118-bis of the Consolidated Banking Law (CBL), which extends the right of banks to unilaterally change the rates envisaged for forward contracts as is already the case for permanent contracts (Article 118 of the CBL).

The publication of these documents requires the launch of new activities to be developed in the two-year period 2024-25. In particular, by applying Italian Legislative Decree no. 207, it will be possible to:

- update the loan contracts by introducing the Term ESTR, also by referring to the "Robust written plan" (envisaged by the Benchmark Regulation), in which the applicable replacement rates will be published. The Banks must keep the Plan constantly updated and make it available to the public through their website. Any change must be communicated to customers sufficiently in advance so that they can exercise the right of withdrawal;
- carry out the massive updating of the stock of loans with repayment by instalments, avoiding the use of bilateral negotiation, which would entail enormous complexity and high costs.

The project activities resulting from the new Decree Law will require legal, management and application analyses, the resulting actions of which will be developed during 2024, to end with the updating of the stock of loans in 2025.

Lastly, it is worth mentioning that at present there is no assumption to discontinue the Euribor, which could nevertheless be discontinued, should the "hybrid" method for its determination[1] be deemed too dependent on the subjective valuations made by the intermediaries.

Other significant aspects relating to Group accounting policies

Below is an illustration of several transactions or events occurring during 2023, deemed significant for defining the related accounting treatment and/or impacts on the balance sheet or income statement.

[1] In 2019, the Euribor underwent significant changes to its calculation method (known as the hybrid method), with a view to maintaining its use also beyond 1 January 2022. The cited method envisages that the rate is calculated on the basis of a three-level hierarchy, represented by the use of market transaction data from the previous day (level 1), the interpolation of data in the event of the temporary unavailability of market data (level 2), and expert opinion as occurred before the reform (level 3).

Reorganisation of bancassurance activities and relative accounting impacts

For details on the accounting treatment required in the case of transactions for the acquisition of control according to IFRS 3 and the effects resulting from the Purchase Price Allocation process concerning the acquisition of control of the insurance companies, please refer to paragraph "16 – "Other information, Business combinations, goodwill and changes in interest holdings" of part "A.2 - Key financial statement items" and part "G - Business combinations regarding companies or divisions".

TLTRO III - Targeted Longer Term Refinancing Operations

Description of main characteristics

TLTRO III "Targeted Longer-Term Refinancing Operations" are financing operations conducted by the ECB on a quarterly basis - in the period between September 2019 and December 2021, with a total of ten drawdowns - for the purpose of maintaining favourable borrowing conditions for banks through incentives. Each operation has a duration of three years, without prejudice to any early redemption option, which can be exercised according to the timing established for each operation.
Following the emergency linked to the Covid-19 pandemic, some of the criteria initially envisaged, in June 2019, by the ECB were first revised between March and December 2020 in a positive sense, with particular reference to the maximum amount that can be financed and the related remuneration, followed in October 2022 in a negative sense, as a result of the increase in interest rates aimed at easing inflationary pressure and re-establishing price stability conditions in the medium term.
With regard to the remuneration of the loans, following these revisions, the interest rate was set at a level equal to the average rate of the Eurosystem's Main Refinancing Operations (MRO), except for the period from 24 June 2020 to 23 June 2021 (the so-called "special interest rate period" or "SIRP") and between 24 June 2021 and 23 June 2022 (the so-called "additional special interest rate period" or "ASIRP"), where a rate 50 basis points below this rate shall apply.

An incentive mechanism was also envisaged to access more favourable rate conditions, depending on the achievement of certain benchmarks, which depend on net lending. In more detail, it is possible to benefit from the average rate on deposits (Deposit Facility - DF) for the entire duration of the operation instead of the MRO rate, with a further reduction of 50 basis points for the entire special period from 24 June 2020 to 23 June 2022. The interest is settled in arrears at the maturity of each TLTRO III operation or at the time of early repayment.

As previously indicated, with Decision ECB/2022/37 of 27 October 2022, the ECB, in addition to raising interest rates, intervened retroactively recalibrating the conditions applicable to the loans in question and setting the reference deadline as 22 November 2022 in order to benefit from an improved average rate, previously extended to maturity. In greater detail, before the decision in question, against the achievement of the benchmarks, the reference rate for calculating the accruals of the pre-SIRP and post-ASIRP periods was equal to the average of the DF rates for the entire duration of the loan, also including the special period (SIRP and ASIRP), without prejudice to the guarantee of a negative rate of -1% for this last period. With the aforementioned decision, starting from 23 November 2022, remuneration is indexed to the interest rate applicable during this period, maintaining the method for calculating the average rate, applicable to the pre-SIRP and post-ASIRP periods, counted from the date of issue of the loan until 22 November 2022, without prejudice to the guarantee of a rate of -1% for the special period.

Accounting treatment

The accounting treatment of the transactions in question, and in particular the recognition of interest based on the various remuneration mechanisms, does not seem to be directly attributable to any IAS/IFRS accounting standard. This was confirmed by the request that ESMA submitted to the IFRS Interpretations Committee (IFRIC), namely the committee tasked with providing official interpretations of the international accounting standards, on 9 February 2021, to receive clarifications as to the accounting treatment to be applied to the financing in question.

In light of the foregoing, taking into account that at the date of preparation of these financial statements no official interpretations have been received on the accounting treatment of TLTRO III transactions, Banco BPM Group has defined the reference accounting policy, based on the provisions of IAS 8, as specified below.

Based on the accounting policies of Banco BPM Group, the provisions of accounting standard IFRS 9 "Financial instruments" are deemed to be applicable to TLTRO III loans, insofar as the remuneration conditions defined by the ECB are considered on a par with market conditions, as the ECB defines and implements monetary policy in the Eurozone. In greater detail, the rules envisaged by IFRS 9 for floating-rate financial instruments (paragraph B5.4.5) are deemed applicable, in line with the treatment applied in the past for loans obtained under the previous TLTRO programmes. Interest is then recognised on the basis of the rates, in existence over time and applicable for each reference period, according to the probability of being able to achieve certain "benchmark" objectives. Also as a result of the changes introduced in the conditions of TLTRO III of 27 October 2022, the model for the recognition of accruals is pursued in substantial continuity with the accounting treatment defined in previous years.

In this regard, it should be noted that, since all the "net lending" objectives were achieved in prior years, the interest accrued on the aforementioned liabilities is assessed on the basis of the most favourable interest rate applicable to the Deposit Facility (DF). In greater detail, for the loans in place for Banco BPM Group, which were issued from 24 June 2020 onwards, the accrued interest was therefore calculated for each time period as reported below:

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

The accrual thus determined as at 31 December 2023, as for future reporting to maturity, corresponds to what would be paid by the ECB if an early repayment at each reference date would be admitted.

Active loans and relative interest pertaining to FY 2023

As at 31 December 2023, the residual nominal value of the TLTRO III operations underwritten by the Group amounted to 15.7 billion and pertained to three quarterly drawdowns made by the Parent Company in the period between 24 March 2021 and 22 December 2021. The reduction compared to the previous year is attributable to the repayments made during the year 2023, totalling 11 billion.
Considering the interest accrued but not yet collected, i.e. a total liability of 370.8 million, the book value of the TLTRO III loans as at 31 December 2023 amounted to 16,070.8 million. This value corresponds to the amount that would be paid by the ECB to Banco BPM, should their early repayment be permissible as at 31 December 2023. As at 31 December 2022, the book value of the TLTRO III loans was 26,332.4 million, equal to the sum of the residual debt (26,700 million) and the accrued income (367.6 million).

Interest accrued in 2023 was a negative -703.5 million (interest income pertaining to 2022 was 181.4 million) and is calculated on the basis of Deposit Facility rates in force from time to time, as described previously.
The different contribution depends, in addition to the different nominal value of calculation attributable to the above-cited repayments, on the joint effect of the increase in interest rates starting from the second half of 2022, and the elimination of the favourable remuneration mechanisms illustrated above.

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

In order to combat the negative economic effects of the Covid-19 pandemic, Law no. 77 of 17 July 2020, converted with amendments into Decree Law no. 34 of 19 May 2020 ("Relaunch Decree"), a range of tax incentives were introduced which make it possible to benefit from deductions linked to expenses incurred for specific work, for example to increase the level of energy efficiency of existing buildings ("ecobonus") or to reduce their seismic risk ("sismabonus").

These incentives, applicable both to households and businesses, are proportional to a percentage of the expenses incurred and are disbursed in the form of the granting of tax deductions to the parties that bear the expenses relating to the aforementioned interventions. The aforementioned regulation also makes it possible to transform the tax deduction into a tax credit also by obtaining a discount on the amount due to the supplier.

Tax credits may only be recovered by offsetting them against tax and social security debts of the transferee in compliance with the timeframe of the original tax deduction. If the transferee is unable to offset the receivable with its tax and social security payables within the above-mentioned terms, the non-offset amount is definitively lost.

However, tax credits may be transferred to other parties (including banks and other financial intermediaries).
More recently, through Law Decree no. 50/2022 (so-called "Aid Decree") the Government again intervened on the issue, mainly by remodelling the figures of potential transferees.
Below are the accounting policies relating to the treatment of the above-mentioned tax credits acquired by the Group through the Parent Company.

The peculiarity of the tax credits described above does not make it possible to associate them with any specific international accounting standard; in this case, IAS 8 provides that the company management must independently define the accounting treatment considered the most suitable to guarantee relevant and reliable information to users of the financial statements.
To this end - taking into account the instructions provided on 5 January 2021 by the Bank of Italy, CONSOB and IVASS in document no. 9 of the Coordination Round Table on the application of IAS/IFRS "Accounting treatment of tax credits linked to the "Heal Italy" and "Relaunch" Decree Laws, purchased following the sale by direct beneficiaries or previous purchasers" - Banco BPM Group defined its own accounting policy by making reference to certain accounting provisions under IFRS 9. More specifically, the tax credits in question were deemed to be substantially similar to a financial asset, and therefore the provisions envisaged by the afore-cited standard can, by analogy, be applied, if compatible with the characteristics of the operation.

In this regard, it should be noted that purchases of tax credits finalised by Banco BPM until 31 December 2023 are entirely attributable to the "Hold to Collect" business model, as they fall within the scope of the "offsetting capacity" of the bank, or its tax and social security payables; the intention, therefore, is to hold them until maturity and recover them exclusively by offsetting them with the above-mentioned payables.
As a result, applying, by analogy, the provisions set forth in IFRS 9, the credits acquired are initially recognised at fair value, equal to the consideration paid to the customer to purchase the tax credit, and subsequently measured at amortised cost, taking into account their value and offsetting timing. Instead, the provisions relating to the calculation of expected credit losses (ECL), pursuant to IFRS 9, are not applicable: the recoverability of tax credits effectively depends on the tax capability of the purchaser, namely the ability to offset tax credits purchased with its tax and social security debts, as they cannot be refunded by the Tax Authority. Said credits are recognised in the residual item "130. Other assets", as they do not represent, pursuant to the international accounting standards, tax assets, public contributions, intangible assets or financial assets, in line with what is set forth in the joint document cited above.

The interest accrued based on the amortised cost is recognised in the income statement in item "10. Interest and similar income".

As at 31 December 2023, the nominal value of the total tax credits purchased amounted to 4,120.1 million, of which 1,684.0 million in 2023 (as at 31 December 2022, tax credits purchased totalled 2,436.0 million).

The total receivables recovered through offsetting amounted to 895.1 million (of which 589.4 million in 2023), therefore the residual nominal value as at 31 December 2023 amounted to 3,225.0 million (2,130.4 million as at 31 December 2022).
The corresponding book value, shown in the balance sheet item "130. Other assets" on the basis of the amortised cost, which takes into account the purchase price and the net interest accrued as at 31 December 2023, amounted to 2,981.8 million (1,966.9 million as at 31 December 2022).
As at 31 December 2023, commitments were also made with third parties for future purchases of tax credit for a total amount of approximately 606 million.

The amount of the credits purchased and the purchase commitments undertaken as regards the HTC model, as illustrated above, is lower than the estimate of the Bank's prospective offsetting capacity, also considering that the related purchase ceiling, resolved by the Board of Directors of Banco BPM, was set prudentially, with the aim of

considering the uncertainties related to the timing of the actual entry into the tax box and the actual characteristics of the credits purchased, dependent on the assumption of purchase commitments.
As at 31 December 2023, therefore, there are no risks of irrecoverability both with reference to the tax credits recognised in the financial statements and in relation to the commitments to purchase additional tax credits.
It should be noted that Banco BPM did not transfer any of the tax credits purchased.

Lastly, it should be noted that the Board of Directors of Banco BPM on 17 October 2023 also authorised the purchase of tax credits based on the Hold To Collect and Sell (HTCS) model for a ceiling of 1.4 billion, with the objective of exploiting the prudent margins considered in the estimate of Banco BPM's fiscal capacity, taken as a reference in determining the ceiling of the HTC model, which is in fact lower than the maximum offsetting capacity of the Bank. The HTCS business model, with respect to the current HTC, therefore aims to boost purchases of tax credits, thus making it possible to seize commercial opportunities without, however, assuming the risks of non-recovery due to inadequate offsetting capacity. The HTCS business model undertaken by the Group makes it possible to recover tax credits both through offsetting with the Bank's tax and social security payables, and, if necessary, by transferring the same to other operators interested in their purchase, if deemed advantageous.
In this regard, as at 31 December 2023, no purchase transactions falling within the HTCS model had been completed; on the other hand, there are commitments in place with third parties for future purchases of credits for a total amount of 100 million.

Issue of Additional Tier 1 (AT1) financial instruments

As at 31 December 2023, Banco BPM had Additional Tier 1 instruments totalling a nominal amount of 1.5 billion, resulting from 5 issues carried out from 2019 to 2023.
The AT1 are subordinated instruments classified in Additional Tier 1 capital, under the terms of Regulation no. 575 of 2013 (CRR), addressed to institutional investors.
The issues, outstanding on the reporting date, took place on 11 April 2019, 14 January 2020, 12 January 2021, 5 April 2022 and 17 November 2023.
Since these are perpetual securities, the issuer has the option of early redemption starting respectively from 18 June 2024, 21 January 2025, 19 January 2026, 12 April 2027 and 24 May 2029; in case of failure to call, the call can be exercised every five years in the first case and subsequently every six months for the other three issues.
Given the approaching first early redemption date (18 June 2024), in November 2023, the issue of AT1 of 11 April 2019 ("300 million 8.750% Additional Tier 1 Notes"), was subject to partial repurchase for a nominal value of 223.3 million.

The six-monthly coupon, non-cumulative, was set at an annual rate of 8.75%, 6.125%, 6.5%, 7% and 9.5%, respectively. If the option of early redemption is not exercised, a new fixed-rate coupon will be determined adding the original spread to the mid-swap rate in euro at five years to be recorded at the moment of the recalculation date. This new coupon will remain fixed for the next five years and until the next recalculation date.
For the above issues, in line with the provisions of the CRR for AT1 instruments, the issuer has full discretion in deciding not to pay the coupons, for any reason and for an unlimited period of time. Cancellation is instead obligatory if certain conditions occur, including the occurrence of a trigger event, namely when the Common Equity Tier 1 (CET1) of Banco BPM (or consolidated CET1) is lower than 5.125%. In addition, interest is not cumulative, as any amount that the issuer decides not to pay or would be obliged not to pay will not be accumulated or payable at a later date. It is also envisaged that on the occurrence of a trigger event, the capital would be irrevocably and obligatorily written down by the amount needed to bring the CET1 (of Banco BPM or of the Group) to 5.125%. The capital written down could be reinstated (written up), on fulfilment of certain conditions, and in any event at the issuer's complete discretion, even in the event that Banco BPM decided to repay the issue early.
Based on that illustrated above regarding the characteristics of the loans, the above-cited issues are considered the equivalent of "equity instruments" in terms of accounting standard IAS 32, as illustrated in the accounting policies shown in paragraph "16 - Other information" of unit "A.2 - Key financial statement items" below.

In the financial statements as at 31 December 2023, the price received from the above-cited issues, after deducting the directly attributable transaction costs, net of the related tax charge (10.8 million), is shown under shareholders' equity item "140. Equity instruments", for an amount of 1,465.8 million.
Consistent with the nature of the instruments, in the year, the following were recognised under item "150. Reserves":

- the coupons paid for an amount of 70.1 million (96.7 million, net of the related tax effect of 26.6 million);

- the negative effects related to the partial repurchase of the AT1, equal to 11.3 million, for the higher consideration paid with respect to the book value of the issue.

"Hold to Collect" Business Model – sales

During 2023, a single sale transaction was completed, considered for the purposes of the materiality and frequency thresholds, relating to a US government bond classified in the accounting portfolio of "Financial assets at amortised cost" for a total nominal value of USD 50 million.
The transaction, carried out by the Parent Company, generated a profit on disposal of 2.8 million, which is represented in the income statement item "100. Gains (losses) on disposal or repurchase of: a) financial assets at amortised cost". This result compares with a profit realised in 2022 of 148.7 million, resulting from the completion of sale transactions for a total nominal value of approximately 5.5 billion.

The above-mentioned sale transaction, considered for the purposes of eligibility of HTC sales, corresponds to roughly 0.16% of the nominal value of the securities in issue as at 1 January 2023 and therefore within the materiality threshold of 10% of the nominal value of the securities portfolio at the beginning of the year, established by Group policy. The annual frequency threshold, defined in terms of twelve annual transactions, was also respected.

During 2023, additional sales of securities were carried out for the portfolio of assets measured at amortised cost, for an amount of 53.5 million, considered eligible regardless of any threshold of significance and frequency, as they occurred close to maturity.
In addition, as part of the derisking process illustrated in the Group Report on operations, the sale of non-performing credit exposures represented by loans to customers, considered eligible regardless of any frequency and materiality thresholds, continued in 2023, in line with the provisions of IFRS 9 and the Group policy.

For more details on the configuration of the above-cited thresholds, along with the other indicators/limits of eligibility of the sales, refer to part A.2 below, paragraph "3 - Financial assets at amortised cost - Sales eligibility policy consistent with the HTC Business Model".

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

Contributions to deposit guarantee systems and resolution mechanisms

Following transposition into the national legislation of Directives 2014/49/EU (Deposit Guarantee Schemes Directive –"DGSD") of 16 April 2014 and 2014/59/EU (Bank Recovery and Resolution Directive – "BRRD") of 15 May 2014, starting from financial year 2015, credit institutions are obliged to provide the financial resources necessary for the financing of the Interbank Deposit Guarantee Fund (IDGF) and the National Resolution Fund (merged into the Single Resolution Fund (SRF) starting from 2016), through payment of ex ante ordinary contributions to be paid annually, until a specific target level of 0.8% of protected deposits is reached by 3 July 2024 and of 1% of total protected deposits is reached by 31 December 2023. Where the available financial resources of the IDGF and/or the SRF are insufficient to guarantee the protected reimbursement of depositors or to fund the resolution, respectively, it is set out that banks shall provide such funds via the payment of extraordinary contributions.

Contributions are recognised in income statement item "190. Administrative expenses: b) Other administrative expenses" in application of IFRIC 21 interpretation "Levies", on the basis of which the liability relating to the payment of a levy arises at the time the "obligating event" occurs, namely at the time of the obligation to pay the annual fee. In the case in hand, from an accounting perspective, the contributions are considered the equivalent of a levy and the time of the occurrence of the "obligating event" has been identified as in the first quarter for the SRF (1 January of each year) and in the third quarter for the IDGF (30 September of each year).

For further details, please refer to "Section 12 - Administrative expenses - item 190".

E-money business enhancement project

As described in the section on "Significant events during the year" in the report on operations, on 18 April 2023, Banco BPM decided to proceed with a project for the enhancement of the e-money business, through the development of a potential partnership with a leading market operator, concerning both Merchant Acquiring and POS management, as well as the Issuing and distribution of payment cards.
In this regard, on 11 July 2023 the Banco BPM Board of Directors, having examined the offers received from leading sector operators, decided to grant an exclusive right to FSI SGR S.p.A., Pay Holding S.p.A. and BCC Pay S.p.A. in order to negotiate and define the terms and conditions of a potential partnership in the issuing and acquiring sectors.

On 14 July 2023, Banco BPM, BCC Iccrea Group and FSI signed a binding agreement for the establishment of a strategic partnership aimed at developing a new Italian and independent entity in the digital payments sector.
The agreement calls for the transfer to a joint venture (BCC Pay) of the e-money business of Banco BPM and the interest held in Tecmarket Servizi, with the payment of a mixed consideration in cash and in shares issued by the SPV Pay Holding, namely by the parent company of BCC Pay. After the transaction, Pay Holding will be owned roughly 43% by FSI and around 28.6% each by Banco BPM and Iccrea Banca.
The agreement also calls for the signing of a multi-year distribution contract for the joint venture's services on the Banco BPM network as well.

The finalisation of the transaction, subject to approval by the competent Authorities, is expected by the second quarter of 2024.

For the purposes of preparing the Consolidated financial statements as at 31 December 2023, as the assumptions set forth in IFRS 5 were met, both the assets and liabilities of the e-money business, and those relating to the interest to be transferred, were reclassified to the specific balance sheet items "120. Non-current assets and disposal groups held for sale" and "70. Liabilities associated with assets classified as held for sale".
With reference to the income statement for 2023, the classification of the business unit held for sale had no impact, both in valuation terms, as the sale price was significantly higher than the book value, and in terms of exposure, as the business unit was not classified as discontinued operations, because it did not represent an important autonomous unit or geographical area of activity (major line of business).
In greater detail, the balance sheet items of the business unit were mainly represented by liabilities relating to the accounting balances outstanding on prepaid cards, which as at 31 December 2023 amounted to 204.3 million. Upon completion of the transfer transaction, the business unit will break even, as Banco BPM will make cash and cash equivalents available to the transferee equal to the balance of the prepaid cards; from this perspective, as at 31 December 2023 a reclassification of 204.3 million was made from asset item "10. Cash and cash equivalents" to item "120. Non-current assets and disposal groups held for sale", conventionally taking it from the sub-item "Available cash".

For further details, please refer to the information provided in "Section 12 - Non-current assets and disposal groups held for sale and associated liabilities – Item 120 in the assets and Item 70 in the liabilities", contained in "Part B - Information on the consolidated balance sheet" of these Notes to the financial statements.

Extraordinary tax on extra profits of banks

Art. 26 of Italian Decree Law no. 104 of 10 August 2023 ("Urgent provisions for the protection of users, regarding economic and financial activities and strategic investments") - converted with amendments by Law no. 136 of 9 October 2023 - introduced an extraordinary tax to be paid by banks for the year 2023. This tax must be determined, at the level of each Group bank, by applying a rate of 40% to the amount of net interest income for 2023, which exceeds the same income for 2021 by at least 10%. It is also envisaged that the amount of the extraordinary tax may not, in any case, exceed a portion equal to 0.26% of the total amount of the risk exposure on an individual basis ("RWA - Risk Weighted Asset") referring to the closing date of the 2022 financial year.
The aforementioned tax must be paid by 30 June 2024, unless the option not to pay it is applied, by allocating an amount that is not less than 2.5 times the amount of the tax to a non-distributable equity reserve - identified for this purpose - at the time of the allocation of the profit for 2023. If the reserve thus constituted is subsequently used for the distribution of profits, the tax due must be paid in full, increased by an amount equal to the interest rate on deposits with the European Central Bank.

This reserve may be used to cover losses and will be included in Common Equity Tier 1 capital (CET1), in line with the provisions of Regulation (EU) no. 575/2013.

From an accounting perspective, in light of the specific characteristics of the tax in question, and in particular of the methods for calculating it, the provisions of interpretation IFRIC 21 "Levies" and of accounting standard IAS 37 "Provisions, contingent liabilities and contingent assets" were considered applicable. In particular, based on the provisions of IFRIC 21, the liability relating to the payment of a tax arises when the so-called "obligating event" occurs, i.e. when the obligation to pay the same arises, which exists if the entity should opt for the payment of the tax or if, subsequently, it should decide to distribute the restricted reserve. The definition of liability provided by IAS 37 also envisages that, to fulfil the obligation, the outflow of resources that incorporate economic benefits is to be considered likely. The aforementioned obligating event exists if the entity decides to pay the tax or if the previously restricted unavailable reserve should be distributed.

On the basis of these provisions, the amount of the extraordinary tax quantified at Group level is approximately 152 million, of which 151 million refers to the Parent Company; in the event of non-payment, the amount to be allocated to a non-distributable reserve would amount to 381 million, of which 378 million referring to the Parent Company.
Following the resolution passed by the Board of Directors of Banco BPM and its subsidiaries, the proposed allocation of the profit for the year 2023 to be submitted to the Shareholders' Meeting envisages the future establishment of the aforementioned non-distributable reserve, as an alternative to payment, for a total amount of 378 million at Group level.

At the date of preparation of the 2023 financial statements, there is therefore no obligation to pay the tax; consequently, pursuant to the aforementioned IFRIC 21, no obligating event has occurred, against which a liability and the corresponding charge have been recognised.

A.2 - KEY FINANCIAL STATEMENT ITEMS

The accounting standards adopted to prepare the consolidated financial statements as at 31 December 2023 are described below by financial statement item, with reference to the phases of classification, recognition, measurement and derecognition of the various asset and liability items, as well as the methods for recognising revenue and costs. These standards are aligned with those adopted for the preparation of the comparative consolidated financial statements as at 31 December 2022, with the integrations that became necessary to incorporate the entry into force of IFRS 17, illustrated in more detail in point "15 - Insurance assets and liabilities".

1 - Financial assets at fair value through profit and loss

Classification criteria

This category comprised financial assets other than those classified under "Financial assets measured at fair value through other comprehensive income" and "Financial assets at amortised cost". These include:

- the debt securities or loans to which an "Other" Business Model is associated, i.e. a method of managing financial assets not aimed at collecting the contractual cash flows (Hold to Collect Business Model) or at collecting the contractual cash flows and selling the financial assets (Hold to Collect and Sell Business Model);
- debt securities, loans and UCIT units whose contractual terms do not solely provide for repayment of principal and payments of interest on the amount of principal to be repaid (i.e., that do not pass the "SPPI test");
- equity instruments that cannot be classified as investments in subsidiaries, associates or entities under joint control or held for trading, or for which, on initial recognition, the option to classify them among "Financial assets measured at fair value through other comprehensive income" was not used;
- derivative contracts that are not used for hedging purposes and with a positive fair value (active derivatives). For these instruments, the offsetting with derivatives with a negative fair value (passive derivatives) is permitted for transactions stipulated with the same counterparty, if there is a present legal right to the offsetting and it will be settled on a net basis;
- the investments underlying the unit and index-linked insurance policies.

More detailed information is provided below on the three sub-items that comprise the category in question, represented by: "a) Financial assets held for trading", "b) Financial assets designated at fair value", and "c) Other financial assets mandatorily measured at fair value".

a) Financial assets held for trading

A financial asset (debt securities, equity instruments, loans, UCIT units) is classified as held for trading if it is managed with a view to collecting cash flows through sale, i.e. if it is associated with the "Other" Business Model, as:

- it is acquired for the purpose of being sold in the near future;
- it is part of a portfolio of financial instruments that are jointly managed and for which there is a proven strategy for short-term profit.

This also includes derivative contracts with a positive fair value, not designated as part of a hedging relationship. Derivative contracts include those embedded in structured financial instruments, in which the host contract is a financial liability, that have been recognised separately because:

- their economic characteristics and risks are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of derivative;
- the hybrid instruments to which they belong are not designated at fair value with the related changes recorded in the income statement.

A derivative is considered to be a financial instrument or other contract that has the following characteristics:

- its value changes in response to changes in an interest rate, in the price of a financial instrument, in a commodity price, in the exchange rate in foreign currency, in a price or interest rate index, in a credit

rating or in a credit index or in another pre-established variable (the underlying) provided that, in the case of a non-financial variable, the underlying is not specific to a party to the contract;
- it does not require an initial net investment or requires a lower initial net investment than would be required for other types of contracts that would be expected to respond similarly to changes in market factors;
- it is settled at a future date.

b) Financial assets designated at fair value

A financial asset (debt securities and loans) may be designated at fair value on initial recognition, with the measurement results recognised in the income statement, only when such designation makes it possible to provide better disclosure, as it eliminates or considerably reduces the inconsistency in valuation or recognition, that would otherwise be caused by measuring assets or liabilities or recognising the associated gains and losses on different bases (accounting mismatch). This category is not valued by the Group.

c) Other financial assets mandatorily measured at fair value

Other financial assets mandatorily measured at fair value represent a residual category and are made up of financial instruments that do not meet the business model or cash flow requirements to be classified as financial assets at amortised cost or financial assets measured at fair value through other comprehensive income. More specifically, these include:
- debt securities or loans whose contractual terms do not solely provide for repayment of principal and payments of interest on the amount of principal to be repaid (i.e., that do not pass the "SPPI test");
- UCIT units;
- equity instruments not held for trading, for which the option of classifying them among the financial assets measured at fair value through other comprehensive income was not used.

Financial instruments managed on the basis of fair value are also classified in this category, as the information obtained makes it possible to assess their performance and make decisions in line with the risk management or investment strategy.
This business model is applicable to financial assets, mainly represented by UCIT units, backing contracts issued by insurance companies, for which the investment risk is borne by the policyholders. In particular, these are assets relating to Class III insurance contracts (unit-linked or index-linked policies) whose services are related to the performance of market indices and investment fund units. In line with the aforementioned management model, the related liabilities of insurance contracts are measured at fair value, in application of the so-called "fair value option".

Recognition criteria

Financial assets are initially recognised on the settlement date in case of debt securities, equity instruments and UCIT units, on the disbursement date for loans and on the subscription date for derivative contracts.
Upon their initial recognition, financial assets at fair value through profit and loss are designated at fair value, which generally corresponds to the price paid, excluding transaction costs or revenues that are directly attributable to the financial instruments, which are instead recognised directly in the income statement.

Income item measurement and recognition criteria

Subsequent to initial recognition, financial assets at fair value through profit and loss are designated at fair value, with recognition of changes as a balancing entry to the income statement. For derivative instruments, if the fair value of a financial asset becomes negative, that item is accounted for as a financial liability held for trading.

To determine the fair value of financial instruments listed on an active market, market listings at the reporting date are used. In the absence of an active market, estimate methods and valuation models are used that take into account all the risk factors associated with the instruments and that are based on market inputs, such as: methods based on the valuation of other listed instruments that are substantially the same, discounted cash flow analysis, option pricing models, and values recognised in recent comparable transactions. In the event that no reliable estimate of the fair value is possible for equity instruments and related derivatives, the cost criterion is used as an estimate of the fair value only on a residual basis and limited to a few cases (non-applicability of the above methods or in the presence of a range of possible fair value valuations, of which cost represents the most significant estimate).

Please refer to part "A.4 – Fair value disclosure" for details on how fair value is determined.

The interest of the three sub-items that make up this category is shown in item "10. Interest and similar income".

Trading profits or losses and gains or losses as a result of the valuation of the trading book, including derivatives connected with financial assets/liabilities designated at fair value, are recognised in the income statement in the item "80. Net trading income". The same economic effects related to financial assets designated at fair value and to those mandatorily measured at fair value are recognised in item "110. Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss", in sub-items "a) financial assets and liabilities designated at fair value and b) other financial assets mandatorily measured at fair value" respectively.

Derecognition criteria

Financial assets are derecognised when the contractual rights to receive the cash flows generated by the assets have expired, or when the financial assets are sold, and all risks and rewards of ownership of the assets have been substantially transferred. In the presence of renegotiations, the above requirements exist if the changes to the contractual conditions are considered substantial, as illustrated in paragraph "16 – Other information – Renegotiations" below, to which reference is therefore made.
In the event that the substantial transfer of risks and rewards cannot be verified, the financial assets are derecognised from the financial statements if control of the loans has been relinquished.

Lastly, assets sold are derecognised if the contractual right to receive the cash flows of the assets is maintained, but at the same time a contractual obligation is assumed to pay these flows to a third party without delay and only up to the amount of those received.

Reclassification criteria

Financial assets at fair value through profit and loss, other than equity instruments, can be reclassified into the accounting categories of "Financial assets measured at fair value through other comprehensive income" and "Financial assets at amortised cost". This reclassification can occur in the very rare circumstance that an entity decides to modify its business model for managing financial assets. The transfer value is represented by the fair value on the date of its reclassification and prospectively from that date. In this instance, the effective interest rate of the reclassified financial asset is determined on the basis of its fair value on the date of reclassification, which is the date of initial recognition for the allocation of the various stages of credit risk (stage assignment) for the purpose of impairment.

2 - Financial assets measured at fair value through other comprehensive income

Classification criteria

This category includes financial assets (debt securities and loans) when both of the following conditions are met:

- the purpose of holding them is represented by both the collection of contractual cash flows and their sale ("Hold to Collect and Sell" Business Model);
- the related contractual flows consist solely of payments of principal and interest on the capital to be repaid (i.e. they are expected to pass the SPPI test - Solely Payment of Principal and Interest test).

This category also includes equity instruments not held for trading and not qualifying as investments in subsidiaries, associates or entities under joint control, for which the option of classifying them among financial assets measured at fair value through other comprehensive income is applied. This option may be exercised on initial recognition of the individual financial instrument and is irrevocable (known as "OCI election").

Recognition criteria

Financial assets are initially recognised on the settlement date in case of debt securities and equity instruments, and on the disbursement date for loans.

Upon their initial recognition, assets are designated at fair value, which generally corresponds to the price paid, including transaction costs or revenues that are directly attributable to the instruments.

Income item measurement and recognition criteria

Subsequent to initial recognition, financial assets measured at fair value through other comprehensive income, consisting of debt securities and loans, continue to be measured at fair value, with recognition of the portion of interest in the income statement on the basis of the effective interest rate criterion, exchange rate revaluation effects and expected losses (impairment).
Interest is shown under item "10. Interest and similar income".

Gains and losses deriving from the change of the fair value are instead recorded in a specific shareholders' equity reserve ("120. Valuation reserves"), which will be recycled to the income statement when the financial asset is derecognised (item "100. Gains (losses) on disposal or repurchase of: b) financial assets measured at fair value through other comprehensive income").

At each annual or interim reporting date, the aforementioned assets are subject to impairment in order to estimate the expected losses in value relating to credit risk (Expected Credit Losses), based on the impairment model also established for "Financial assets at amortised cost". Said adjustments are recognised in the income statement in item "130. Net credit impairment losses/recoveries relating to: a) financial assets measured at fair value through other comprehensive income", as a balancing entry of the specific equity valuation reserve ("120. Valuation reserves"); the same applies to recoveries of part or all of the write-downs from previous financial years. For more information on the impairment model, please see the information set forth in the following paragraph "16 – Other information - Methods for determining impairment losses on financial assets".

Equity instruments for which the classification in this category has been opted for, are measured at fair value; profits and losses resulting from the change in fair value, net of the relative tax effect, are recognised with a balancing entry in a specific equity reserve ("120. Valuation reserves"). The amounts in said reserve will never be recycled to the income statement, even if the asset is sold; in this instance, it will be necessary to reclassify them under another shareholders' equity item ("150. Reserves"). Additionally, no write-down is recognised in the income statement for these assets, as they are not subject to any impairment process. Dividends collected are the only component recognised in the income statement ("70. Dividends and similar income").

For equity instruments recognised in this category, not listed on an active market, the cost criterion is used as an estimate of the fair value only to a residual extent and limited to a few circumstances, namely if all of the valuation methods illustrated in the paragraph above "1 - Financial assets at fair value through profit and loss" cannot be applied, or in the presence of a large range of possible measurements of the fair value, with regard to which, cost represents the most relevant estimate.

For information on how fair value is determined, please refer to the criteria previously illustrated for "Financial assets at fair value through profit and loss" and part "A.4 – Fair value disclosure", below.

Derecognition criteria

Financial assets are derecognised when the contractual rights to receive the cash flows generated by the assets have expired, or when the financial assets are sold, and all risks and rewards of ownership of the assets have been substantially transferred.
In the presence of renegotiations, the above requirements exist if the changes to the contractual conditions are considered substantial, as illustrated in paragraph "16 – Other information – Renegotiations" below, to which reference is therefore made.
In the event that the substantial transfer of risks and rewards cannot be verified, the financial assets are derecognised from the financial statements if control of the loans has been relinquished.
Lastly, assets sold are derecognised if the contractual right to receive the cash flows of the assets is maintained, but at the same time a contractual obligation is assumed to pay these flows to a third party without delay and only up to the amount of those received.

Reclassification criteria

Financial assets measured at fair value through other comprehensive income, other than equity instruments, can be reclassified into the accounting categories of "Financial assets at fair value through profit and loss" and "Financial assets at amortised cost". This reclassification can occur in the very rare circumstance that an entity decides to modify its business model for managing financial assets. The transfer value is represented by the fair value on the date of its reclassification and prospectively from that date.
In the event of a reclassification to "Financial assets at amortised cost", the cumulative gain or loss in the valuation reserve is eliminated as a balancing entry to an adjustment to the fair value of the financial asset at the reclassification date.
In the event of reclassification under "Financial assets at fair value through profit and loss", the cumulative gain or loss in the valuation reserve is reclassified from shareholders' equity to the income statement.

3 - Financial assets at amortised cost

Classification criteria

This category includes financial assets (loans and debt securities) when both of the following conditions are met:

- the purpose of holding them is represented by the collection of contractual cash flows ("Hold to Collect" Business Model);
- the related contractual flows consist solely of payments of principal and interest on the capital to be repaid (i.e. they are expected to pass the SPPI test).

Specifically, this includes loans granted to customers and loans, with the exception of those "on demand", to banks and Central Banks – in any form – as well as debt securities that meet the requirements described above.
Loans originated through finance leases are also included in this item and, in line with IFRS 16, they are recognised as receivable as they transfer the risks and rewards to the lessee, including assets waiting to be granted under finance lease, including real estate under construction.
Also included are "repurchase agreements" with the obligation to sell securities at a future date and "securities lending" transactions with a cash guarantee deposit which is fully available to the lender, for the spot amount paid, if the characteristics of these transactions do not entail recognition in the proprietary portfolio of the security being carried over or lent, since no risk or reward has been acquired from them.
Lastly, the category in question includes operating receivables connected with the provision of financial services as defined in the Consolidated Banking Law and in the Consolidated Finance Law.

Recognition criteria

Financial assets are initially recognised on the settlement date in case of debt securities and on the disbursement date for loans.
Specifically, the initial recognition of a loan takes place on the disbursement date, which normally coincides with the date on which the contract is signed. If the date on which the credit contract is signed and the date on which the funds agreed are disbursed are not the same, at the time the contract is signed, a commitment to disburse funds is recognised, which will be closed out when the loan is effectively disbursed.
Initial recognition is made on the basis of the fair value of the financial instrument, which is usually equal to the amount disbursed, or the subscription price, including costs/income directly associated to the individual loan and that can be determined from the start of the transaction, although settled later on. Costs are excluded, that, although carrying the above characteristics, are repaid by the borrowing counterparty or fall under normal internal administrative costs.

Income item measurement and recognition criteria

After initial recognition, the financial assets in question are measured at amortised cost, calculated using the effective interest rate method. More specifically, the gross book value is equal to the initial recognition value less repayments of principal, minus/plus the amortisation – calculated according to the effective interest rate method - of the difference between the amount disbursed and the amount repayable at maturity, typically comparable to the costs/income directly associated with the individual receivable.

The effective interest rate is determined by calculating the rate that is equivalent to the asset's present value of future principal and interest cash flows, to the amount disbursed including costs/income associated with the asset. The estimate of cash flows must take into account all the contractual provisions which could influence the amounts and maturities, without considering the expected credit loss on the asset. This accounting method, based on financial logic, spreads the economic effect of all transaction costs, commissions, bonuses or discounts considered an integral part of the effective interest rate method throughout the residual life of the asset. The amortised cost method is not used for short-term assets, whose limited life span makes the application of discounting immaterial. Said assets are measured at historical cost and their costs/income, if any, are recognised in the income statement on a straight-line basis throughout the loan contract life. The same measurement criterion is used for assets without a defined maturity or demand loans.
The book value of financial assets at amortised cost is adjusted to account for any provisions on expected losses. At each annual or interim reporting date, the aforementioned assets are subject to impairment for the purpose of estimating the expected losses in value relating to credit risk (ECL – Expected Credit Losses). Said losses are recognised in the income statement in item "130. Net credit impairment losses/recoveries". If it is found that no reasonable expectations of recovery exist, the gross exposure is written off: in this case, the gross exposure is reduced by the amount considered not recoverable, as a balancing entry to the reversal of provisions covering the expected losses and the impairment in the income statement, for the part not covered by the provisions. For more information on the accounting treatment of write-offs please refer to the content of the paragraph on "derecognition criteria" below.

More specifically, the impairment model, illustrated in more detail in paragraph "16 – Other information - Methods for determining impairment losses on financial assets" below, provides for the classification of assets into three distinct "Stages" (Stages 1, 2, and 3), based on changes to the debtor's credit risk, corresponding to different criteria for measuring expected losses:

- Stage 1: includes performing financial assets for which no significant impairment of credit risk has been observed with respect to the date of initial recognition or for which the credit risk is considered low. Impairment is based on an estimate of the expected credit loss over one year (expected credit loss resulting from possible default on the financial asset within one year from the reference date);
- Stage 2: includes performing financial assets that have undergone significant impairment of credit risk with respect to initial recognition (known as SICR - "Significant Increase in Credit Risk"). Impairment is proportional to the estimate of expected credit loss over the entire residual life of the financial asset;
- Stage 3: includes non-performing financial assets, characterised by a 100% probability of default, to be measured by estimating the expected credit loss over the entire life of the instrument.

For performing assets, expected losses are determined using a collective process based on certain risk parameters, namely the Probability of Default (PD), the Loss Given Default (LGD) and the Exposure at Default (EAD), deriving from internal models for calculating regulatory credit risk that are suitably adjusted to account for the specific requirements set out in accounting regulations.
Non-performing assets, i.e. assets for which, in addition to a significant increase in credit risk, there is objective evidence of impairment, are measured with an analytical or lump-sum measurement process based on uniform risk categories, designed to establish the present value of expected future recoverable cash flows, discounted on the basis of the original effective interest rate or a reasonable approximation if the original rate is not directly available.

Non-performing assets include exposures to which the status of bad loan, unlikely to pay or past due for more than ninety days has been attributed in accordance with the definitions established by the supervisory provisions in force (Bank of Italy Circular no. 272 "Matrix of accounts") and referred to by Bank of Italy Circular no. 262, as they are considered to be consistent with the accounting regulations set out in IFRS 9 for objective evidence of impairment.

In the presence of sales scenarios, the determination of the cash flows is based on the forecast of flows recoverable through the internal management activity as well as on the basis of the flows obtainable from any sale on the market, according to the multi-scenario approach described in paragraph "16 – Other information - Methods for determining impairment losses on financial assets" below.

Expected cash flows also consider expected recovery times and the estimated net realisable value of any guarantees.

For fixed rate positions, the original effective rate used to discount the expected recovery flows, determined as illustrated above, remains unchanged over time, even if there is a change in the contractual rate due to financial difficulties of the debtor.
For positions with floating interest rates, the rate used for the discounting of cash flows is updated in relation to the indexation parameters (i.e. Euribor), while keeping the originally established spread constant.

The original value of financial assets is reinstated in subsequent years, due to an improvement in the credit quality of the exposure compared to that which had led to the previous write-down. The recovery is recognised in the income statement under the same item ("130. Net credit impairment losses/recoveries") and, in any event, cannot exceed the asset's amortised cost had no adjustments been carried out in the past.
For more information on the impairment model, please see the information set forth in the following paragraph "16 – Other information - Methods for determining impairment losses on financial assets".

For non-performing loans classified in Stage 3, accrued interest is calculated on the basis of amortised cost, that is on the basis of the exposure – determined using the effective interest rate – adjusted for expected losses.
For non-performing loans that do not accrue contractual interest, such as bad loans, this interest corresponds to the reversals of the impairment losses related to discounting the recovery forecasts due to the simple passing of time.

Derecognition criteria

Financial assets are derecognised when the contractual rights to receive the cash flows generated by the assets have expired, or when the financial assets are sold, and all risks and rewards of ownership of the assets have been substantially transferred. In the presence of renegotiations, the above requirements exist if the changes to the contractual conditions are considered substantial, as illustrated in paragraph "16 – Other information – Renegotiations" below, to which reference is therefore made.
In the event that the substantial transfer of risks and rewards cannot be verified, the financial assets are derecognised from the financial statements if control of the loans has been relinquished.
Lastly, assets sold are derecognised if the contractual right to receive the cash flows of the assets is maintained, but at the same time a contractual obligation is assumed to pay these flows to a third party (pass through arrangements) without delay and only up to the amount of those received.

The derecognition of non-performing financial assets may occur upon recognising that the exposure is irrecoverable and consequently concluding the recovery process (final derecognition) and involves a reduction in the nominal and gross book values of the loan. This is the case where settlement agreements with the debtor result in a reduced loan amount (in full and final settlement) or in specific situations, for example:

- the final judgement declaring that part or all of the loan has been extinguished;
- the conclusion of insolvency or enforcement proceedings against the main debtor and the guarantors;
- the conclusion of all possible in- and out-of-court actions for recovering the debt;
- the completion of a mortgage foreclosure on an asset as collateral, with the consequent derecognition of the credit guaranteed by the foreclosed mortgage, in the absence of additional specific guarantees or other actions that may be taken to recover the exposure.

These specific situations may lead to the total or partial derecognition of the exposure, yet do not necessarily entail waiving the legal right to recover the debt.

In addition, non-performing financial assets may be derecognised by writing them off after acknowledging that no reasonable expectations of their recovery exist, even while continuing with actions aimed at their recovery. That write-off is made during the financial year in which the debt or part of it is deemed irrecoverable - even while legal proceedings are underway - and may occur before the legal debt recovery proceedings against the debtor and the guarantors have come to a close. This does not imply a waiver of the legal right to recover the loan and is carried out when the credit documentation contains reasonable financial information indicating that the debtor is unable to repay the debt. In that case, the nominal gross value of the loan remains unchanged, but the gross book value is reduced by an amount equal to the amount written off, which may be related to the entire exposure or to a portion thereof. The amount written off cannot be subject to subsequent recoveries in impairment losses, following an improvement in the recovery forecasts, but only after the amount is actually collected.

Derecognition may occur following sale of the financial assets; in this case, the difference between the book value of the asset sold and the amount received, including any assets received net of any liabilities assumed, is booked to the income statement item "100. A) Gains (Losses) on disposal of financial assets at amortised cost".

Sales eligibility policy consistent with the HTC Business Model

In line with the "Hold to Collect" Business Model that characterises financial assets at amortised cost, based on the accounting standard IFRS 9, the sale is permitted where specific circumstances occur. An illustration of the circumstances on whose occurrence the Group deems it permissible to carry out the sale of the assets in question is provided below.

Increase in credit risk
The Group deems that an increase in credit risk occurs where events that result in the following occur:

- the classification of financial assets that were previously classified in Stage 1 in Stage 2;
- the classification of financial assets which were previously classified in Stage 1 or 2 among non-performing assets (i.e. in Stage 3).

Where these cases arise, sales are permitted, irrespective of any threshold of frequency or materiality. This occurs, for example, for the sale of non-performing loans.

Instrument nearing maturity
The Group deems that, irrespective of any frequency or materiality thresholds, sales are compatible with the "HTC" Business Model where:

- the time remaining to maturity is less than 3 months; and
- the difference between the amount received from sale and the residual contractual cash flows does not exceed the threshold of 5% in absolute value.

Frequency and materiality below specific thresholds
Sales with the following characteristics are permitted:

- a frequency threshold of less than 12 sale transactions per year. An individual sale transaction must be understood as the set of sale transactions relating to one or more securities, which are finalised in a time frame of 10 working days starting from the day on which the first sale transaction was carried out;

or

- a materiality threshold of less than 10%, determined based on the ratio of the nominal value of sales during the year to the nominal value of the instruments in the portfolio of financial assets at amortised cost at the beginning of the year.

The two thresholds must be considered separately. As a result, sales made for an amount exceeding 10% of the opening balances are not permitted, even if infrequent.
Said thresholds are applied at the level of individual legal entity belonging to the Group, and separately for the portfolio of debt securities with respect to the portfolio of loans, as those portfolios are held with different management objectives and/or managed by autonomous business functions.

Exceptional circumstances
Examples of exceptional circumstances in which sales are considered permissible may be:

- significant business combinations/restructurings whose pursuit requires a reorganisation of Group assets and liabilities;
- sales made to handle liquidity crises, where the event could not have been reasonably foreseen (stress scenarios).

Reclassification criteria

Financial assets at amortised cost can be reclassified into the accounting categories of "Financial assets measured at fair value through other comprehensive income" and "Financial assets at fair value through profit and loss". This reclassification can occur in the very rare circumstance that an entity decides to modify its business model for managing financial assets. The transfer value is represented by the fair value on the date of its reclassification and prospectively from that date. Gains or losses resulting from the difference between the amortised cost of the financial asset and its fair value are recognised:

- in the income statement, in the event of reclassification under "Financial assets at fair value through profit and loss";
- in shareholders' equity to a specific valuation reserve, in the event of reclassification to "Financial assets measured at fair value through other comprehensive income".

4 - Hedging transactions

It should be noted that Banco BPM Group avails of the IFRS 9 option to continue to fully apply the hedge accounting rules set forth by IAS 39, in the version endorsed by the European Commission (the carved out version) for all types of hedges (both for micro hedges and for macro hedges).

Classification criteria

Asset and liability items include financial hedging derivatives, which at the reporting date of the financial statements or interim report showed a positive and negative fair value, respectively.
Hedges seek to neutralise potential losses recognisable on a given financial instrument or a group of financial instruments, attributable to a specific risk, by offsetting them with the gains recognisable on a different financial instrument or group of financial instruments in the event that said risk should actually materialise.

The following types of hedges are provided for:

- fair value hedges, which seek to hedge exposure to changes in the fair value of a financial statement asset or liability, attributable to a specific risk. It is also possible to activate macro fair value hedging, with the goal of reducing fair value fluctuations attributable to the interest rate risk, of monetary amounts deriving from a portfolio of financial assets and liabilities (including "core deposits"). Net amounts deriving from the mismatch of assets and liabilities cannot be subject to macro hedging;
- cash flow hedges, which seek to hedge the exposure to changes in future cash flows attributable to specific particular risks associated with financial statement items or a highly likely expected transaction;
- hedges of foreign currency transactions, which seek to hedge the risks of investment in a foreign company expressed in foreign currency other than the Group's reference currency (euro).

At the level of the consolidated financial statements, only derivatives entered into with an external counterparty to the Group may be designated as hedging instruments. The results associated with internal transactions carried out between various Group entities are eliminated.

Recognition criteria

Hedging derivative financial instruments are recognised at fair value, at the date on which the relative contracts are entered into, and are classified under balance sheet assets in item "50. Hedging derivatives" or as liabilities in item "40. Hedging derivatives" depending on whether the value is positive or negative.

Derivatives can be designated as hedges, provided that the hedging relationship between the hedged instrument and the hedging instrument is formally documented, and includes risk management objectives, the hedging strategy and the methods to assess prospective and retrospective effectiveness; said relationship must be effective at the time the hedge is originated and prospectively throughout its entire life.
The hedge effectiveness depends on the extent to which the changes in the fair value or in the expected cash flows of the hedged instrument are actually offset by those of the hedging instrument. Therefore, effectiveness is measured by comparing said changes, while considering the aim pursued by the entity when the hedge was established.
A hedge is effective (within the limits established as a range of 80% to 125%) when changes in the fair value (or in the cash flows) of the hedging instrument neutralise almost completely the changes in the hedged instrument attributable to the hedged risk.
Hedging effectiveness is assessed at each annual or interim reporting date, using:

- prospective tests, that justify the application of hedging accounting in that they demonstrate its expected effectiveness;

- retrospective tests, demonstrating the hedge's actual effectiveness achieved over the period being examined. In other words, these tests measure how far the actual results deviate from perfect hedging.

Income item measurement and recognition criteria

Subsequent to initial recognition, hedging derivatives continue to be measured at fair value. Specifically:

- for fair value micro hedges, the changes in fair value of the hedged element are offset by the changes in fair value of the hedging instrument. Said offset is recognised by charging the changes in value to the income statement, in item "90. Fair value gains/losses on hedging derivatives", referring both to the hedged element (referring to the changes generated by the underlying risk factor), as well as to the hedging instrument. Any resulting difference, which represents the partial ineffectiveness of the hedge, represents the net effect on the income statement. If the hedging relationship ends, the hedged instrument reacquires the measurement approach of the class to which it originally belonged; for instruments measured at amortised cost, the cumulative revaluations/write-downs recognised as a result of changes in fair value of the hedged risk are recognised in the income statement under interest income and expense throughout the residual life of the hedged item, on the basis of the effective interest rate. If the hedged item is sold or repaid, the share of fair value not yet amortised is recognised immediately in income statement item "90. Fair value gains/losses on hedging derivatives";
- in the case of macro hedges, changes in the fair value of financial assets and liabilities subject to macro hedging of interest rate risk are recognised, based on the respective balance, under item "60. Fair value change of financial assets in macro fair value hedge portfolios" (positive) or under item "50. Fair value change of financial liabilities in macro fair value hedge portfolios" (negative), whose balancing entry in the income statement is represented by item "90. Fair value gains/losses on hedging derivatives", in line with the effects of the hedging derivative. The ineffectiveness of the hedge, represented by the difference between the change in the fair value of the hedging instruments and the change in the fair value of the monetary amount hedged, is in any case included in item "90. Fair value gains/losses on hedging derivatives". In the event of interruption of the hedge, the cumulative revaluations/write-downs, recognised under item "60. Fair value change of financial assets in macro fair value hedge portfolios" or "50. Fair value change of financial liabilities in macro fair value hedge portfolios", are recognised in the income statement under interest income and expense over the residual life of the hedged portfolio, based on the effective interest rate;
- for cash flow hedges, the portion of changes in the fair value of the derivative that is determined to be an effective hedge is recognised in shareholders' equity (item "120. Valuation reserves"), while it is recognised in the income statement only when changes in cash flows to be offset arise in the hedged item. The portion of gains or losses of the hedging instrument that is considered ineffective is charged to the income statement (item "90. Fair value gains/losses on hedging derivatives"). Said portion is equal to any difference between the cumulative fair value of the hedging instrument and the cumulative fair value of the hedged instrument. In any event, the fluctuations in fair value of the hedged item and the related hedge must lie within the 80%-125% range. If the cash flow hedge is no longer considered effective, or the hedging relationship is terminated, the total amount of gains or losses on the hedging instrument, already recognised under item "120. Valuation reserves", is recognised in the income statement only when the hedged transaction will take place or when it is no longer deemed possible that the transaction will take place. In this last circumstance, the profits or losses are transferred from the shareholders' equity item to the income statement item "90. Fair value gains/losses on hedging derivatives";
- hedges of investments in foreign currency are accounted for using the same method as for cash flow hedges.

For debt securities classified in the "Financial assets measured at fair value through other comprehensive income" portfolio, designated as specific fair value hedges, the changes in value attributable to the hedged risk - which in absence of the same would be recognised as a balancing entry of a specific valuation reserve - are recorded in income statement item "90. Fair value gains/losses on hedging derivatives", offsetting against the result of the hedge instrument.
For equity instruments classified in the "Financial assets measured at fair value through other comprehensive income", given the decision made by the Group to apply the rules of IAS 39 to hedge instruments, they cannot be designated as fair value hedges (price or exchange rate risk), insofar as the valuation effects of the hedging derivative must be recognised in the income statement, while the valuation and realisation effects of the hedged

equity instruments are recognised in shareholders' equity, without any exception for recycling to the income statement, unless they are dividends.

Derecognition criteria

Should the above tests fail to confirm the effectiveness of the hedging, both retrospectively and prospectively, hedge accounting, as described above, is discontinued. In that situation, the hedging derivative contract is reclassified under "Financial assets at fair value through profit and loss" and, specifically, under Financial assets held for trading.
In addition, the hedging relationship stops when:

- the derivative expires, is discharged or exercised;
- the hedged item is sold, expires or is repaid;
- it is no longer highly likely that the future hedged transaction will be carried out.

5 - Interests in associates and joint ventures

Classification criteria

This item includes interests in associates or companies subject to joint control, which are carried at equity.

Associates are companies which are not subsidiaries, 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.

Recognition criteria

The initial recognition of the financial assets classified in this category takes place on the settlement date at cost, including any goodwill paid for at the time of acquisition, which, therefore, is not independently, separately recorded.

Income item measurement and recognition criteria

Interests in associates and joint ventures are measured with the equity method. This method envisages that the initial book value is subsequently increased or decreased to reflect the share of profit or loss of the investees attributable to the Group generated after the acquisition date, as a balancing entry to the consolidated income statement item "250. Gains (losses) of associates and joint ventures". Dividends received from investees are deducted from the book value of the investment.
Should it be necessary to carry out adjustments due to changes in shareholders' equity of the investee that have not been recognised in the investee's income statement (e.g. as a result of the designation at fair value of "Financial assets measured at fair value through other comprehensive income", as a result of the valuation of actuarial gains/losses on defined benefit plans), the share of the above changes attributable to the Group is recognised directly in the shareholders' equity item "120. Valuation reserves".

When applying the equity method, the most recent available financial statements of the associated company or company subject to joint control are used, suitably adjusted to take into account any significant events or

transactions that have taken place between the last available financial statements of the investee company and the reporting date of the consolidated financial statements. If the investee company adopts accounting standards that are different to those of the Group, changes are made to the financial statements of the investee.
After applying the equity method, investments in associates or jointly controlled entities are tested for impairment when there is objective evidence of impairment that could have an impact on the investee's cash flows and consequently on the recoverability of the book value of the investment.
The process of recognising any impairment, therefore, involves checking for possible indicators that are considered to show objective evidence of impairment, such as:

- significant financial difficulties of the investee company (for example, significant negative changes in the book value of shareholders' equity, reduction or interruption of the distribution of dividends, achievement of operating results below a physiological threshold, compared to the objectives of the budget or the long-term plan or down compared to previous years or compared to the situation that existed on the acquisition date of the investment);
- breach of contract, for example a default or failure to make payment by the investee;
- the extension of allowances for economic or legal reasons relating to the financial difficulties of the investee, which otherwise would not have been taken into consideration;
- the announcement or notice of a financial restructuring plan or the existence of a high probability that the investee may announce restructuring operations or may be declared bankrupt;
- the disappearance of an active market relating to the investment held due to the financial difficulties of the investee;
- significant changes that adversely affect the investment in the technological, market, economic or legal environment in which the investee operates;
- a significant or prolonged decrease in fair value below its cost. The Group considers a decrease in fair value of more than 30% below the purchase cost to be a significant decrease. The Group considers a continuous decrease in fair value for an uninterrupted period of more than 24 months to be a prolonged decrease.

If there is evidence that the value of an investment may be impaired, the recoverable value of the investment is estimated, which is the higher of the fair value, net of costs to sell, and the value in use. The value in use is calculated by discounting the future cash flows that the investment could generate, including the final disposal value of the investment. An impairment loss is recognised in the income statement (under item "250. Gains (losses) of associates and joint ventures") if the recoverable value is lower than the book value, including goodwill. If the reasons for an impairment loss are no longer valid due to an event occurring after the impairment was recognised, write-backs are recognised in the income statement, up to the amount of the impairment previously recognised in the same item.

Derecognition criteria

Interests in associates and joint ventures are derecognised when there is a sale in which all of the associated risks and rewards have been substantially transferred.
If there is a situation resulting in the loss of significant influence or joint control, any remaining interest in associates and joint ventures is reclassified to the portfolios of financial assets set out in IFRS 9, normally that of "Financial assets measured at fair value through other comprehensive income", on the basis of the relative fair value. Derecognition from item "70. Interests in associates and joint ventures" may also take place if there are circumstances causing control to be obtained ("step acquisitions"). For more information please refer to paragraph "16 – Other information - Business combinations, goodwill and changes in interest holdings".

6- Property, plant and equipment

Classification criteria

Property, plant and equipment items include land, operating property, investment property, works of art, technical plants, furniture, fittings and equipment of any type that is planned to be used for a timeframe of more than one year. Specifically:

- assets held for use in the production or supply of goods and services or for administrative purposes are classified as "property, plant and equipment used in operations" and recognised in accordance with IAS 16;
- property held for rental to third parties or for capital appreciation through sale is classified as "property, plant and equipment held for investment" and follows the rules set out in IAS 40;
- property held to enhance the value of the investment through renovation or requalification for its subsequent sale is classified as inventories and follows the rules of IAS 2.

Also recognised in this item are Rights Of Use of property, plant and equipment acquired with lease contracts, as lessee, irrespective of the legal classification of the same, as well as the assets granted under operating leases (for lessors).
The item includes finally the improvement and incremental costs on third party assets; these are costs to renovate rented property, incurred to render them suitable for their intended use. More specifically, improvement costs that represent identifiable and separable property, plant and equipment items, are classified in the specific category to which they refer (e.g. technical plant, equipment). Otherwise, improvement costs that are not identifiable and separable from the property, such as walls, are booked as an increase in rights of use, recognised on the basis of the provisions of IFRS 16.

Recognition criteria

Property, plant and equipment items are initially carried at cost, which includes the purchase price and all accessory charges directly attributable to the acquisition of the asset and bringing it to working conditions.
Extraordinary maintenance costs which entail an increase in future economic benefits are included in the asset's book value, while other ordinary maintenance costs are charged to the income statement.

For property posted under property, plant and equipment held for investment purposes, following the closure of the original credit position (known as "datio in solutum" - transfer in lieu of payment) the initial recognition value is equal to the fair value, taken from a specific appraisal.

The difference between the initial recognition value of the property and the book value of the previous credit exposure, subject to derecognition, is recognised under item "130. Net credit impairment losses/recoveries" up to the value of the gross receivable existing at the recognition date. Taking account of the criterion of fair value measurement of investment property, as described below, in the situation where the fair value on initial recognition exceeds the value of the gross receivable, the excess value is recognised to the income statement under item "260. Fair value gains (losses) on property, plant and equipment and intangible assets".

Where, at the time of finalising the transaction, the competent corporate bodies have made the decision to sell the property within a short time, the book value of the property shall be equal to its "immediate sale value", also deriving from a specific appraisal, unless negotiations are underway that give rise to the assumption of a higher recoverable amount.

In any event, if, on the date of recognition of the property, concrete negotiations for sale are underway, demonstrated by commitments undertaken by the interested parties and resolved by the competent corporate bodies, the initial recognition value must take account of the exit price resolved, net of any costs to sell, where it is lower than the "fair value" deriving from the appraisal.

For property, plant and equipment represented by rights of use, the initial recognition value is equal to the sum of the lease liability (present value of the future instalments to be paid for the contractual term), the lease payments made before or at the date from which the lease runs, the initial direct costs and any costs estimated for dismantling or reinstatement of the asset underlying the lease.

Income item measurement and recognition criteria

Subsequent to initial recognition, property, plant and equipment in ownership or acquired through rights of use are carried at cost, less any depreciation and impairment, excluding:

- properties used in operations and valuable works of art, for which the Group has adopted the option permitted by IAS 16, to measure them using the revaluation model;
- investment properties, for which the Group has adopted the option permitted by IAS 40, to measure them based on their fair value;
- property, plant and equipment that fall within the regulation of IAS 2, which are measured at the lower of the cost and net realisable value, which is the estimated sale price less estimated completion costs and other costs necessary to make the sale.

Property, plant and equipment used in operations: subsequent measurement

Depreciation

Property, plant and equipment used in operations, including operating property values at "restated value", are systematically depreciated throughout their estimated useful life, using the straight-line method, with the exception of:

- land, whether purchased separately or as part of the value of the buildings standing on it, as considered to have an unlimited life;
- works of art, considering that the useful life of a masterpiece cannot be estimated and its value normally is destined to increase with time.

The depreciation charge must be able to reflect the wear and tear on the assets over time as a result of their use, considering extraordinary maintenance costs which could result in an increase in the value of the assets.

The depreciable value is represented by the cost of the asset - for assets measured at cost - or the revalued amount - for assets measured based on the revaluation method - net of the residual value at the end of the depreciation process, where deemed significant.
Periodic depreciation is recognised in the income statement under item "210. Depreciation and impairment losses on property, plant and equipment".

With regard to improvements to third party assets, represented by identifiable and separable property, plant and equipment, depreciation is determined according to the useful life of said assets, as illustrated above. Otherwise, for improvements that are not identifiable and separable from the leased property, the depreciation is calculated according to the shortest period between that in which the improvements and the additional expenses can be used and the residual duration of the lease contract, including the renewal period, if there is evidence in this regard.

Write-downs due to impairment

For assets measured at cost, at each annual or interim reporting date, if there is any indication that an asset may be impaired, the asset's book value is compared with its recoverable amount, that is, equal to the higher of the asset's fair value, net of costs to sell, and its value in use, understood as the present value of future cash flows originated by the asset. Any adjustments are recognised in the income statement under item "210. Depreciation and impairment losses on property, plant and equipment". Whenever the reasons for the impairment loss are no longer valid, recoveries are recognised in the same item, which must not exceed the asset's value had no impairment taken place in the past, net of accrued depreciation.

Owned property used in operations and valuable works of art: revaluation method

For owned real estate assets used in operations and valuable works of art, the Group has adopted the revaluation method as the criterion for measurement.
Based on said method the assets shall be recognised at a revalued amount, equal to their fair value at the revaluation date, net of depreciation and any cumulative impairment losses. Based on that method:

- if the book value of the asset increases following revaluation (i.e. there is a positive difference between the revalued amount and the book value of the asset prior to revaluation), the increase must be recognised under item 120 of liabilities in a specific "valuation reserve" (subject to recognition in the statement of

other components of comprehensive income without reclassification to the income statement), unless this is a recovery of a write-down previously recorded to the income statement under item "260. Fair value gains (losses) on property, plant and equipment and intangible assets". In this latter case, the increase must be recognised as income to the income statement up to the amount of the previous write-downs, and only any remaining amount is included in a valuation reserve;
- if the book value of an asset has decreased following the revaluation (i.e. there is a negative difference between the revalued amount and the book value of the asset prior to revaluation), the decrease in value must be recorded as a balancing entry:
  - of the income statement as a cost in the absence of pre-existing valuation reserves on the asset ("260. Fair value gains (losses) on property, plant and equipment and intangible assets");
  - of shareholders' equity (item "120. Valuation reserves") up to the amount of the credit balance of the revaluation reserve for those assets, and the excess to the income statement, as the revaluation of negative valuation reserves is not permitted.

Investment property: fair value method

For investment property, falling within the scope of application of IAS 40, the Group adopts fair value measurement. Based on this method, following initial recognition, all investment property is measured at fair value. Consequently, the above-mentioned property is not depreciated nor impairment tested.

Based on the fair value method:
- fair value increases must be recognised in the income statement as income ("260. Fair value gains (losses) on property, plant and equipment and intangible assets");
- fair value decreases must be recognised in the income statement as expenses ("260. Fair value gains (losses) on property, plant and equipment and intangible assets").

In the event of sale, the difference between the consideration for the sale and the book value must be recognised in the income statement, under item "280. Gains (losses) on disposal of investments".

For the methods of determining the fair value and the frequency of revaluation of real estate assets and valuable works of art, please refer to the criteria illustrated in the subsequent part "A.4 – Fair value disclosure".

Derecognition criteria

Property, plant and equipment are derecognised from the balance sheet at the time of disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal.

Capital gains and losses deriving from the liquidation or disposal of property, plant and equipment are calculated as the difference between the net sale consideration and the book value of the asset and are recognised as a balancing entry to:
- the income statement: for assets used in operations measured at cost and investment property (item "280. Gains (losses) on disposal of investments");
- shareholders' equity (item "120. Valuation reserves"): for assets used in operations measured based on the revaluation method. The revaluations of real estate credited to the valuation reserves of shareholders' equity may be transferred to other shareholders' equity reserves (Other profit reserves), where the property is derecognised. Therefore, in the event of sale of the property, the valuation reserves are transferred to another item of shareholders' equity (from "valuation reserves" to "other reserves"), without, however, the possibility of transiting through the income statement.

The rights of use acquired through leases are eliminated from the balance sheet at the end of the term of the lease contract.

7- Intangible assets

Classification criteria

Intangible assets are non-monetary, identifiable and non-physical assets originating from legal or contractual rights, owned to be used on a long-term basis, which are likely to generate future economic benefits, and whose cost can be reliably measured.

This item includes:

- external costs for the development of software, also acquired through a permanent or fixed-term user license;
- intangible assets generated as part of business combinations and linked to the enhancement of customer relationships. As detailed in "Section 10. Intangible assets - Item 100" of "Part B - Information on the Consolidated Balance Sheet", these assets are defined as "Client Relationships" if they concern relationships of assets under management/assets under custody or other assets not related to the provision of services and "value of business acquired" (VoBA) if related to the insurance portfolio not included in IFRA 17;
- intangible assets linked to the valuation of trademarks, also recognised in business combinations;
- goodwill, which is the positive difference between the price paid for a business combination and the fair value of the net identifiable assets purchased, as illustrated in greater detail in paragraph "16 – Other information - Business combinations, goodwill and changes in interest holdings."

Recognition criteria

Intangible assets are carried at cost, adjusted to account for accessory charges, only if it is likely that the future economic benefits attributable to the asset will be realised, and if the cost of the asset can be reliably determined. Otherwise, the cost of the intangible asset is recognised in the income statement during the year it was incurred.
The intangible assets generated as part of business combinations and linked to the valuation of relationships with customers are originally valued through the discounting of cash flows, which represent their profitability over the residual duration (contractual or estimated) of the relationships in place at the time of the business combination, through a rate representative of the time value of money and of specific risks of the asset.

Income item measurement and recognition criteria

After initial recognition, intangible assets with finite useful life are recognised at cost, net of total amortisation and any impairment identified.
The cost of intangible assets with a finite useful life is amortised on a straight-line basis over the relative useful life.
The intangible assets represented by Client Relationships and by the VoBA, which represent the ability of relationships, on the date of the business combination, to generate income flows for their expected residual life, are amortised on the basis of the unwinding curve of the cited relationships, which is usually decreasing.
The amortisation process for intangible assets with a finite useful life starts when the asset is available for use, and ceases from the moment the asset is derecognised. Periodic amortisation of intangible assets with a finite useful life is recognised under item "220. Amortisation and impairment losses on intangible assets".

Intangible assets with an indefinite useful life, such as goodwill and trademarks, are recognised at cost, net of any impairment identified. No amortisation is carried out for these assets, only periodic assessments of the adequacy of the book value.

At each annual or interim reporting date, if there is evidence of impairment, the asset's recoverable amount is estimated. The amount of the loss, recognised in the income statement, is equal to the difference between the asset's book value and recoverable value.

Goodwill is not amortised, but must be regularly tested for impairment to verify the adequacy of its book value. Specifically, goodwill must be tested any time there is evidence of impairment, and in any case at least once a year. To this end, the cash-generating unit to which the goodwill is allocated is identified. This unit represents the lowest level at which goodwill is monitored for internal management purposes and should not be larger than the operating segment determined in compliance with IFRS 8.

The amount of any impairment is determined based on the difference between the book value of the goodwill and its recoverable amount, if lower. Said recoverable amount is equal to the higher of the fair value of the cash-generating unit, net of costs to sell, and its value in use. The value in use is the present value of future cash flows expected from cash-generating units to which goodwill was allocated. The resulting value adjustments are charged to the income statement under item "270. Value adjustments to goodwill". No subsequent recoveries can be recognised.

Derecognition criteria

Intangible assets are derecognised from the balance sheet at the time of disposal or when no future economic benefits are expected from it.

8 - Non-current assets and disposal groups held for sale

Classification criteria

They are classified under asset item "120. Non-current assets and disposal groups held for sale" and under liability item "70. Liabilities associated with assets classified as held for sale" - non-current assets and groups of assets/liabilities whose book value will presumably be recovered through sale rather than continuous use.
In order to be classified under the above-mentioned items, the assets or liabilities (or disposal group) must be immediately available for sale, and there must be active and concrete programmes which show that their disposal within one year with respect to the date of classification as assets held for sale is highly probable.

Income item measurement and recognition criteria

After they are classified in the above-mentioned category, these assets are measured at the lower of the book value and their fair value, net of costs to sell, with the exception of certain types of assets - such as all financial instruments falling within the scope of IFRS 9 - for which the standard IFRS 5 states that valuation criteria of the reference accounting standard must continue to be applied.

If the non-current assets held for sale can be amortised/depreciated, the amortisation/depreciation process ceases from the year the assets are classified under non-current assets held for sale.
Expenses and income attributable to assets and liabilities and disposal groups held for sale, if they are attributable to discontinued operations under the terms of IFRS 5, are recognised in the income statement, net of taxes, under item "320. Profit (loss) after tax from discontinued operations" while those relating to individual non-current assets held for sale are recorded under the most appropriate income statement item.
Discontinued operations shall mean a significant, autonomous unit or geographical area of business, including one that is part of a single coordinated disposal programme, rather than a subsidiary acquired exclusively with a view to its re-sale.

Derecognition criteria

Non-current assets and disposal groups held for sale are derecognised from the balance sheet upon disposal.

9 - Current and deferred taxation

These items include current and deferred tax assets, and current and deferred tax liabilities relating to income taxes.
Income taxes, calculated in compliance with current tax regulations, are accounted for based on the accrual principle, consistent with the recognition of the costs and revenues that generated the taxes in the financial statements. Therefore, this represents the tax charge, equal to the balance of current taxes and deferred tax assets and liabilities, relating to the income for the year. Income taxes are charged to the income statement (item "300. Taxation charge related to profit or loss from continuing operations") with the exception of those relating to items charged or credited directly to shareholders' equity, for example the valuations of financial instruments measured at fair value through other comprehensive income or of derivative contracts for cash flow hedges, for which the recognition of the relative taxes is made, for the sake of consistency, to shareholders' equity (namely in item "120. Valuation reserves").

In particular, current tax liabilities (assets) for the current and previous years reflect the amount of income taxes that are expected to be paid (recovered) to/from the tax authorities, based on a prudent estimate, applying the tax rates and tax regulations in force at the reporting date (interim reporting). Current tax assets and liabilities are shown as a net balance in the balance sheet, in case the settlement is executed based on the net balance, owing to the existence of a legal right to offsetting.

Deferred tax assets and liabilities are calculated based on temporary differences arising between the tax values of the individual assets and liabilities and their book values, without any time limits.
Deferred tax assets are recognised in the financial statements or the interim reports when it is probable that they can be recovered, which is assessed based on the ability of the company concerned and of the Group, as a result of the "tax consolidation" scheme, to continue to generate positive taxable income in future financial years, also taking account of the tax provisions in force at all times, such as Law no. 214/2011, which permits the conversion of certain deferred tax assets that meet specific conditions, into credits.
Deferred tax liabilities are recognised in the financial statements or interim reports, with the sole exceptions of assets recognised in the financial statements at an amount higher than the value recognised for tax purposes and of reserves subject to tax on distribution, where it is reasonable to believe that no operations will be performed deliberately that would trigger taxation.
Recognised deferred tax assets and liabilities are systematically measured to account for any changes in regulations or tax rates, as well as for any changes in the subjective positions of the Group companies.

10- Provisions for risks and charges

Classification criteria

Provisions for risks and charges: commitments and guarantees given

The sub-item in question includes provisions for credit risk for commitments to disburse the funds and guarantees given, which are subject to impairment rules pursuant to IFRS 9, as is the case for "Financial assets at amortised cost" and "Financial assets measured at fair value through other comprehensive income". For more information on the impairment model, please see the information set forth in the following paragraph "16 - Other information - Methods for determining impairment losses on financial assets".
In addition, this sub-item also includes provisions for risks and charges established for other types of commitments and guarantees given that, because of their specific characteristics, do not fall within the scope of impairment pursuant to IFRS 9 (therefore they fall under the scope of IAS 37).

Provisions for risks and charges: post-employment benefits and similar obligations

Sub-item "100. Provisions for risks and charges: b) post-employment benefits and similar obligations" includes defined-benefit plans, namely pension funds, established on the basis of company agreements, backed by a capital repayment and/or return guarantee in favour of beneficiaries, as explained in the paragraph below "16 - Other information - Provisions for employee severance pay and other employee benefits". Benefits to be paid in the future are measured by an external actuary, using the "projected unit credit method", as required by IAS 19.
Actuarial gains and losses, defined as the difference between the book value of the liability and the present value of the commitments at the end of the period, originate from changes to actuarial assumptions and from adjustments based on past experience and are accounted for in full directly to shareholders' equity under item "120. Valuation reserves".

Provisions for risks and charges: other provisions

Sub-item "100. Provisions for risks and charges: c) other provisions" includes allocations recognised for estimated outlays for legal or implicit obligations deriving from past events. These outlays may be contractual in nature, such as allocations to the personnel incentive system and for early retirement incentives, indemnity required under contractual clauses when specific events take place, or for compensation and/or restitution, such as those against possible losses on lawsuits, including clawback actions, estimated outlays for customer complaints regarding securities brokerage and tax disputes.

Income item recognition and measurement criteria

Provisions for risks and charges consist of liabilities whose amount or expiry are uncertain, and are recognised in the financial statements only if:

- there is a current obligation (legal or implicit) as a result of a past event;
- it is likely that an outflow of resources embodying economic benefits will be required to settle the obligation;
- the amount of the probable future outflow can be reliably estimated.

The amount of the provision recognised represents the best estimate of the financial outlay required to meet the obligation existing at the reporting date and reflects the risks and uncertainties inherent in the facts and circumstances under examination. Whenever the time factor is significant, provisions are discounted using current market rates. The provision and the effect of discounting are recognised in the income statement in item "200. Net provisions for risks and charges", as is the increase in provisions as a result of the passing of time.
The provisions allocated are re-examined at each reporting date of the financial statements and adjusted to reflect the best current estimate. When the outflow of resources embodying economic benefits to settle the obligation is unlikely, the allocation is reversed.
In addition, each provision must be used to pay for outlays for which the provision itself had been originally set aside.
If the outlay of the financial resources to meet the obligation is not considered likely, no provision needs to be recognised; in this case, adequate information must be provided in the notes on the possible risk of losing, unless the likelihood of using the resources is considered remote or the phenomenon is not relevant.

11 – Financial liabilities at amortised cost

Classification criteria

Item "10. Financial liabilities at amortised cost" include the sub-items "a) due to banks", "b) due to customers" and "c) debt securities in issue", and consist of various forms of interbank and customer loans and funding carried out through certificates of deposit and bonds outstanding, net of any repurchases.
These also include loans recorded by lessees as part of leases, as well as funding repurchase agreements and securities lent against collateral in cash, to which the lender has full access. Also included are operating payables connected with the provision of financial services as defined in the Consolidated Banking Law and in the Consolidated Finance Law.

Recognition criteria

These liabilities are initially recognised when the amounts collected are received or the debt securities are issued and are carried out on the basis of their fair value, which is generally equal to the amount received or the issue price, increased by any additional costs/income directly attributable to the individual funding or issue transaction and not paid back by the lending counterparty. Internal administrative costs are excluded.
Repurchase agreements with the obligation to repurchase are recognised as funding transactions for the spot amount paid.
Lease payables are recognised on the basis of the present value of future instalments to be paid for the duration of the contract discounted on the basis of the implicit interest rate of the transaction or, if this cannot be determined, the marginal financing interest rate.

Income item measurement and recognition criteria

Subsequent to initial recognition, the financial liabilities that emerged, net of any redemptions and/or repurchase, are measured at amortised cost, using the effective interest rate method. Short-term liabilities are an exception, if the time factor is immaterial. These are stated at their received value, and any incurred costs are charged to the income statement on a straight-line basis over the contractual life of the liability. Interest is shown in the income statement under item "20. Interest and similar expense".
Moreover, funding instruments under an effective hedge are measured based on the standards established for hedging transactions.

For structured instruments that incorporate an embedded derivative - in accordance with IFRS 9 and illustrated in the previous paragraph "1 - Financial assets at fair value through profit and loss: a) Financial assets held for trading" - the embedded derivative is separated from the host contract. In that instance:

- the embedded derivative is classified as an asset or liability held for trading and is measured at fair value;
- the host contract is classified under financial liabilities at amortised cost.

Lease payables must be redetermined in the event of modification of the payments due (lease modification); the impact of the redetermination will be recorded as a balancing entry to the right-of-use asset.

Derecognition criteria

Financial liabilities are derecognised from the financial statements or interim reports when expired or cancelled. Derecognition also takes place in the event of repurchases of securities issued. The difference between the book value of liabilities and the purchase price paid is recorded in the income statement under item "100. Gains/losses on disposal or repurchase of: c) financial liabilities". The subsequent placement of own securities following their repurchase is accounted for as a new issue, recognised at the new placement price, with no effects on the income statement.

12- Financial liabilities held for trading

Classification criteria

The item in question includes:

- financial liabilities issued with the intention of repurchasing them in the short term;
- financial liabilities that are part of a portfolio of financial instruments that are jointly managed and for which there is a proven strategy for short-term profit;
- derivative contracts with a negative fair value and not designated as hedging instruments, including those linked to assets or liabilities designated at fair value through profit and loss and embedded derivatives separated out from financial liabilities at amortised cost.

These also include liabilities arising from technical overdrafts generated by trading in securities and certain own certificate issues, managed within an overall portfolio of trading financial instruments.
For more information on certificates classified under this item, please refer to paragraph 16 below entitled "Other information - Financial liabilities designated at fair value".

Recognition criteria

Financial liabilities held for trading are initially recognised on the settlement date in case of cash liabilities and on the subscription date for derivative contracts.
Initial recognition is based on the fair value of liabilities, that generally corresponds to the collected amount, excluding transaction costs or income directly associated with the instruments, which are directly charged to the income statement.
Please refer to part "A.4 – Fair value disclosure" for details on how fair value is determined.

Income item measurement and recognition criteria

Financial liabilities held for trading are measured at current fair value, with recognition of the result in the income statement.
Gains and losses from changes in fair value and/or from the sale of trading instruments are recognised in the income statement under item "80. Net trading income". For derivative instruments, if the fair value of a financial liability becomes positive, that item is recognised under item "20. Financial assets at fair value through profit and loss: a) financial assets held for trading".
Trading profits or losses and gains or losses as a result of the valuation of the trading book are recognised in the income statement under item "80. Net trading income", including that relating to derivative liabilities associated with the fair value option.

Derecognition criteria

Financial liabilities held for trading are derecognised when the contractual rights to the relative cash flows expire or when the financial liabilities are sold, with the substantial transfer of all risks and rewards arising from their ownership.

13 - Financial liabilities designated at fair value

Classification criteria

On initial recognition, financial liabilities are designated at fair value through profit and loss only if the following circumstances exist:

- this valuation eliminates or considerably reduces the inconsistency in valuation, that would otherwise be caused by measuring assets or liabilities or recognising the associated gains and losses on different bases (accounting mismatch);
- a group of financial assets, financial liabilities, or both is managed and its performance measured at fair value according to a documented risk management or investment strategy, documented internally by executives with strategic responsibilities;
- these are hybrid contracts containing one or more embedded derivatives, and the embedded derivative significantly changes the cash flows that would otherwise be expected from the contract.

The option to designate a liability at fair value is irrevocable, is made for the individual financial instrument and does not require the same application to all instruments with similar characteristics. However, it is not possible to designate at fair value only one part of a financial instrument attributable to a single risk component to which the instrument is subject.

The item in question includes certain bonds issued by the Group and certain issues of certificates not managed for trading purposes.
For more details on the scope of Group liabilities under the fair value option and the method used to determine fair value and quantify its credit risk, please refer to paragraph "16 - Other information - Financial liabilities designated at fair value", and the subsequent part "A.4 - Fair value disclosure".

Furthermore, the Group opted to designate products of a financial nature that do not present a significant insurance risk and that do not envisage discretionary participation features as they are not linked to segregated funds as liabilities designated at fair value.
In particular, these are liabilities related to class III insurance products (unit-linked and index-linked policies), whose services are related to the value of market indices and investment fund units. The investments underlying these products, as previously stated, are also measured at fair value, eliminating or significantly reducing possible "accounting asymmetries" that would otherwise result from the recognition of these assets and the related liabilities on the basis of different accounting criteria.

Recognition criteria

The financial liabilities in question are measured at fair value from initial recognition. Initial income and expenses are immediately charged to the income statement.

Income item measurement and recognition criteria

Subsequent to initial recognition, financial liabilities are measured at their current fair value. The change in fair value is recognised in the income statement under item "110. Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss: a) financial assets and liabilities designated at fair value", with the exception of effects consequent to the change in own credit risk, which are recognised in a specific valuation reserve (item "120. Valuation reserves"), unless this treatment creates or amplifies a mismatch in the profit (loss). An accounting mismatch is created or amplified when the recognition of the effects of own credit risk in an equity reserve is such so as to entail a more significant disharmony in the income statement than that which would arise from recognising the entire change in fair value of the liability in the income statement. In this last case, the entire

change in fair value of the liability, including the effect of the change in own credit risk, must be recognised in the income statement.
The effects correlated with the change in own credit risk are presented in the statement of comprehensive income, net of the related taxes, under other comprehensive income without reclassification to the income statement.
The amount recognised in the specific shareholders' equity reserve (item "120. Valuation reserves") will never be reversed in the income statement, even if the liability should have expired or been extinguished. In this instance, it will be necessary to reclassify the cumulative gain (loss) in the specific valuation reserve to another item of shareholders' equity ("150. Reserves").

Derecognition criteria

Financial liabilities are derecognised from the financial statements or interim reports when expired or cancelled. For financial liabilities represented by securities issued, derecognition is carried out also in case of repurchase: the difference between the book value of the liability and the purchase price is recorded in income statement item "110. Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss: a) financial assets and liabilities designated at fair value", with the exception of profits/losses related to the change in own credit risk, which are recognised in a specific equity reserve, as previously illustrated. The subsequent placement of own securities following their repurchase is considered, for accounting purposes, as a new issue, recognised at the new placement price, with no effects on the income statement.

14 - Foreign currency transactions

Classification criteria

Foreign currency is a currency other than the functional currency of the entity; the latter represents the currency of the main economic environment in which the entity operates.
Assets and liabilities in foreign currency include those denominated explicitly in a foreign currency other than the euro as well as those which envisage financial indexing clauses linked to the exchange rate between the euro and a specific currency or a specific basket of currencies.

To determine the conversion procedures to be used, assets and liabilities in foreign currency are broken down between monetary and non-monetary items.

Monetary items consist of sums in cash and assets and liabilities expressing the right to receive or the obligation to pay fixed or determinable amounts in cash (receivables, debt securities, financial liabilities). Non-monetary items (such as equity instruments) are assets or liabilities that do not contemplate the right to receive or the obligation to pay fixed or determinable amounts in cash.

Recognition criteria

Upon initial recognition, foreign currency transactions are recorded in the functional currency, and the exchange rate applied to the amount expressed in foreign currency is the one in effect at the date of the transaction.

Income item measurement and recognition criteria

At each annual or interim reporting date, items expressed in foreign currencies are measured as follows:
- monetary items are translated at the exchange rate in effect at the closing date;
- non-monetary items carried at their historical cost are translated at the exchange rate in effect at the transaction date;
- non-monetary items measured at fair value are translated at the exchange rate in effect at the closing date.

Exchange rate differences originated by the settlement of monetary items, or by the translation of monetary items at rates other than the initial ones, or by the conversion of the previous financial statements, are charged to the income statement at the time they arise.

When a gain or loss from a non-monetary item is carried at equity, the relevant exchange rate difference is also carried at equity. Conversely, when a gain or loss on a non-monetary element is recognised in the income statement, the associated exchange rate difference is also recognised in the income statement.

For information about the conversion of the financial statements of foreign subsidiaries that use a currency other than the reference currency of the Parent Company (euro), please refer to "Section 3 - Scope of consolidation and methods", contained in part A.1. above.

15 - Insurance assets and liabilities

Classification criteria

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

In particular, the following is included in asset item "80. Insurance assets":
- insurance contracts, including reinsurance contracts, issued and investment contracts with discretionary participation features issued defined and governed by IFRS 17, belonging to portfolios of insurance contracts issued which constitute, based on the sign of the closing balance, assets;
- reinsurance contracts defined and governed by IFRS 17, belonging to portfolios of reinsurance contracts that constitute, based on the sign of the closing balance, assets.

On the other hand, liability item "110. Insurance liabilities" includes:
- insurance contracts, including reinsurance contracts, issued and investment contracts with discretionary participation features issued defined and governed by IFRS 17, belonging to portfolios of insurance contracts issued which constitute, based on the sign of the closing balance, liabilities;
- reinsurance contracts defined and governed by IFRS 17, belonging to portfolios of reinsurance contracts that constitute, based on the sign of the closing balance, liabilities.

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

An insurance contract is defined as a contract based on which one party (the issuer) accepts a "significant insurance risk" from another party (the policyholder), agreeing to indemnify the policyholder if the latter suffers damages as a result of a specific uncertain future event (the insured event).
With IFRS 17, the definition of "insurance contract" requires the identification of the "significant insurance risk", which is based on the present value of the potential cash flows of a given contract, rather than on the absolute value.

IFRS 17 also requires the separation of the distinct investment component in the host insurance contract only if the following requirements are met simultaneously:
- the investment component and the insurance component are not highly interrelated. The two components are highly interrelated if the entity is unable to measure one component without considering the other, as the value of one component varies according to the other, or if the policyholder is unable to benefit from one component unless the other is also present; and
- a contract with equivalent terms is sold, or could be sold, separately in the same market or the same jurisdiction, either by entities that issue insurance contracts or by other parties.

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

In light of the above:
- with reference to the classification of insurance contracts, the Group includes within the IFRS 17 scope all life contracts, with the exception of Class III products represented by Unit Linked products, for which no significant insurance risk has been identified (mainly Banco BPM Vita);

- as concerns the separation of components of the insurance contract referring to the life business, on the basis of a qualitative analysis, the Group activated the Multi-segment tariff unbundling procedure. Consequently, the Class I component - i.e. the investment component with discretionary participation features - is accounted for in accordance with IFRS 17, while the Unit Linked Class III component - Investment component - is accounted for in accordance with IFRS 9. Specifically, the Group measures these products at fair value, exercising the option set forth in the standard (Fair Value Option) in order to avoid accounting mismatches with respect to the related investments measured at fair value.

Having determined the scope of contracts that fall under IFRS 17, the standard requires the setting of contract boundaries[1] within which the cash flows are to be considered for the purposes of the valuation of the liabilities of the company. It is therefore a question of defining whether a contractual option should be considered in the projected cash flows from the time the contract is executed or whether it is such as to generate a new group of contracts.
In order to measure the insurance liabilities, the Group companies, in continuity with actuarial calculation logics already in use, include in the cash flow projection all future premiums and options dependent on the policyholder's decisions, where there is no option for the company to re-price them or to refuse the exercise of the option.

Recognition criteria

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

Upon initial recognition, insurance contracts must be aggregated into groups of contracts and the provisions relating to their recognition, measurement and presentation in the financial statements must be applied to the group of contracts, not contract by contract.
The level of aggregation is relevant for the purposes of identifying onerous contracts, with the consequence that losses attributable to the contracts must be recognised from the beginning ("onerous contract test").
The level of aggregation is determined on the basis of the following grouping hierarchy:

- portfolio: a group of contracts subject to similar risks and managed together as a single pool;
- cohorts: this is a segmentation of portfolios on the basis of the initial recognition date of the contract;
- profitability "buckets": these refer to a further division of each cohort, depending on the profitability expected at the time of initial recognition of the contract, according to the following three buckets:
  - onerous contract that is considered unprofitable, and therefore onerous, at the time of initial recognition;
  - contract considered profitable at the time of initial recognition that does not present a significant risk of becoming onerous in the future;
  - other cases, i.e. a profitable contract that presents a significant risk of becoming onerous in the future.

IFRS 17 requires an entity not to include contracts issued more than one year later in the same group. Therefore, each portfolio must be disaggregated into annual cohorts or cohorts that include periods of less than one year ("grouping by cohorts"), with the exception of contracts linked to segregated funds for which the text of IFRS 17, as endorsed by the European Commission[2], optionally provides for derogations to this requirement ("carve-out option").

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

[1] The contract boundary is comprised of the substantive rights and obligations existing in the reference period in which the entity can compel the policyholder to pay the premiums or in which the entity has a substantive obligation to provide the policyholder with insurance services.
[2] During the endorsement of accounting standard IFRS 17 with (EU) Regulation no. 2036/2021, the possibility, not permitted by the standard approved by the IASB, was introduced to exempt intergenerationally-mutualised and cash flow matched contracts from the annual cohort requirement. The Group has chosen to make use of this option, referred to as the "carve-out option".

For the new Subsidiary Vera Vita (which joined the Group on 14 December 2023), the liabilities relating to Class III insurance contracts (Unit-Linked) are mainly recognised under "Insurance liabilities", based on the technical characteristics of the underlying portfolio, in line with that permitted by IFRS 17.
Lastly, with reference to insurance liabilities, BBPM Life (which also joined the Group on 14 December 2023) determines whether a contract contains significant insurance risk, i.e. whether the benefit in the event of death at the initial date may be potentially higher than 5%, thus assessing whether the insured event may entail the Company paying any significant additional amounts to the policyholder in each individual scenario.

Income item measurement and recognition criteria

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

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

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

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

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

Banco BPM Vita uses the following valuation models:

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

For Vera Vita, on the other hand, the Company's portfolio was divided into 19 Units of Accounts (UoA), where in terms of Present Value Fulfilment Cash Flows (PVFCF), 99.997% of the contracts are valued with the VFA measurement model, while 0.003% of the contracts were valued with the GMM measurement model. Furthermore, as regards the methodological framework used, Vera Vita applied the Full Retrospective Approach to all the UoAs.

Inputs, parameters and other elements underlying the valuation models

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

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

In this regard, the approach used by Banco BPM Vita to define the discount rate is based on a bottom-up approach, according to which the discount curve is determined starting from a risk-free curve (liquid risk-free yield curve), to which an adjustment is applied for the liquidity premium of the insurance contracts, able to reflect the differences between the liquidity characteristics of the financial instruments that are the basis of the rates observed on the market and the liquidity characteristics of the insurance contracts subject to valuation.
With reference to Vera Vita, instead, the Company adopts different discount curves depending on the measurement model applied to the specific Unit of Account:

- for Units of Account measured using the GMM model, the Company adopts the same curve used for Solvency II valuations;
- for Units of Accounts measured using the VFA model, the Company adopts the same curve used for Solvency II valuations to which an illiquidity premium calibrated on the basis of the Company's assets is added.

Another aspect to be considered for the determination of the financial liability is the "Risk Adjustment" (RA), i.e. the non-financial adjustment that represents, in substance, the remuneration that the entity requires to assume the risk arising from the uncertainty about the amount and timing of cash flows. The risks covered by the adjustment in question are insurance risk and other non-financial risks, such as lapse risk or expense risk.
Considering that IFRS 17 does not define a specific calculation methodology, for the Group, the Risk Adjustment estimate is made using a Value At Risk (VAR) type of approach for Banco BPM Vita, while for Vera Vita, the Percentile Approach is adopted; therefore, the RA is obtained from the Solvency II SCRs and re-proportioned to the 75th percentile.
Lastly, BBPM Life has adopted the "cost of capital" approach (equal to approximately 6%), thus leveraging the methodology and calculation models developed within Solvency II, appropriately adjusted to comply with IFRS 17 requirements to determine the Risk Adjustment.

CSM release pattern

The Contractual Service Margin represents the expected profit from the insurance contracts in the portfolio and is estimated as the difference between the cash flows due to the entity (premiums) and the total contractual liabilities assumed, including the risk adjustment. The aforementioned margins will be recognised in the income statement throughout the entire period in which the insurance coverage is provided; no profit is therefore recorded at the date of initial recognition of the contracts as they relate to insurance services that will be provided in the future. The release of the CSM is based on the definition of the coverage units, which are determined by identifying for each contract the quantity of service provided to the policyholder and the expected duration of the group of contracts.

If the CSM assumes negative values, at the time of the initial recognition or even subsequently in the event of adverse changes in the expected profitability, the implicit loss arising from the insurance contract must be recognised in full in the income statement.

In the methodology implemented by Group companies, in order to determine the CSM Release rate for the period for each Unit of Account, the Companies determine a Release Ratio.

The CSM is calculated in the first instance at the level of the individual insurance company and, subsequently, within the Group through appropriate adjustments during consolidation. This choice is due to the fact that within the Group there are entities issuing insurance contracts (the insurance companies) and entities placing them (the Parent Company), which charge placement commissions for the service. As part of the consolidation process, during the elimination of intra-group fees charged to insurance companies, an adjustment is made to consider the costs actually incurred by the Parent Company for the distribution of policies. This transaction may therefore entail the recognition of a different consolidated CSM from the one that would be calculated in the financial statements of the individual companies, to the extent that the costs incurred by the Group towards third parties differ from the placement fees paid to the banking distribution network.

To this end, the actual costs incurred by the Group are estimated on the basis of the "Cost/income ratio", determined according to operational metrics, based on the historical observation of the actual distribution costs incurred by the Group's networks with respect to the fees paid to the Group's insurance companies, broken down by homogeneous categories of policies and distribution models. The aforementioned operating drivers are also considered in order to identify costs represented by personnel expenses, other administrative expenses, net value adjustments on property, plant and equipment, to be reclassified to the consolidated financial statement item relating to the result of insurance operations.

Income components

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

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

Financial products

Financial products that do not present a significant insurance risk and do not include discretionary participation features (therefore not representing policies linked to segregated funds) are recognised on the basis of IFRS 9 and classified in the portfolio of "Financial liabilities measured at fair value", based on the so-called "Fair Value Option". For Banco BPM Vita, these products are essentially attributable to unit-linked policies.
For the products in question, the income statement does not reflect the premiums, but the revenue (fee and commission income) and cost (fee and commission expense) components on the basis of the rules established by IFRS

9 and IFRS 15. In particular, the revenues and costs relating to the products in question may be attributable to the activities carried out in the origination phase, to be charged to the income statement at the time of issue of the product, or in the investment management phase, to be spread over the life of the product, depending on the provision of the service. The income statement also includes costs and revenues resulting from changes in the fair value of liabilities related to the products in question.

Modification and derecognition criteria

An insurance contract must be derecognised when, and only when, it is extinguished, i.e. when the obligation specified in the insurance contract expires or is discharged or cancelled.

In addition, IFRS 17 provides for the derecognition of the original contract and the simultaneous recognition of the new contract in the event of a contractual modification (agreed between the parties or due to regulatory changes) that reflects at least one of the following conditions:

- if the modification had been included at initial recognition, it would have entailed:
  - the exclusion of the contract from the scope of application of IFRS 17;
  - the separation of different components of the original contract resulting in a different contract,
  - a substantially different “contract boundary”;
  - the assignment to a separate group of contracts;
- the original contract reflects the definition of an insurance contract with direct participation features, but the amended one no longer does or vice versa;
- the original contract is valued with the “premium allocation approach”, but the modified contract no longer has the characteristics to be valued with this model or vice versa.

On the contrary, the contractual modifications that do not fall into the listed cases must be treated as a change in the assumptions to value the expected contractual cash flows and consequently amend the Risk Adjustment and the Contractual Service Margin previously calculated.

16- Other information

a) Contents of other financial statement items

Cash and cash equivalents

This item includes legal tender, including foreign banknotes and coins, current accounts and demand deposits with Central Banks, with the exception of the minimum reserve, as well as demand loans to banks. The latter definition includes the available funds that can be withdrawn at any time without notice or with a notice of 24 hours or one working day.
The item is recognised at face value. The face value of foreign currencies is translated into Euro at the closing exchange rate at the period-end date.

Other assets

This item includes assets not attributable to the other balance sheet asset items. For example, this item may contain:

- gold, silver and precious metals;
- accrued income other than that capitalised on the related financial assets, including those deriving from contracts with customers pursuant to the IFRS 15 standard;
- receivables associated with providing non-financial goods or services;
- the tax credits associated with the “Cura Italia” [Heal Italy] and “Rilancio” [Relaunch] Decree Laws;
- payable tax items other than those recognised in item “110. Tax assets”.

These may also include any remainders (of the “debtor’s balance”) of items in transit or suspended not attributed to the specific accounts, because they are of immaterial amounts.

Other liabilities

This item records liabilities not attributable to the other balance sheet liability items.
For example, this item contains:

- payment agreements that under IFRS 2 must be classified as payables;
- payables associated with the payment of non-financial goods or services received;
- accrued liabilities other than those to be capitalised on the related financial liabilities, including those deriving from contracts with customers pursuant to the IFRS 15 standard;
- sundry receivable tax items other than those recognised in "60. Tax liabilities" connected, for example, to withholding agent activities.

Provisions for employee severance pay and other employee benefits

Pursuant to IAS 19, employee benefits include all types of remuneration envisaged in exchange for the work performed by employees or by virtue of the termination of the employment relationship. Specifically, these are divided into:

- short-term benefits (other than those for termination of the employment relationship) which are expected to be settled within 12 months from the end of the financial year in which the employees rendered their services;
- post-employment benefits such as, for example, employee severance pay and pension funds;
- benefits for the termination of employment due to employees following the company's decision to end the employment prior to the date of retirement;
- long-term benefits (other than those for termination of the employment relationship) which are expected to be settled over a time frame of more than 12 months from the end of the financial year in which the employees rendered their services.

Types of post-employment benefits

The benefits in question include Provisions for employee severance pay and Pension funds, and are classified into two categories, "defined benefit plans" and "defined contribution plans" on the basis of the characteristics of the plans.
More specifically, in defined contribution plans, the cost is represented by contributions accrued during the year, since the company only has the obligation to pay the contributions defined by contract to a fund, and has therefore no legal or implicit obligation to pay other amounts in addition to said contributions in the event that the fund does not have sufficient assets to pay all the benefits to employees.

In defined benefit plans, the actuarial and investment risk, namely the risk that contributions are insufficient or that the assets in which contributions are invested do not generate a sufficient return, is borne by the company.

With regard to Provisions for employee severance pay, following the supplementary pension reform, under Italian Legislative Decree no. 252 of 5 December 2005, new regulations were introduced for provisions for employee severance pay accrued beginning from 1 January 2007, recognised for accounting purposes. In particular, for companies which had at least 50 employees in 2006, from an accounting perspective, the portion of provisions for employee severance pay accrued from 1 January 2007 is considered a "defined contribution plan", both if the employee opts for a supplementary pension fund, and if it is paid into the INPS Treasury fund; the charge is, in fact, limited to the benefits established under the Italian Civil Code, without applying any actuarial methodology. Otherwise, the provisions for employee severance pay accrued up to 31 December 2006 will continue to be accounted for as a "defined benefit plan".

The costs relating to employee severance pay are recognised in the income statement under item "190. Administrative expenses: a) Personnel expenses" and include:

- for the part of the defined benefit plan, the interest accrued during the year (interest cost);
- for the portion of the defined contribution plan, the portions accrued during the year and paid to the Supplementary Pension Fund or the INPS Treasury Fund.

Valuation of post-employment benefits represented by defined benefit plans

For defined benefit plans, the liability is calculated by an external actuary using the "Projected Unit Credit Method". On the basis of the cited method, all future disbursements have to be estimated on the basis of demographic and financial assumptions, and are then discounted to take into account the time that will pass before the actual payment, and to be re-proportioned on the basis of the ratio of the years of service accrued and the theoretical seniority estimated at the time the benefit is disbursed.

For discounting purposes, the rate used is determined with reference to the market yield of bonds of leading companies, taking into account the average residual duration of the liability, weighted on the basis of the percentage of the amount paid and advanced, for each maturity, with respect to the total to be paid and advanced until the final extinction of the entire obligation. For further details, please refer to "Section 9 - Provisions for employee severance pay - Item 90" of "Part B - Information on the Consolidated Balance Sheet".
The actuarial value of the liability calculated in this way must then be adjusted by the fair value of any assets underlying the plan (net liabilities/assets).

The actuarial gains and losses that originate from changes in the previous actuarial assumptions, as a result of the actual experience or as a result of changes to the actuarial assumptions themselves, lead to the re-measurement of the net liability and are recognised as a balancing entry to a shareholders' equity reserve. (item "120. Valuation reserves"). Said gains and losses are recognised in the "Consolidated statement of comprehensive income".
The change in the liability resulting from an amendment or a reduction in the plan is recognised in the income statement as a gain or loss. In detail, an amendment is made when a new plan is introduced, rather than if an existing plan is withdrawn or amended. On the other hand, there is a reduction when there is a significant decrease in the number of employees included in the plan, such as in the case of plans for reduction of redundant personnel (access to the Solidarity Fund).

Valuation of long-term benefits

The "Projected Unit Credit Method" described above, is also used to measure long-term benefits, such as "seniority bonuses" awarded to employees, which are recognised under item "80. Other liabilities" based on the valuation at the reporting date of the commitments undertaken. Unlike that described for "defined benefit plans", actuarial gains and losses relating to the measurement of long-term benefits are recognised immediately in the income statement.

Valuation reserves

This item includes valuation reserves associated with equity instruments designated at fair value through other comprehensive income, financial assets (other than equity instruments) measured at fair value through other comprehensive income, foreign investment hedges, cash flow hedges and exchange rate differences, property, plant and equipment, the share of valuation reserves related to interests in associates and joint ventures carried at equity, actuarial gains (losses) on defined benefit plans and profit/loss connected to the change in own credit risk relating to fair value option liabilities.

Equity instruments

Equity instruments are instruments representing a residual interest in the assets of the Group, net of its liabilities. The classification of an instrument that can be classified as an equity instrument requires that there be no contractual obligations to make payments in the form of reimbursement of principal, interest or other types of returns.
In particular, the category includes Additional Tier 1 instruments ("AT1") which, in accordance with the provisions of Regulation (EU) no. 575/2013 (CRR), also provide for:

- unlimited duration and absence of redemption incentives;
- full discretion of the issuer in the payment of coupons or in the redemption, including early, of the capital. The related call-up/redemption may take place only on the initiative of the issuer, once at least five years have elapsed from the date of issue, also by exercising the call option associated with the instrument.

In addition, AT1 instruments maintain the full discretion of the issuer to restore the nominal value (write-up) subsequent to the trigger event that determined the reduction (write-down).

Those instruments, different from ordinary shares or savings shares, are classified under item "140. Equity instruments" for an amount equal to the price collected for their issue, less the transaction costs that are directly attributable to the transaction, after taxes.
Any coupons paid, after taxes, are posted as a reduction of item "150. Reserves", if and for the amount at which they were paid.

If such instruments are extinguished or repurchased, the difference between the price paid and the book value of such equity instruments is recognised in shareholders' equity under item "150. Reserves".

Share capital and Own shares

Item "170. Share capital" includes shares issued by the bank net of any capital already subscribed but not yet paid up at the annual or interim reporting date. This item includes any own shares held by Group companies. The latter are recognised in the financial statements in their own item as a negative component of shareholders' equity.
The original cost of repurchased own shares and the gains or losses originated by their subsequent sale are recognised as changes to shareholders' equity.
Transaction costs relating to operations on share capital, such as share capital increases, are recorded as a decrease in shareholders' equity, net of any related tax benefits.
Dividends on ordinary shares are recognised as a reduction in shareholders' equity in the year in which the Shareholders' Meeting approves their distribution.

Non-controlling interests

This item shows the portion of consolidated shareholders' equity attributable to non-controlling interests, calculated based on "equity ratios". The amount is calculated net of any own shares repurchased by consolidated companies.

b) Illustration of other significant accounting treatments

Dividends and revenue and cost recognition

Revenue from contracts with customers (IFRS 15)

Revenue is the gross inflow of economic benefits that flow to the entity as payment for its obligation to transfer to the customer a wide range of goods and services that are part of ordinary activities.
Pursuant to IFRS 15, the entity must recognise revenues on the basis of the fee that it expects to receive for the assets or the services provided in the ordinary course of business. In detail, the recognition of revenues must take place on the basis of the following five steps:

- identify the contract, defined as an agreement with commercial substance between two or more parties able to generate rights and obligations;
- identify the performance obligations in the contract;
- determine the transaction price, namely the amount to which an entity expects to be entitled in exchange for the transfer of goods and services;
- allocate the transaction price to each performance obligation on the basis of the stand-alone selling price;
- recognise the revenues allocated to the single performance obligation when the same is satisfied, namely when the customer obtains control of the goods or the services. This recognition takes into account the fact that some services may be rendered at a specific point in time or over a period of time.

Revenues from contractual obligations with customers are recognised in profit or loss when it is probable that the entity will receive the payment to which it is entitled in exchange for the goods or services transferred to the customer. This payment must be allocated to the single obligations covered by the contract and must be recognised as revenue in the income statement based on the timing of fulfilment of the obligation. Specifically, revenue may be recognised in the income statement:

- at a particular point in time, when the entity settles its performance obligation by transferring the promised good or service to the customer; or
- over time, as the entity settles its performance obligation by transferring the promised good or service to the customer.

The performance obligation is considered fulfilled when the customer acquires control of the transferred good or service.
The consideration promised in the contract with the customer may include fixed amounts, variable amounts or both. Specifically, the consideration for the contract may vary as a result of redemptions, discounts, refunds, incentives, performance bonuses or similar items. The variability of the consideration may also depend on whether or not a future event occurs. In the presence of variable consideration, the revenue is recorded in the income statement when it is possible to estimate the revenue reliably and only if it is highly probable that this amount will not subsequently have to be reversed in the income statement, in whole or in a significant part.

If the entity receives a payment from the customer that it expects to refund to the customer, in whole or in part, against the revenue recognised in the income statement, a liability should be recognised, estimated on the basis of expected future refunds (known as a "refund liability"). The estimate of this liability is updated at each annual or interim reporting date and is carried out based on the portion of the amount that the entity expects not to be entitled to.

Costs

Costs associated with obtaining and fulfilling contracts with customers are recognised in the income statement in the periods in which the corresponding revenues are accounted for. Costs that are not directly associated with revenues are immediately charged to the income statement.

Revenues and costs related to financial instruments

With reference to income and charges relating to financial assets/liabilities, it should be noted that:

- interest is recognised *pro-rata temporis* on the basis of the contractual interest rate or the effective interest rate if the amortised cost method is used. In the latter case, any marginal costs and incomes, considered an integral part of the return of the financial instrument, are calculated in the effective interest rate and recognised as interest. Negative income components accrued on financial assets are recognised under item "20. Interest and similar expense"; the positive economic components accrued on financial liabilities are recognised under item "10. Interest and similar income". The item interest income (or interest expense) also includes the positive (or negative) spreads or margins accrued until the reporting date, relating to financial derivative contracts:
  - hedging financial assets and liabilities that generate interest;
  - classified in the balance sheet in the trading book, but operationally connected with financial assets and/or liabilities designated at fair value ("Fair value option") that generate interest;
  - operationally connected with assets and liabilities classified in the trading book and which envisage the settlement of spreads or margins at multiple maturities;
- default interest, if provided for by contract, is recorded in the income statement only when actually collected;
- dividends are recognised in the income statement when the legal right to collect them ensues, and, therefore, when their distribution is resolved and the right to receive the relative payment matures;
- fees and commissions for revenues from services are recognised, on the basis of existing contractual agreements, in the period in which the services are provided. Fees and commissions considered in the amortised cost for the purposes of determining the effective interest rate are recognised under interest;
- profits and losses from initial recognition of the fair value of financial instruments are recognised in the income statement at the time of recognition of the transaction, based on the difference between the price paid or collected and the fair value of the instrument, only when the fair value can be determined by referring to current observable market transactions or using valuation techniques the inputs of which are observable market parameters. Otherwise, these profits and losses are distributed over time, taking the nature and the term of the instrument into account;
- gains and losses deriving from the sale of financial instruments are recognised in the income statement when the sale is completed, with the relative transfer of the risks and rewards, based on the difference between the amount received and the book value of the instruments.

Share-based payments

Share-based payments are payments made to employees, as a consideration for work performed, settled with equity-linked instruments, which may, for example, consist of the assignment of:

- stock options;
- rights to receive shares when specific targets are reached.

For accounting purposes, in accordance with IFRS 2, payments based on own shares are configured as equity-settled plans, to be recorded on the basis of the fair value of the services received.
Considering how difficult it is to directly estimate the fair value of work received in exchange for the assignment of shares, it is possible to indirectly measure the value of services received, by referring to the fair value of the equity-linked instruments at their assignment date.

Employee incentive plans based on own shares are therefore recognised in the income statement (item "190. Administrative expenses: a) Personnel expenses") as a balancing entry to a corresponding increase in shareholders' equity (item "150. Reserves"), on the basis of the fair value of the financial instruments assigned at the assignment date and on the basis of the accrual basis of the service provided.

In detail, when assigned shares cannot be immediately "used" by the employee but can be used when the employee has completed a given term of service, the company shall pay the cost as a consideration for the service provided throughout the vesting period.

For subsidiaries, incentive plans based on the Parent Company's shares, and not on own shares, are cash settled plans. In accordance with IFRS 2, in the respective company financial statements, the cost pertaining to the period is therefore recorded among personnel expenses, as a balancing entry to an increase in the liability item "100. Provisions for risks and charges". In the context of the consolidated financial statements, these plans, as they are settled through shares of the Parent Company, are instead represented as equity-settled plans on the basis of the treatment described above.

Repurchase agreements, securities lending and forward agreements

Repurchase or forward agreements whereby the Group sells securities to third parties with the obligation to repurchase them upon maturity of the transactions at a predetermined price are recognised in payables due to banks or to customers, depending on the counterparty. Likewise, repurchase or forward agreements whereby the Group acquires securities from third parties with the obligation to resell them upon maturity of the transactions at a predetermined price are recognised in loans to banks or to customers (accounting categories of the "Financial assets at amortised cost"), depending on the counterparty. The difference between the spot and forward price of the above-mentioned transactions is recognised as interest (expense or income depending on the case) on an accrual basis throughout the life of the transaction. Securities lending transactions in which the guarantee is represented by cash which is fully available to the lender are recognised in the financial statements like the above-mentioned repurchase agreements.

In the case of securities lending transactions with a guarantee consisting of other securities, or with no guarantee, the lender and the borrower continue to recognise the security subject to the loan and any security provided as a guarantee, respectively, in the balance sheet assets. The remuneration of this transaction is recognised by the lender in item "40. Fee and commission income" and by the borrower in item "50. Fee and commission expense".

Offsetting financial instruments

In accordance with IAS 32, paragraph 42, financial assets and financial liabilities may be offset and the net balance may be reported in the financial statements if the entity:

- has a legally enforceable right to make said offsets, currently exercisable in all circumstances, where they refer to regular business operations or to situations of default, insolvency or bankruptcy of the parties;
- intends either to settle the transactions on a net basis, or to settle the same on a gross basis, the substantial effects of which are equivalent to a settlement on a net basis.

For derivative instruments covered by netting arrangements, which meet the requirements illustrated above, Circular no. 262 envisages that all trading derivatives and all hedging derivatives may be offset. If the imbalance of trading derivatives is the opposite sign of that of the imbalance of all hedging derivatives, said imbalances are to be reported on a net basis: usually, the net balance is allocated to the trading book rather than as hedging derivatives, depending on the prevailing absolute value of the imbalance of trading derivatives compared to that of hedging derivatives.

In accordance with the requirements of accounting standard IFRS 7, further information is provided in the tables contained in "Part B - Information on the consolidated balance sheet - Other information" in these Notes to the financial statements. In particular, these tables show:

- the book values of assets and liabilities that meet the requirements set out by IAS 32, paragraph 42, before and after netting in the accounts;
- exposures subject to master netting arrangements that did not give rise to netting, but could activate it as a result of specific circumstances;
- the collateral guarantees connected thereto.

Traditional securitisations - derecognition from financial statements of financial assets sold

In securitisation transactions put in place by the Group, the transfer of financial assets to an SPE (special purpose entity), even if with recourse, entails the derecognition of these assets from the financial statements, only if there is a substantial transfer of the risks and rewards. In the event that the substantial transfer of risks and rewards cannot be verified, the assets sold are derecognised if the Group relinquishes all control over them. In the event of such circumstances, the difference between the book value of the assets sold and the amount received, including the new assets acquired, is recognised as a gain or loss in the income statement.
Otherwise, there is no derecognition from the financial statements if the Group has maintained the risks and rewards associated with the securitised portfolio, even though it has been sold without recourse, for example via the comprehensive subscription of a tranche of junior securities or securities that bear the risk of the initial losses or through the assumption of similar exposures. Consequently, the transferred receivables must continue to be recognised in the separate financial statements of the originator bank as "Assets sold and not derecognised", while the consideration collected for the transfer is recognised as a balancing entry to the payable owed to the SPE, net of the securities subscribed by the bank in question. In the consolidated financial statements, the main impact of the consolidation of the SPE and of the related assets of the securitisation, if the requirements of control established by IFRS 10 are fulfilled, is that the securities issued by the SPE and subscribed by entities not belonging to the Group are recorded in the consolidated balance sheet.
For further details, see the information reported in these Notes to the financial statements "Part E - Section 1 - C. Securitisation transactions".

Synthetic securitisations

In synthetic securitisation transactions, through the contracting of collateral arrangements, the Group purchases protection from the credit risk underlying a portfolio of loans, of which it retains full ownership.
Therefore, synthetic securitisation transactions aim to free up regulatory and economic capital by reducing the level of credit risk of the portfolio underlying the transaction (Significant Risk Transfer - SRT), which is transferred to an external counterparty without entailing the derecognition of the assets.

The SRT must be constantly monitored also during the course of the transaction, in order to verify that the criteria envisaged by the regulations which provide that the Originator retains a portion of the net economic interest (Retention) of at least 5% of the nominal value of the securitised portfolio are respected.
The transactions are structured in different tranches (Junior, Mezzanine and Senior) according to the risk level of the portfolio.

With regard to the accounting treatment, synthetic securitisation transactions are considered financial guarantees received in which the Group exclusively provides the purchaser with protection against credit risk.
The premium paid by the Group to the Investor for credit risk protection is recorded in income statement item "50. Fee and commission expense". The enforcement of the financial guarantee received by the Investor if the conditions established in the contract materialise (so-called credit event) and referring to the securitised loans contributes to the overall determination of income statement item "130. Net credit impairment losses/recoveries".
For further details, see the information reported in these Notes to the financial statements "Part E - Section 1 - C. Securitisation transactions".

Leases

IFRS 16 defines a lease as a contract, or part of a contract, on the basis of which the lessor grants to the lessee the right to use (ROU, Right Of Use) an identified asset for a certain period of time in exchange for a certain consideration. The key elements for defining whether a contract, or part of it, comes under the definition of a lease are the fact that the asset is identified, and that the lessee has the right to control the use of the same and to receive substantially all its economic benefits.

Accounting in the lessee's financial statements

If the Group acts in the capacity of lessee, the IFRS 16 accounting model provides for recognition in the balance sheet of a liability on the basis of the present value of the future instalments to be paid for the contractual term as a balancing entry to the recognition, among the assets, of the right of use of the asset covered by the lease contract.

In detail, the date of initial recognition of the asset and the liability in the company's balance sheet corresponds to the start date of the contract, that is the date on which the asset is made available to the lessee.
At this date the lessee recognises:

- under item "90. Property, plant and equipment", the right-of-use asset, determined by the sum of the following amounts:
  - present value of the future payments (amount of the liability recognised);
  - initial direct costs, understood as incremental costs for obtaining the lease that would not otherwise have been incurred (for example brokerage commissions for agents and success fees);
  - lease payments paid on or before the commencement of the lease (for example, a maxi-instalment);
  - estimate of any costs for removal and reinstatement, recognised in accordance with IAS 37;
  - net of any lease incentives received from the lessor;
- under item "10. Financial liabilities at amortised cost", the financial liability, equal to the present value of the payments due for the lease. The discount rate used is equal to the incremental borrowing rate as at the date on which the contract is signed. This rate was identified as that used for managerial purposes (internal transfer rate - "ITR" - of funding), which expresses the average cost of Group funding, both secured and unsecured, considering in the time bracket in which the contract expires. This rate takes into account the creditworthiness of the lessee, the lease term, as well as the economic environment in which the transaction takes place, in line with the requirements of IFRS 16.

In identifying a lease contract, unless provided for otherwise, Banco BPM Group avails itself of the option granted by IFRS 16 not to consider:

- short-term leases, i.e. those with a maturity of less than or equal to 12 months; this choice must be made by classes of underlying assets;
- leasing of low value assets, i.e. with a new value of less than 5,000 euro. For this category (which includes, among other things, PCs, monitors and telephones), the option of exemption from IFRS 16 can also be carried out contract by contract.

The costs of the fees relating to these types of assets are charged directly to the income statement under item "190. Administrative expenses: b) Other administrative expenses" at the time of accrual.

In addition, the Group has opted not to apply IFRS 16 to leases of intangible assets.

With reference to the lease term, in addition to the period that cannot be cancelled, during which the Group cannot avoid paying charges, extension options were considered if their exercise by the Group was held to be reasonably certain, considering all facts and circumstances. More specifically, with reference to contracts envisaging the faculty of the lessee to renew the lease at the end of the first period, the Group considers the initial term of the rental contract (e.g. 12 years for 6 + 6 year rental contracts) and, once this term has ended, the following first renewal period (e.g. next 6 years), where there is no reasonable evidence that may lead to another renewal period or, vice versa, the end of the contract. In addition, it is assumed that the lease contract is renewed in the subsequent period if in the 12 months before expiry of the first period or of the subsequent renewal the lessee has not given notice to the lessor.

After recognition:
- the right-of-use asset must be measured at cost on the basis of IAS 16 and subject to depreciation and any impairment along the term of the contract or the useful life of the asset. These income components are recognised under item "210. Depreciation and impairment losses on property, plant and equipment";
- the liability is measured at amortised cost, or it is increased following the accrual of the interest payable and gradually reduced as a result of payment of the instalments (principal and interest portions).

In the event of changes in the payments due for the lease, the liability must be redetermined, as a balancing entry to the right-of-use asset. The change may result in the recognition of a separate lease (if the subject of the contract in force increases) or a change to the existing contract (lease modification). In the event of a lease modification, the change in the lease payable on the date of effectiveness of the modification, recognised as a balancing entry to the right of use, with the exception of the gains and losses resulting from the (partial or total) derecognition of the lease, which are included in the income statement.

Accounting in the lessor's financial statements

If the Group acts in the capacity of lessor, the IFRS 16 accounting model envisages that it must be stated whether the assets have been granted under a finance lease or under an operating lease, according to the different accounting treatment applicable to the two types.

More specifically, a lease is classified as finance lease if it transfers substantially all the risks and rewards to the lessee. Finance leases, in practice, are loan contracts with which the lease company purchases an asset, on behalf of the lessee, granting it the right of use.

The accounting in the lessor's financial statements is done with the financial method, through recognition of a loan of an amount equal to the principal of the instalments to be received (plus "up-front" external transaction costs not recovered and minus "up-front" transaction revenues that contribute to the remuneration of the receivable), as if it were a loan operation.
Subsequently, the receivable is measured at amortised cost, equal to the initial recognition value decreased by repayments of principal, decreased/increased by the amortisation - calculated according to the effective interest rate method - of the difference between the amount disbursed and the amount repayable at maturity, typically comparable to the costs/income directly associated with the individual receivable. The receivables are subject to impairment rules. For more details of the rules on accounting for receivables measured at amortised cost please see the contents of paragraph "3 - Financial assets at amortised cost" in part A.2.

For operating lease transactions, in the financial statements of the lessor, the owned assets granted under the lease continue to be recognised and the lease payments are recognised in the income statement as revenues. At Group level, the case regards owned properties rented; in this event, said properties continue to be recognised under "Property, plant and equipment held for investment purposes", based on the relative valuation criterion (fair value). In the income statement, income generated by the rental of the above-mentioned assets is included in item "230. Other operating expenses/income".

Off-balance sheet credit exposures - guarantees given and commitments

General off-balance sheet credit exposures are represented by the guarantees issued and by the irrevocable commitments to disburse funds at predetermined terms and conditions entailing the assumption of a credit risk and fall within the scope of the impairment provisions of IFRS 9.

The initial recognition value of guarantees given equals the fair value, which normally corresponds to the amount received on issuing the guarantee.
Subsequently, the guarantees given are measured at the higher of the amount recognised on initial recognition, net of any amortisation charge, and the amount estimated to fulfil the obligation.
For the purposes of calculating expected losses, the same allocation methods in the three stages of credit risk described in IFRS 9 and already described in paragraphs "3 - Financial assets at amortised cost" and "2 - Financial assets measured at fair value through other comprehensive income", as well as in paragraph "16 - Other information - Methods for determining impairment losses on financial assets", are used.

As indicated in paragraph "10 - Provisions for risks and charges", the provisions relating to the write-down of guarantees given and commitments to disburse funds are recognised under balance sheet item "100. Provisions for risks and charges: a) commitments and guarantees given". In accordance with the provisions contained in Circular no. 262 of the Bank of Italy, the balancing entry is the income statement item "200. Net provisions for risks and charges: a) commitments and guarantees given".

Business combinations, goodwill and changes in interest holdings

A business combination represents the transfer of control of an enterprise (or an integrated group of assets and goods, conducted and managed consistently). To this end, control, as illustrated in the previous "Section 3 - Scope of consolidation and methods", is considered transferred when the investor is exposed to variable returns, or holds rights to said returns, resulting from its relationship with the investee company and, at the same time, is able to influence returns by exercising its decision-making power over said entity.
A combination may give rise to an investment relationship between the acquiring Parent Company and the subsidiary acquired. In such circumstances, the acquirer applies standard IFRS 3 "Business combinations" in the consolidated financial statements while in the separate financial statements the shareholding acquired as an interest in the subsidiary is recorded, applying accounting standard IAS 27 "Separate Financial Statements".
A business combination may also envisage the purchase of the net assets of another entity, including any eventual goodwill, or the acquisition of the capital of another entity (mergers, conferrals, business segment acquisitions). A combination of this type does not translate into an investment relationship similar to that between the parent and subsidiary company and therefore in these cases accounting standard IFRS 3 applies also in the separate financial statements of the acquirer.
Business combinations are recognised using the purchase method, which requires: (i) the identification of the acquirer; (ii) the determination of the acquisition date; (iii) the calculation of the cost of the business combination; (iv) the allocation of the purchase price ("Purchase Price Allocation").

Identification of the acquirer

For all business combinations, IFRS 3 requires the identification of an acquirer, identified as the party that obtains control over another entity, meaning the power to establish the financial and operational policies of that entity in order to obtain benefits from its business activities. For business combinations that result in the exchange of shareholdings, the identification of the acquirer must consider factors such as: (i) the number of new ordinary shares with voting rights issued with respect to the total number of ordinary shares with voting rights which will constitute the share capital of the company existing after the combination; (ii) the fair value of the entities that participate in the combination; (iii) the composition of the new corporate bodies; (iv) the entity that issues the new shares.

Determination of the acquisition date

The acquisition must be recognised on the date on which the acquirer effectively obtains control of the business and/or of the assets acquired. When the acquisition is made by means of a single exchange transaction, the date of exchange coincides with the acquisition date, unless the parties agree to a transfer of control before the date of exchange.

Calculation of the cost of the business combination

The price transferred in a business combination equates to the fair value, as of the acquisition date, of the assets transferred, the liabilities incurred and the equity instruments issued by the acquirer in exchange for obtaining control over the entity acquired.
The price which the acquirer transfers in exchange for the entity acquired includes any asset or liability emerging from an agreement on the potential price, to be recorded as of the acquisition date on the basis of the fair value. Changes to the transferred price are possible if they derive from additional information on events or circumstances which existed as of the acquisition date and are recognisable within the business combination measuring period (or rather within twelve months of the date of acquisition, as will be specified further on). Any other change which derives from events or circumstances subsequent to the acquisition, such as for example that acknowledged to the seller linked to achievement of specific income-related performances, must be recognised in the income statement.
The costs relating to the acquisition, which include brokerage commission, advisory, legal, accounting and professional costs, general administrative expenses, are recorded in the income statement at the time they are

incurred, with the exception of the costs for issuing shares and debt securities which are recorded on the basis of the matters laid down by IAS 32 and IFRS 9.

Purchase Price Allocation (PPA)

On the basis of the acquisition method, at the acquisition date, the acquirer must allocate the cost of the business combination (the "Purchase Price Allocation" or PPA) to the identifiable assets acquired and the liabilities assumed measured at the relative fair values at that date, also recognising the value of the minority interests of the acquired entity. Exceptions to the application of this principle include the recognition:

- of income taxes;
- of liabilities relating to employee benefits;
- of assets deriving from indemnities;
- of rights reacquired;

- of transactions with share-based payments;
- of assets held for sale

to which the respective reference principles shall apply.
Therefore, it is necessary to draw up a balance sheet of the acquired company at the acquisition date, calculating at fair value the identifiable assets acquired (including any intangible assets not previously recognised by the acquired entity) and the identifiable liabilities assumed (including contingent).
With regard to each business combination, the non-controlling interests can be recorded at fair value or in proportion to the portion held in the identifiable net assets of the company acquired.

In addition, if control is achieved by means of subsequent acquisitions (business combinations carried out in several phases, known as step acquisitions), the shareholding previously held is measured at fair value as of the acquisition date and the difference with respect to the previous book value must be recorded in the income statement on in the other income components of the statement of comprehensive income, as appropriate. More specifically, any change in the value of the shareholding already held recognised as a balancing entry to the valuation reserves must be recognised in the statement of comprehensive income or in the income statement, on the basis of the same treatment that would have been applied in the event of the direct sale of the investment.
At the acquisition date, the acquirer therefore must determine the difference between:

- the sum of:
  - the cost of the business combination;
  - the amount of any minority interests as described above;
  - the fair value of any interest holdings previously held by the acquirer; and
- the fair value of the net identifiable assets acquired, including contingent liabilities.

Any positive difference must be recognised as goodwill; otherwise, any negative difference must be recognised in the income statement of the entity resulting from the business combination as profit deriving from a bargain purchase (negative goodwill or badwill), after making a new measurement to ascertain the proper process for identifying all assets acquired and liabilities assumed.
Identification of the fair value of the assets and liabilities may provisionally take place before the end of the year in which the business combination takes place and must be finalised definitively within a maximum period of twelve months as from the acquisition date (measuring period).

Once control has been obtained and the acquisition method previously described applied, any further increase or decrease in the shareholding in a subsidiary company which continues to be controlling is recorded as a transaction between shareholders. Therefore, the book value of group shareholders' equity and non-controlling interests must be adjusted to reflect the changes in the holding in the subsidiary. Any difference between the value for which the non-controlling interests are adjusted and the fair value of the price received or paid must be recorded directly in the group shareholders' equity.

In the presence of an event that results in a loss of control, the effect to be recognised in the income statement is equal to the difference between (i) the sum of the fair value of the price received and of the fair value of the residual shareholding held and (ii) the prior book value of the assets (including goodwill), of the liabilities of the subsidiary, and any non-controlling interests. The amounts previously recognised in the statement of comprehensive income (such

as the valuation reserves of financial assets measured at fair value through other comprehensive income) must be recorded in the same way as required in the event that the parent company has directly disposed of the assets and the related liabilities (by means of reclassification in the income statement or shareholders' equity).
The fair value of any shareholding held in the former controlling interest must be considered equal to the fair value at the time of initial recognition of a financial asset on the basis of IFRS 9 or, if appropriate, equal to the cost at the time of initial recognition in an associated company or a jointly-controlled entity.

Business Combinations Under Common Control

Transactions achieved for reorganisation purposes, between two or more businesses or corporate assets forming part of the Group, are not considered to be business combinations. These transactions (business combinations under common control) are excluded from the scope of application of IFRS 3 and, in the absence of a reference standard, are accounted for with reference to Assirevi's preliminary interpretative documents/guidelines, or in continuity of the values of the entity acquired in the financial statements of the acquirer, if they do not have a significant influence on future cash flows. In particular, the values adopted are those resulting from the Group's consolidated financial statements at the date of transfer of the assets. This is in compliance with the matters established by IAS 8 paragraph 10, which requires, in the absence of a specific standard, the use of one's own judgement when applying an accounting standard for the purpose of providing relevant, reliable, prudent disclosure which reflects the economic essence of the transaction.

Methods for determining impairment losses on IFRS 9 Financial Instruments

At each annual or interim reporting date, loans and debt securities classified under "Financial assets at amortised cost" and "Financial assets measured at fair value through other comprehensive income" - as well as off-balance sheet exposures represented by commitments to disburse funds and the guarantees given - must be subject to impairment in order to estimate expected losses in value due to credit risk (ECL - Expected Credit Losses).

General features of the impairment model

According to the Expected Credit Losses calculation model, losses must be recorded not only with reference to objective evidence of impairment losses that had already occurred at the valuation date, but also on the basis of expectations of future impairment that has not yet occurred.
In particular, the ECL model states that the aforementioned instruments must be classified into three distinct stages, according to their absolute or relative credit quality or compared to the initial disbursement, to which different criteria correspond for measuring the expected losses. Specifically:

- Stage 1 includes both originated and acquired performing financial assets that display no significant deterioration in credit risk (SICR - Significant Increase in Credit Risk) with respect to the initial recognition date;
- Stage 2 includes performing financial assets with significant deterioration in credit risk (SICR) on the valuation date compared to the initial recognition, albeit not impaired;
- Stage 3 includes all exposures for which one or more events capable of negatively impacting cash flows are found (evidence of impairment), namely exposures that are considered non-performing.

For Stage 1 exposures, the expected credit loss is accounted for, on the date of initial recognition and on each subsequent reporting date, for up to one year; for Stage 2 and 3 exposures, expected credit losses are recognised over the entire residual lifetime of the instrument.
An exception to the foregoing is represented by financial assets that are considered non-performing from the time of their acquisition or origin (POCI - Purchased or Originated Credit Impaired). Please refer to the paragraph "Acquired or originated impaired financial assets" for more information on this.

For Banco BPM Group, the scope of the exposures classified in Stage 3 corresponds to that of non-performing loans, identified in accordance with the definitions established by the supervisory provisions in force (Bank of Italy Circular no. 272 "Matrix of accounts") and referred to by Bank of Italy Circular no. 262 "Bank financial statements: layouts and rules for preparation", insofar as retained consistent with IAS/IFRS standards in terms of objective evidence of impairment. Specifically, the circulars identify the following categories of non-performing assets:

- Bad Loans: these represent the set of on and off-balance sheet exposures with respect to a party in a state of insolvency (even if not ascertained in court) or in substantially equivalent situations, irrespective of any loss forecasts developed by the Bank;
- Unlikely to Pay: these represent on and off-balance sheet exposures for which the conditions are not met for the classification of the debtor under bad loans and for which it is deemed unlikely that the debtor will meet its credit obligations (for principal and/or interest) in full without recourse to actions such as the enforcement of guarantees. This assessment is carried out irrespective of the presence of any amounts (or instalments) past due and unpaid. Classification as unlikely to pay is not necessarily linked to the explicit presence of anomalies, such as non-repayment, but it is linked to the existence of elements indicative of a situation of risk of default by the debtor (for example, a crisis in the industrial sector in which the debtor operates);
- Non-performing past due and/or overdue exposures: on-balance sheet exposures, other than those classified as bad or unlikely to pay loans which, at the reference date, have a past due and/or overdue position for more than 90 days, in accordance with the thresholds of significance provided for by law. For Banco BPM Group, non-performing past due and/or overdue exposures are determined by making reference to the position of the individual debtor.

In addition, in line with EBA standards, Bank of Italy regulations have introduced the definition of "forborne exposures". In particular, these are exposures benefiting from forbearance measures, which consist of concessions, in terms of changes to and/or the refinancing of an existing loan, granted only to debtors in financial difficulty, or to prevent the financial difficulty of the same, which could have a negative effect on his ability to fulfil his original contractual obligations. They are not granted to a debtor with the same risk profile but who is not in financial difficulty. These forbearance measures must be identified in terms of individual credit lines and may regard the exposures of debtors classified both as performing and non-performing.
For exposures with forbearance measures classified as unlikely to pay, the return to performing exposures, and in particular in Stage 2 exposures, can occur only after one year has elapsed since it was granted (the probation period) and all the other conditions laid out in paragraph 157 of the EBA's ITS are met.
In any event, renegotiated exposures must not be considered forborne when the debtor is not in a situation of financial difficulty: these are renegotiations granted for commercial reasons.

Impairment losses on performing financial instruments

Regarding performing financial assets, i.e. those assets not considered impaired, as defined above, it is necessary to assess, at each reporting date and at the individual relationship level, the existence of a significant increase in credit risk (SICR – "Significant Increase in Credit Risk") by comparing the credit risk associated with the financial instrument at the time of valuation and at the time of initial disbursement or acquisition. This comparison is made on the basis of quantitative and qualitative criteria. More specifically, in order to identify the existence of a significant deterioration in credit quality and the subsequent transfer of the financial instrument from Stage 1 to Stage 2, Banco BPM Group has identified the following criteria (Stage Assignment):
- relative quantitative criteria, based on statistical observations or on changes in the PD beyond a specific threshold considered as a backstop indicator, retained an indication of a significant increase of credit risk over time;
- absolute qualitative criteria, represented by the identification of trigger events or by the surpassing of absolute thresholds as part of the credit monitoring process;
- backstop indicators, namely credit delinquency factors, the emergence of which leads to the assumption that there has been a significant increase of credit risk, unless there is evidence to the contrary.

If these criteria are met, the financial asset is included in Stage 2 and the consequent measurement, even in the absence of an established impairment loss, involves the recognition of value adjustments equal to the expected losses over the entire residual life of the financial instrument, in line with the provisions of international accounting standards. These adjustments are subject to review at each subsequent reporting date, both to periodically verify their consistency with the constantly updated loss estimates and to take into account - in the event that the indicators of a "significantly increased" credit risk no longer exist - the changed forecast horizon used to calculate the expected loss.
Otherwise, where the above-mentioned indicators are not disclosed, the financial asset is included in Stage 1 and the consequent valuation involves the recognition of expected losses, for the specific financial instrument, over the course of the following twelve months.

These adjustments are subject to review at each subsequent reporting date, both to periodically verify their consistency with the constantly updated loss estimates and to take into account - in the event that the indicators of a "significantly increased" credit risk should emerge - the changed forecast horizon used to calculate the expected loss.

Once the allocation to the various stages of credit risk has been defined, the expected credit losses (ECL) are determined by assigning the following risk parameters to each individual transaction or tranche:

- PD (Probability of Default): represents the probability that a performing exposure can move to impaired status over the course of one year. This factor is quantified using internal exposure rating models or on the basis of average segment/portfolio data;
- LGD (Loss Given Default): the percentage of loss in the event of default, quantified on the basis of historical experience of recoveries discounted on the basis of impaired accounts;
- EAD (Exposure at Default): the exposure at the moment of default.

Value adjustments for expected losses are then quantified as a product of PD, LGD and EAD.
The models used to estimate these parameters employ the same parameters used for regulatory purposes, making specific adjustments to account for the different requirements and purposes between accounting and prudential regulations.

For more details on the model for determining expected losses on performing exposures, with specific reference to the criteria of stage assignment, to the calculation methods for risk parameters, to the forecast macroeconomic scenarios and to the related probabilities of occurrence, refer to that illustrated in paragraph "2.3 Measurement methods for expected losses" contained in Part E of these Notes, in the section on credit risk.

Impairment losses on non-performing financial instruments

As illustrated above, for non-performing financial assets, to which a 100% probability of default is associated, the amount of adjustments for expected losses relating to each loan is equal to the difference between its book value (interim situation) at the time of valuation (amortised cost) and the present value of expected future cash flows, calculated by using the original effective interest rate or a reasonable approximation if the original rate is not directly available. Cash flows are estimated on the basis of expected recovery over the entire lifetime of the asset, after taking into account the estimated realisable value of any guarantees.
To estimate the expected cash flows collected and the related time frames, the receivables in question undergo an analytical evaluation process. For some similar categories of non-performing loans, the assessment processes establish that the loss forecasts are based on a "lump-sum" calculation method, to be applied analytically to each individual position. The scope of exposures subject to lump-sum valuation is represented by:

- bad loans and unlikely to pay with exposures below or equal to an established threshold of 1 million;
- the total number of non-performing past due exposures, regardless of the relevant exposure threshold. In particular, these are loans which show uninterrupted overdrafts or late payments, automatically identified by the Group's IT procedures, based on the cited rules of the Supervisory Authority.

The "lump-sum" calculation method entails valuation approaches that are differentiated based on the counterparty's stage of risk at the time of quantification (Bad Loans, Unlikely to Pay, Past Due), the type of exposure (secured or unsecured), and the presence of guarantees other than mortgages (sureties, pledges, Confidi - consortium guarantees). In detail, for secured exposures the measurement is based on the valuation of the underlying assets (collateral), while for unsecured exposures, the expected credit loss is defined as a complement of the recovery curves based on the observation of internal time series, considering any mitigating elements deriving from the presence of other guarantees. In addition, for the purposes of estimating losses, the time value is considered, i.e. the estimated time required to recover the receivable, differentiated on the basis of the vintage, as well as the probability of exposures classified as Unlikely to Pay changing to bad loan status (danger rate).

Depending on the non-performing status and type of exposure, the recovery value is determined using a going concern approach rather than a gone concern approach.
The going concern approach is implemented if it is considered that the debtor's operating activity may continue to generate, in the foreseeable future, cash flows to be used for the payment of financial debts to all creditors, based on expected repayment schedules. The approach in question establishes, as a source of repayment, the profitability available deriving from the customer's operating activity or from other financial sources, as well as the estimated

amount deriving from the enforcement of any collateral or personal guarantees (for the portion not covered by the available profitability). The available profitability assessment must be carried out prudentially using different analyses, depending on the type of customer and the data acquired by it.

The gone concern approach is used when the customer's operating activity is found or is expected to cease and the main source of repayment is the amount deriving from the enforcement of collateral (pledge or mortgage), as is the case for all exposures classified as non-performing. In addition, possible repayment flows from seizable assets owned by the debtor or any guarantor must be evaluated.
In line with the targets for the sale of non-performing credit exposures, established on each occasion by the Board of Directors, the quantification of expected losses of the aforesaid exposures includes forward-looking elements, via the introduction of specific sales scenarios, where the Group's NPL strategy establishes that the aforementioned loans may be recovered through sale on the market, with a view to pursuing a de-risking strategy aimed at reducing the NPL ratio, i.e. the percentage of non-performing loans compared to total loans. From 2020, the sales targets, previously related to bad loans only, also included portfolios of exposures classified as unlikely to pay.

Consequently, the estimate of the expected losses of these positions reflects not only the recovery through ordinary operations (work out), but also the presence, appropriately calibrated, of the sales scenario and therefore, of the relevant cash flows.
As expressly provided for by the ITG[1] of the IASB, it is possible to consider the flows recoverable through sale when determining the expected losses, to the extent that it is possible to develop expectations and assumptions inferred on the basis of reasonable and demonstrable information (please see the following document: "Meeting Summary – 11 December 2015 - Inclusion of cash flows expected from the sale on default of a loan in the measurement of expected credit losses").
In line with the sales targets established on each occasion by the Board of Directors, the Group's exposures classified as bad loans or unlikely to pay, are valued by configuring two different estimates of expected cash flows:

- the first is determined assuming recovery from the debtor based on internal activity, according to the ordinary valuation guidelines followed by the Group as illustrated above (work out scenario);
- the second is determined assuming recovery by assigning the receivable (sale scenario), whose estimate is taken from the amount defined for internal recovery.

The estimate of recoverable flows is therefore equal to the weighted average of the probabilities assigned to the two scenarios of the estimated cash flows that the Group expects to receive in the two aforesaid scenarios. Expected losses are therefore determined on the basis of the difference between the gross value of the credit exposure and the estimated lower recoverable flows.
The method of estimating expected losses therefore involves the following steps:

- the segmentation of the portfolio into different clusters considered relevant for the analysis of the portfolio, according to the status (bad loans or unlikely to pay), the date on which they were classified as non-performing (vintage), the amount of the exposures, the existence of planned sales;
- the assignment of a different probability of sale to each cluster, consistent with the achievement of the level of target transfers resolved by the relevant corporate bodies;
- the determination of the recovery flows through sale, based on an internal model of discounting the recoverable cash flows, on the basis of the Discounted Cash Flow technique and some parameters considered representative from the point of view of the potential buyer, with the aim of reaching a price for the hypothetical sale of each cluster, suitably calibrated in order to take into account the comparable transactions observed on the market.

Taking into account that loans likely to be sold cannot be individually identified on the reporting date, the model provides that each loan is associated with a probability of sale.
The expected credit loss for the loans in question is therefore equal to the weighted average of the probabilities assigned to the two scenarios of the estimated cash flows recoverable in the two scenarios (workout and sale).
Probability is assigned to the various scenarios assuming the segmentation of the Group's total portfolio of exposures classified as bad loans or unlikely to pay, in accordance with the main characteristics that influence the value attributed by the market to loans of this type (vintage, amount of the exposures).

[1] This is the IFRS Transition Resource Group for impairment of financial instruments, a working group established to support the implementation of certain issues relating to the new IFRS 9 impairment model.

The assignment of the probabilities to the various clusters is guided by the amount of the target transfers approved from time to time by the Board of Directors. In other words, the probabilities are assigned to the various clusters in such a way that the sum of the total nominal values of each cluster multiplied by the relative probability of sale (hereinafter also "expected sale value") amounts to the aforementioned amount of target sales approved by the Board of Directors. The probabilities assigned to the various clusters vary over time and can range from a minimum value of 0%, assigned to positions that will be excluded from the sale due to their intrinsic characteristics, up to a maximum of 85%, assigned to the cluster that includes the loans deemed more likely to sell (planned sales). The composition of the clusters also varies over time depending on the trend of market appetite for the various types of exposures and the consequent assessments of economic value made by the competent Bank bodies.
The valuation methodology used to calculate the recovery flows through sale is based on a discounting process for the recoverable cash flows (discounted cash flows), which takes into account the main parameters that are normally considered by potential buyers when defining the purchase price, suitably calibrated in order to take into account the comparable transactions observed on the market. In more detail, the factors considered in the estimation process are: the estimate of the recoverable value in line with the value estimated in the workout scenario; the expenses that the purchaser must incur to recover the loan; the estimate of recovery time, based on market information (e.g. average court time); the rates of return expected by the purchasers and the specific market factors defined also based on the type of sale implemented.
It is important to specify that the methodology illustrated above is not applicable to any loans which, at the date of preparation of the financial statements, are already identified in detail as held for sale, which satisfy the conditions set out by IFRS 5 to be classified in the portfolio of assets held for sale. Those loans are measured considering only the sale scenario, assigned a probability of 100% and using as reference the sale prices or information contained in the agreements finalised with the counterparties (binding offers).

Acquired or originated impaired financial assets

If, at the time of initial recognition, a credit exposure classified under items "30. Financial assets measured at fair value through other comprehensive income" or "40. Financial assets at amortised cost" is classified as non-performing, the same is classified as "POCI - Purchase or Originated Credit Impaired".
An asset is deemed non-performing at the time of initial recognition when the credit risk is extremely high and, in the case of acquisition, the price has been paid with significant discounts compared to the residual contractual debt. These assets are initially classified as Stage 3, but may be reclassified as Stage 2, therefore an expected credit loss will be recognised with the impairment model based on the lifetime ECL.
Regarding the criteria for initial recognition, measurement and derecognition, please refer to the information given for the asset items under which they can be classified, except as specified below, concerning the methods adopted to measure the amortised cost and impairment.
Specifically, the amortised cost and, consequently, interest income are calculated considering the credit-adjusted effective interest rate. With regard to calculating the credit-adjusted effective interest rate, the credit adjustment consists of considering the estimate of future cash flows, including the credit losses expected over the entire residual lifetime of the asset.
Additionally, the assets in question also entail special treatment with regard to the impairment process, as they are always subject to the calculation of the loss expected over the lifetime of the financial instrument. Therefore, subsequent to initial recognition, the loss or gain deriving from any change in the losses expected throughout the entire lifetime of the credit, compared to initial losses must be recorded in the income statement. Thus, it is not possible for the expected credit losses to be calculated on the basis of one year.

For Banco BPM Group, the only case attributable to the POCI is that arising from business combinations; beyond said circumstance, Banco BPM Group has not purchased or originated any exposure considered non-performing.

With reference to the non-performing loans acquired as part of the business combination with the former Banca Popolare di Milano Group, it should be noted that compliance with the accounting treatment described above was achieved substantially through the recognition in interest income, *pro-rata temporis*, of the reversal effect of the lower values attributed to the impaired loans at the time of Purchase Price Allocation. This approach is considered a reasonable approximation of the credit-adjusted effective interest rate, since the contractual interest rate is, in fact, supplemented by the higher yield deriving from the lower value attributed to the acquired receivables.

Renegotiations

If a financial asset is renegotiated (i.e. when the original contractual conditions are amended by the parties), it must be verified whether the financial asset should continue to be recorded in the financial statements, or if this is not the case, the original financial asset should be derecognised and a new financial instrument recognised.
To this end, it must be assessed whether the changes to the contractual terms of the renegotiation are substantial or not.
If the changes are substantial, the entity must derecognise the financial instrument that is subject to change and proceed to recognise a new financial asset on the basis of the new contractual provisions, either where the renegotiation is formalised through the signing of a new contract or where the renegotiation entails amendment to an existing contract. In particular, substantial renegotiations are those which:

- introduce specific objective elements which affect the characteristics and/or cash flows of the financial instrument (such as a change in the currency of denomination, a change in the counterparty not belonging to the same group as the original debtor, the introduction of indexing to equity or commodity parameters, the introduction of the option to convert the receivable into equity instruments/participating financial instruments/other non-financial assets, the provision of "pay if you can" clauses, which allow the debtor the utmost freedom in repaying the loan in terms of timing and amount) considering the significant impact expected on the original cash flows; or
- are carried out for customers that are not in financial difficulty, with the objective of adjusting the cost of the contract to the current market conditions.

In the latter case, it must be specified that if the Group does not grant a renegotiation of the contractual conditions, the customer would be able to obtain financing from another intermediary with the consequent loss for the Group of the revenue flows envisaged by the renegotiated contract. In other words, in the event of a commercial renegotiation, no loss should be recognised in the Group's income statement as a result of the realignment to the best current market conditions for its customers.
Otherwise, i.e. in the presence of non-substantial changes, the renegotiated exposures will not be derecognised. Non-substantial renegotiations include modifications granted to counterparties in financial difficulty (granting of forbearance measures) relating to the Group's attempt to maximise the recovery of the original exposure, the risks and rewards of which, however, continue to be retained by the Group. This does not apply to modifications that introduce substantial objective elements into the contract that could result in the derecognition of the financial asset, as described above.
With regard to financial assets at amortised cost, in the event of non-substantial renegotiations relating to financial difficulties of the debtor, the gross value is restated by calculating the present value of the cash flows resulting from the renegotiation, based on the original rate of exposure existing before the renegotiation. The difference between this gross value, as determined above, and the greatest gross book value prior to the change is recognised in the income statement, under item "140. Gains (losses) from contractual modification without derecognition" (modification accounting). For non-performing exposures, any renegotiation measures represented by write-offs of the gross exposure are recognised in the income statement item "130. Net credit impairment losses/recoveries".

Financial liabilities designated at fair value

For Banco BPM Group, financial liabilities designated at fair value relate to certain bond and certificate issues, as illustrated in more detail below, with specific reference to the requirements stated by IFRS 9 for classification in the portfolio of liabilities in question.

Bond issues

To obtain funding, the Parent Company issues different types of bonds, both at a fixed rate and structured types (index-linked to share components, to exchange rates, to interest rate structures, inflation rates or similar indices).
The risks resulting from the above-mentioned issues are hedged by the Group, as part of its overall market risk management, by means of entering into derivative contracts.
From an accounting perspective, some of these contracts are designated as hedges according to the rules of Hedge Accounting, and in particular of the "fair value hedge", as illustrated in paragraph "4 - Hedging transactions".
Conversely, for other contracts, whose hedging is not qualified according to hedge accounting rules, asymmetric accounting would be created, between the financial liability and the hedging transaction, resulting from the different measurement criteria applied to the bond issue - measured at amortised cost - and to the operational hedge

derivative instrument - measured at fair value. The Group overcomes this asymmetry by designating bond issues subject to operational hedging at fair value. In addition to simplifying the administrative and accounting management of hedges, with specific reference to structured issues, the adoption of the Fair Value Option instead of Hedge Accounting is closely linked to the actual methods the Group uses to carry out its hedging policies, by managing its market exposure globally and not through a discrete relation with the bond issued.
Unlike Hedge Accounting, whose accounting rules require that only fair value changes attributable to the hedged risk be recognised on hedged instruments, the Fair Value Option requires the recognition of all fair value changes, irrespective of the hedged risk factor.

With regard to recognition criteria for the balance sheet and income statement components of the bond issues and of the related operational hedging derivatives, note that:

- derivatives related to financial liabilities measured at fair value are classified under asset item "20. Financial assets at fair value through profit and loss: a) Financial assets held for trading" or under liability item "20. Financial liabilities held for trading". The related economic, valuation and realisation effects are recognised in income statement item "80. Net trading income";
- the spreads and margins accrued on derivatives up to the valuation date are shown, based on the balance, under item "10. Interest and similar income" or under item "20. Interest and similar expense", in line with the amounts recorded on the bonds subject to operational hedging;
- the profits and losses resulting from the disposal or valuation of bonds issued under the Fair Value Option are recognised under the income statement item "110. Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss: a) financial assets and liabilities designated at fair value", with the exception of valuation and realisation effects correlated with the change in own credit risk, which are recognised as a balancing entry to a specific equity reserve (item "120. Valuation reserves"), as described in more detail in paragraph "13 - Financial liabilities designated at fair value".

Issues of certificates

Certificates are securitised derivative instruments issued by the Group and traded on multilateral trading systems, which replicate, with or without leverage, the performance of the underlying asset(s). These products may include protection for the amount subscribed by the customer or a portion of the same, unconditional with respect to the trend in the financial parameters to which they are indexed. From a substantial perspective, certificates can be defined as combinations of strategies of derivative instruments or of underlying financial assets and derivatives, thanks to which financial instruments can be generated, which have their own characteristics, substantially different to those of the assets they originated from. More specifically, certificates can be classified as the following two types of instrument:

- "certificates with unconditional capital protection": these are products that envisage an unconditional guarantee exceeding 50% of the capital initially invested. For accounting purposes, these instruments are considered "structured securities", given the predominance of the guaranteed component with respect to the variable one, determined by the performance of the certificate's underlying asset. Based on the way in which the products in question are managed, at Group level, the eligible accounting portfolios are those of "Financial liabilities designated at fair value", as illustrated below, or "Financial liabilities held for trading" if actively managed as part of an overall trading portfolio held to make a short-term profit;
- "other certificates": these are products without any protection, with conditional protection, or with unconditional protection equal to or less than 50% of the initial capital. For these products, the value depends exclusively or prevalently on the performance of the parameter to which they are indexed. For this reason, they are classified as "derivative financial instruments", and in particular among the options issued. For these instruments, the only eligible accounting portfolio is that of "Financial liabilities held for trading".

Therefore, from June 2020, the Parent Company Banco BPM started to issue certificates with unconditional capital protection, mainly for the purpose of funding, classified in the accounting portfolio of "Financial liabilities designated at fair value". The above classification is due to the presence of embedded derivatives which, in the absence of the fair value option, should be separated from the host instrument, as able to significantly alter the contractual cash flows. In this case, the fair value measurement of the entire contract, namely of the entire certificate, would be less onerous than the separate valuation of the host instrument and of the related embedded derivatives.

In addition, said classification would enable a "natural hedge" to be pursued with respect to operational hedging derivatives which, at Group level, are stipulated according to a "mass" approach, with the aim of hedging the entire Group exposure.
With regard to recognition criteria for balance sheet and income statement components of certificates, recognised under item "30. Financial liabilities designated at fair value" and related management hedging instruments, it should be noted that:

- the entire margin for the Group resulting from the issues in question is included in item "110. Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss: a) financial assets and liabilities designated at fair value". Said item also includes the valuation effects related to the fair value measurement - consequent to the change in the market parameters to which the certificate is indexed, with the exception of changes in own credit risk - as well as the spreads paid to customers, periodically or at maturity. The effects resulting from changes in own credit risk are recognised as a balancing entry of a specific equity reserve (item "120. Valuation reserves"), as described in more detail in paragraph "13 - Financial liabilities designated at fair value";
- derivatives related to financial liabilities measured at fair value are classified under asset item "20. Financial assets at fair value through profit and loss: a) Financial assets held for trading" or under liability item "20. Financial liabilities held for trading". The valuation losses and gains, as well as the effects realised including any spreads collected and paid are recognised in income statement item "80. Net trading income".

Fair value and procedure to calculate the effects relating to its own credit risk

For the bond and certificate issues in question, fair value is measured first by referring to prices observable in markets considered active, such as regulated markets, electronic trading networks (e.g. Bloomberg) or organised trading systems or equivalent.
Lacking prices observable in active markets, the measurement is based on the prices of recent transactions on the same instrument in non-active markets rather than on valuation techniques based on a cash flow discounting model, which must consider all factors considered significant by market participants in determining a hypothetical trade.
In particular, to determine credit risk, the spreads implicit in the comparable issues of the same issuer obtained on active markets are used rather than the curve of the credit default swaps in the name of Banco BPM with an equal degree of subordination as the security subject to the assessment.
For further details on how fair value is determined, please refer to that described in detail in the specific section in part "A.4 – Fair value disclosure".
The impact resulting from the change in own credit risk, between the issue date and the valuation date, is quantified by calculating the difference between the fair value obtained, considering all risk factors to which the issue is exposed, including credit risk, and the fair value obtained considering the same factors, with the exclusion of the change in credit risk arising during the period. For an illustration of the cumulative effects relating to a change in the credit risk of the Group of the issues in question, please refer to the content of "Section 3 - Financial liabilities designated at fair value - Item 30" in "Part B – Information on the consolidated balance sheet" of these Notes.
The same methodology was applied to determine the effects resulting from a change in own credit risk for certificates classified in the accounting portfolio of "Financial liabilities held for trading"; for quantitative information relating to the above-cited effects, please refer to the content of "Section 2 - Financial liabilities held for trading - Item 20" in "Part B – Information on the consolidated balance sheet", as well as in paragraph "A.4.5.1 - Assets and liabilities measured at fair value on a recurring basis: distribution by fair value hierarchy" contained in part "A.4 - Fair value disclosure" of these Notes.

A.3 - DISCLOSURE ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

At the reporting date, there were no transfers between portfolios of financial assets that required the disclosure set out by IFRS 7.
In this regard, it should be noted that, during the 2023 financial year, as in the previous ones, there was no change in Banco BPM Group's business model, i.e. the way in which the Group manages financial instruments.

A.4 - FAIR VALUE DISCLOSURE

QUALITATIVE INFORMATION

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

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

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

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

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

Mark to Market

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

Mark to Model

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

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

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

The following types of investment are considered level 2:

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

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

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

For information on the fair value of non-financial assets attributable to the property, plant and equipment represented by property and works of art, refer to that set out in the following section.

A.4.1 Fair value levels 2 and 3: valuation techniques and input used

Financial assets and liabilities measured at fair value on a recurring basis

Financial assets and liabilities measured at fair value on a recurring basis are represented by all financial instruments measured at fair value in the financial statements (items 20, 30, 50 of balance sheet assets and items 20, 30, 40 of balance sheet liabilities). For these financial instruments, in the absence of prices directly observable in active markets, the fair value must be determined using the "Comparable Approach" or the "Valuation Model", as described in the previous paragraph. A description is provided below of the main valuation techniques adopted for each type of financial instrument.

Debt securities

These are measured by discounting expected cash flows (Discounted Cash Flow Method), suitably adjusted to account for issuer risk. The sources of information used to determine the spread deemed expressive of issuer risk are, in hierarchical order: i) the cash credit spread curve drawn from the prices of securities of the same issuer, characterised by the same seniority and currency, listed on markets considered active; (ii) the "Credit Default Swap" curve of the issuer with an equal seniority; (iii) the credit spread curve of debt securities listed in active markets relating to comparable issuers; (iv) the rating/sector cash credit spread curves; (v) the sector credit default swap curve.

Loans that do not pass the SPPI test

These are loans that are mandatorily measured at fair value, since the contractual cash flows do not exclusively envisage repayment of the principal and payment of interest on the principal to be repaid (i.e. they do not pass the SPPI test), either because of clauses originally established in the contract or subsequent amendments.

The techniques used to determine fair value are illustrated below:

- for loans that do not pass the SPPI test due to the presence of contractual clauses originally provided for in the contract, the fair value is determined on the basis of cash flows, suitably adjusted for expected losses, based on PD and LGD parameters. These flows are then discounted using a market interest rate, adjusted to take account of a premium considered to express risks and uncertainties. In the presence of implicit optional components, such as the possibility of changing the interest rate, the fair value also takes into account the valuation of these components;
- for loans that do not pass the SPPI test as a result of contractual changes due to restructuring agreements (these are in the form of forborne exposures), the fair value measurement takes the cash flow forecasts expressed by the operator as its initial reference, in line with the method used to determine the impairment of loans at amortised cost. These flows shall be adjusted to take account of the likelihood or otherwise of the success of the forbearance rate granted to the counterparty and of the legal and management costs considered upfront from the perspective of the potential buyer. The estimated recovery flows are discounted on the basis of interest rates, obtained by relying on those observed on the market considered as consistent as possible with respect to the assets to be valued.

Unlisted equity instruments

These are measured by referring to direct transactions of the same security or similar securities observed over a suitable time frame as compared to the valuation date, using the market multiples method of comparable companies, and, as an alternative, using financial, income and equity valuation methods.

Investments in UCITs, other than open-ended harmonised UCITs

These are generally measured on the basis of the NAV made available by the fund administrator or the management company, unless it is deemed that said NAV does not represent fair value in the eyes of a market operator. These investments typically include private equity, private debt and similar funds, real estate funds and hedge funds.
In the specific case of alternative investment funds that invest in non-performing loans, the valuation of the units, normally held following the contribution of the aforementioned loans by the Group, is obtained on the basis of the Discounted Cash Flow method. In greater detail, the fair value is equal to the present value of the expected cash flows distributed by the funds, estimated on the basis of the business plans of the transaction, based on a discount rate determined according to the Weighted Average Cost of Capital ("WACC") model, which, in addition to the risk-free rate, considers the capital structure, as well as an adequate premium for the risks associated with the transaction. For further details, please refer to the paragraph "Multi-originator sales of loans to mutual investment funds" contained in Part E of these Notes to the consolidated financial statements.

Repurchase agreements on debt securities ("Bond Repo")

The fair value is obtained by discounting the forward contractual flows expected, determined based on the characteristics of the contract, based on the interest rate curve differentiated based on the issuer of the security underlying the contract (government securities and corporate securities).

Over The Counter (OTC) Derivatives

These are measured on the basis of multiple models, depending on the type of instrument and input factors (interest rate risk, volatility, exchange rate risk, price risk, etc.) which affect their valuation. For future cash flow discounting purposes, the risk-free interest rate refers to the OIS ("Overnight Indexed Swap") curve.

In detail, for non-option instruments (such as interest rate swaps, forward rate agreements, overnight interest swaps and domestic currency swaps), the valuation techniques adopted belong to the category of "discounted cash flow models", based on certain or trend-based cash flow discounting.

For option instruments, models generally accepted in market practice, such as Black & Scholes, Black-like and Hull & White, are used. In particular:

- for plain vanilla options, the methodologies most used fall within the forward risk-neutral framework and are based on analytical black-like formulas, in which volatility depends on maturity and the strike (volatility skew);
- for more complex options (such as exotic options, barrier options and autocallable options), the methodologies most used, again within the risk-neutral sphere, are based on Monte Carlo simulations, according to which the option pay-off is evaluated through simulations for a sufficiently high number of repetitions relating to the evolution over time of the risk factors underlying the option. Such models estimate the likelihood that a specific event will take place by incorporating assumptions such as the volatility of estimates or the price of the underlying instrument. The price of the derivative is therefore obtained as the discounted arithmetic average of the values obtained for each scenario.

For instruments that contain different option and non-option derivative components, the valuation is conducted by applying the appropriate valuation methodology to each instrument component.

In addition, in order to measure the fair value, several fair value adjustments are considered in order to best reflect the sale price of an actually possible market transaction. These adjustments are specifically model risk, liquidity risk and counterparty risk, illustrated here below.
<u>Model risk</u>: this adjustment is made to cover the risk that the pricing models, though validated, may generate fair values not directly observable or not immediately comparable with market prices. In general, this is the case for structured products, whose valuation is highly complex and for which the break down into elementary components which can be "summed" (host instrument and embedded derivative) may generate imprecisions in the valuation, or in the event of pricing algorithms or types of pay-offs that are particularly "exotic", which do not have a suitable degree of dissemination on the market, or in the presence of models that are highly sensitive to variables that are difficult to observe on the market.

Liquidity risk: this adjustment is made to take account of the size of the "bid/ask spread", i.e., the actual cost of unfreezing positions in OTC derivatives in markets with low efficiency. The effect of the liquidity risk adjustment is greater the more the product is structured, due to the related hedging/unfreezing costs, where the valuation model is not sufficiently confirmed and disseminated among operators, because this makes the valuations more random.

Counterparty risk: adjustments to the market value of OTC derivative instruments, classified as performing, are made in order to reflect:

- the risk of possible default by the counterparty; in this case, the adjustment is called Credit Valuation Adjustment (CVA);
- the risk of non-fulfilment of one's own contractual obligations (own credit risk), in order to calculate the Debt Valuation Adjustment (DVA).

The consideration of own credit risk in the designation of a financial liability at fair value is consistent with the valuation made for an entity that holds the same instrument as a financial asset and is expressly envisaged by IFRS 13 (non-performance risk).

CVA and DVA are determined for each separate legal entity belonging to the Group, on the basis of the expected future exposure of the derivative instruments, the Probability of Default (PD) of the parties, and the relative expected losses, or Loss Given Default (LGD). More specifically, the calculation of expected exposure takes into account the effects resulting from the existence of netting or collateral agreements, which are able to mitigate counterparty risk. Specifically, the "Credit Support Annex" (CSA) contracts negotiated with counterparties for derivative transactions govern the procedures for settling financial collateral, based on mark-to-market trends.

When estimating PD, maximum use of market parameters is made, referring to Credit Default Swap quotations, where available, against internal parameters.

The table below summarises the main types of derivatives existing in the Group, indicating the related valuation models and the main inputs.

Derivative category	Product	Valuation models	Main inputs of the model
Financial derivatives on interest rates	Swaps	Discounted cash flow and Libor Convexity adjustment	Interest rate curves, interest rate volatility, interest rate correlation
	Caps - Floors	Bachelier - Analytical	
	European Swaptions	Bachelier - Analytical	
	Bermuda Swaptions	Hull-White one-factor mixture - Trinomial tree	
	CMS Spread Options	Bachelier - Analytical	
	CMS caps/floors/swaps	Bachelier and CMS Convexity adjustment (Hagan)	
	FRA	Discounted Cash Flow – Analytical	
	Interest Rate Futures	Analytical with Hull-White one-factor convexity adjustment	
	Bond Option	Black - Analytical	
	Bond Futures and Bond Repo	Discounted Cash Flow - Analytical	
	Bond Futures options	Binomial tree	
Derivatives on inflation rates	Swaps, Caps - Floors	Lognormal Forward Inflation Model - Analytical	Interest rate and inflation rate curves, interest/inflation rate volatility/correlation, calibrated on market prices
Derivatives on shares/share indices/exchange rates	Single asset plain vanilla options	Black and Scholes - Analytical	Equity/forex volatility, interest rate and exchange rate curves, spot prices of share indices, dividends, repo rates
	Single asset American options	Black and Scholes – Binomial tree (equity) – trinomial tree (forex)	
	European options on controlled volatility index	Local volatility – Monte Carlo	Equity/forex volatility, interest rate and exchange rate curves, spot prices of share indices, repo rates
	Controlled volatility index options representative of an investment portfolio	Black and Scholes hybrid, Hull and White with two factors - Monte Carlo with Jumps	Equity/forex/interest rate volatility, correlations, interest rates, exchange rates, spot prices of share indices, dividends, repo rates, Crash Put market prices
	Exotic options on basket equity	Local volatility – Monte Carlo	Equity/forex/interest rate volatility, correlations, interest rates, exchange rates, spot prices of share indices, dividends, repo rates, retail credit curve
	American Barrier Options on basket equity	Local volatility – Monte Carlo	
	Autocallable options on basket equity	Hybrid Black and Scholes, two-factor Hull and White – Monte Carlo	
	Autocallable options on exchange rates	Local volatility – Monte Carlo	Forex, interest rate and exchange rate volatility
	American Barrier Options on exchange rates	Trinomial tree	Forex, interest rate and exchange rate volatility
	Dividend Swaps and Total Return Swaps	Discounted Cash Flow - Analytical	Interest rates, exchange rates, dividends, repo rates
Credit derivatives	Credit Default Swaps	Discounted Cash Flow - Analytical	Interest rates, Credit Default Swap curve

The techniques and parameters for determining fair value and the criteria for assignment under the fair value hierarchy are defined and formalised in a specific fair value policy adopted by the Group. The reliability of the fair value measurements is also guaranteed by the verifications carried out by a Risk Management department. This department, which is independent from the Front Office units that hold the positions, periodically reviews the list of pricing models to be used under the Fair Value Policy: these models must represent market standards or best practices and the related calibration techniques must guarantee a result in line with valuations capable of reflecting the "current market conditions". Specifically, to correctly determine the fair value, each product is associated to a pricing model generally accepted by the market and selected based on the characteristics and market variables underlying said product. For highly complex products or in the event that the existing valuation model for the products is deemed lacking or inadequate, an internal process is launched to supplement the current models. Based on this process, the Risk Management department conducts an initial stage of validation of the pricing models, which may be native to the position keeping system or issued by a specific internal department. This is followed by a stage conducted by the same department, to guarantee constant reliability of the previously validated model.

In detail, the validation aims at verifying the theoretical robustness of the model through independent repricing, possible calibration of the parameters and comparison with counterparties' prices. If the validation is successful, the use of the models is still subordinate to approval by specific internal committees of the Group. Following the validation stage, continuous revision is planned in order to confirm the accuracy and adherence to the market of the pricing models used by the Group, through suitable actions, if necessary, on the models and the related underlying theoretical assumptions. In order to cover the risk that the pricing models, though validated, may generate fair values not immediately comparable with market prices, a suitable adjustment will be made for "model risk", as described above.

Non-financial assets measured at fair value on a recurring basis

For Banco BPM Group, non-financial assets measured at fair value on a recurring basis are represented by owned real estate assets and valuable works of art.

Fair value of owned real estate assets

As illustrated in Part A.2 above relating to the key financial statement items, the Group's real estate assets are measured at fair value, and more precisely on the basis of the revaluation criterion, governed by IAS 16, for properties used in operations and the fair value criterion for investment properties recognised in accordance with IAS 40.
Fair value is defined by IFRS 13 as "*the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date*"; detailed information is provided below on the fair value estimation methods and on the relevant inputs and assumptions, in line with the rules contained in the aforementioned standard. In the current macroeconomic scenario, the importance of providing a clear and complete disclosure of the fair value of investment property was the focus of the ESMA in the document of 25 October 2023 entitled "European common enforcement priorities for 2023 annual financial reports". CONSOB communication of 18 July 2013 "DIE/0061944 - Recommendation on the fair value measurement of properties of listed real estate companies" was also taken into account, with particular reference to the information relating to the assignment conferred to independent experts[1].

Type of assignment conferred to external experts

For Banco BPM Group, the update of the fair value of properties, whether used in operations or for investment purposes, is conducted by means of specific appraisals drawn up by qualified independent companies operating in the specific field, able to provide property appraisals based on RICS Valuation standards[2].

Those standards guarantee that:

- the fair value is determined in accordance with the indications of international accounting standard IFRS 13, insofar as consistent with the notion of "arm's length value" defined as "the estimated amount at which an asset would be sold or purchased, at the valuation date, by a seller or a buyer without specific links, both interested in the purchase and sale, at arm's length conditions, following suitable marketing in which the parties acted in an informed and aware manner, without coercion";
- the experts have the professional, ethical and independence requirements in line with the provisions of international and European standards.

[1] As specified in the communication in question, the provisions contained therein apply in particular to real estate companies with real estate initiatives in progress, but also to companies other than real estate companies that hold significant investment properties and are required to determine their fair value. In greater detail, the communication in question requires the following to be provided: "*an indication (i) of the perimeter of the properties to be valued, the duration of the assignment, the documentation sent to the appraiser, the valuation models used and the main assumptions adopted; (ii) the methods for carrying out the assignment (checks carried out by the expert on the documentation provided by the company, performance of inspections and/or structural checks, performance of market surveys, verification of the administrative and concession obligations relating to the current status of the assets to be valued, research carried out in relation to title deeds, easements, liens, mortgages, etc.) and (iii) the procedures and any criteria adopted for the selection of the appraiser as well as the methods for renewing the assignments*".
[2] Standards set out in the "RICS Valuation – Global Standard" of the Royal Institution of Chartered Surveyors of the United Kingdom (also known as the "Red Book").

In compliance with the RICS standards[1], as at 31 December 2023, the appraisers involved in the appraisal assignment and the appointed company had no actual involvement, even prior, with the properties to be valued, or any personal interest in the result of the valuation; the absence of any conflict of interest is such as to guarantee the required levels of independence and objectivity.

The Group policy also provides for an adequate rotation of experts. The current assignment, conferred in 2023 and with a two-year duration, represents the third contract awarded to the third independent expert since 2019, namely from the year of transition from the cost criterion to the fair value criterion.

More specifically, the assignment conferred to the expert is to provide support to the Group in measuring the fair value of properties, for the purposes of financial statement valuations, in compliance with the requirements of IFRS 13, by issuing specific valuation reports.
The information considered by the independent expert in the appraisal report is based on the set of documents made available to the Group; if the latter should be insufficient, a conservative approach is adopted, reflected - depending on the type, location and state of conservation of the property - in the choice of prudential parameters, such as, for example, longer marketing times, less favourable discount rates, extraordinary maintenance provisions and higher restructuring costs.
The surface areas taken as a reference by the expert to estimate the fair value are those provided by the Group, already calculated as weightings of the gross surface areas, except for some cases in which a verification of the amounts was requested, on the basis of the layouts provided.
With reference to the state of repair, the independent expert did not carry out any survey, either of a structural nature or of the existing plants; instead, a limited visual survey was carried out in order to reflect the state of repair detected for the purposes of the valuation, where an inspection was carried out. For the desktop valuations, a mediocre state of repair was assumed, unless further investigation was carried out on any available documentation (photographic material, technical due diligence).
The valuations were conducted on the assumption that all properties (built or under construction) are perfectly compliant and in line with the regulations in force for the use to which the properties are intended at the valuation date, unless documentation has been provided to support the non-transferability of the property and relative technical due diligence, without however any verification of urban and administrative compliance.
The independent expert also did not take into consideration the possible existence of mortgages or other encumbrances of any nature that may be related to the properties and generate limitations for the effective transfer of the same, except in cases in which the non-transferability the property was reported, in relation to which the costs necessary for the transferability contained in any technical due diligence, if available, were considered.

Type of appraisal report

For properties of significant value, namely properties with a value of more than 5 million, a full appraisal is conducted. This type of appraisal requires a detailed analysis of the documentation available for the asset, with specific inspections; in particular, cadastral data, floor plans and all ancillary documentation are examined, with an internal and external inspection of the property, accompanied by photographic evidence. The contractor is required to take up-to-date photos of the property to be included in the appraisal, which must document the general condition of the property both internally and externally.
For the remaining properties, unless otherwise agreed, a desktop appraisal is instead possible, namely an appraisal based on the examination of the technical documentation, using databases of property values, without any physical inspection of the property by the appraiser.

Frequency with which fair value is updated

With regard to the frequency of updates through appraisals, the Group policy as at 31 December 2023 envisages that:

- for properties for investment purposes, an annual update at the end of the year is necessary, unless there is evidence that indicates the need for an earlier revision, considering that the measurement criterion for those assets is fair value;
- for properties used in operations it is possible to request an update after more than one year, to be defined based on the specific characteristics of the property (such as, by way of example, the materiality, the location) and the changes in the real estate market, based on a scenario analysis, for the purpose of

[1] See chapter PS 2 of the Red Book.

ensuring that the book value does not differ significantly from that which would have been determined using the fair value at the reporting date. In more detail, for the properties in question, the appraisal is updated every two or three years depending on whether the property has a value of more than or less than 5 million, unless the scenario analysis is such that an earlier revision is required.

For properties used in operations, in the years in which the revaluation of the property is not envisaged, a scenario analysis is carried out (market trend analysis) through the use of the best information sources available for the specific reference areas where the properties are located, aimed at identifying, on the basis of databases, any significant changes in market values between the analysis period and the previous one. If the scenario analysis reveals significant changes (above the threshold of +/- 10%), the fair value is updated in advance of that ordinarily required.
The analysis is conducted using the following three main sources, to which a decreasing value is attributed:

- Revenue Agency/OMI (main databases);
- Nomisma;
- offers on the real estate market (comparative).

For the financial statements as at 31 December 2023, adopting the frequency required to update properties with a book value above the threshold of 5 million, all properties below the aforementioned threshold were monitored, by means of an analysis of market trends, with a view to identifying any variances that occurred between 30 June 2022 and 30 June 2023, defining, for each position and according to the main intended use, the variance on an annual basis of the fees and/or prices by asset reference class. The scenario analysis identified a limited perimeter of properties to be appraised, both in terms of number (6) and book value (overall less than 10 million).

Valuation methodologies

The methodologies adopted by the appraiser, in line with international practices IVS (International Valuation Standards) and with the provisions of the Red Book of the Royal Institute of Chartered Surveyors (RICS), may be based on the Discounted Cash Flow - DCF method, on the residual method or transformation with DCF method, on the Market Comparison Approach - MCA, depending on the specific characteristics of the property. In more detail, the selection of the most appropriate valuation approach for each property unit takes into account the intended use, the occupancy status, and more generally the specific nature of the asset being valued.

In this regard, note that, based on IFRS 13, there is an assumption that the current use of the asset represents its highest and best use, unless the market or other factors suggest that market participants could utilise the asset in a different way, in order to maximise the relative value (known as "highest and best use"). In line with these provisions, the valuation approach is therefore defined on the basis of the current use of the properties, on the assumption that it represents the highest and best use, and considering potential alternative uses, where such meet market expectations. More specifically, as regards properties used in operations, the valuation was conducted from the perspective of continuity of use of the same, namely assuming that the Group will continue to occupy the property on the basis of the lease payment aligned to market conditions for the foreseeable future. More specifically, it was assumed that the Group will continue to occupy the properties on the basis of a lease agreement in line with standard market practices, with a duration of 12 years (6+6 years), starting from the valuation date.
For certain investment properties, the measurement of the fair value may have taken the potential "upgrade" of the current use of the property into account, if it was retained that market participants are able to increase its potential through the future development of the property, for the purpose of defining a hypothetical transaction price.

<u>Discounted Cash Flow (DCF) method</u>

The Discounted Cash Flow (DCF) method is based on the discounting - for a variable period with reference to the rental/occupancy situation of the property and the subsequent optimisation - of future net revenues deriving from the lease or sale of the property.
The assumption underlying the approach in question is that a rational purchaser is not willing to pay a higher price for the purchase of the asset than the present value of the benefits that the asset will be able to produce in the future. The value of the asset is therefore a function of the economic benefits that will be generated by it.
This method is used for properties with existing lease agreements, for operating properties, for properties that are suitable, by type and characteristics of the reference market, to be leased or sold at different times, for properties to be used as hotels.

More specifically, this method, used for most of the Group's properties, is based on the discounting of the future net revenues deriving from the ownership, for a variable period of time with reference to the underlying real estate transaction, usually 15 years. The net revenues are determined on the basis of gross revenues, net of the operating expenses relating to ownership. Gross revenues are determined by indexing the lease payments received for the portions leased and market lease payments for the vacant portions, considering an adequate time horizon depending on the intended use of the property and the residual duration of the lease agreements. At the end of this period, a value of the property is assumed as if it were sold, at a price obtained by capitalising the operating income of the last year in perpetuity at a Cap Rate aligned to the market returns for investments similar to that of the property being valued, or through a split sale, from which sales commission is deducted. Therefore, after quantifying the net annual revenues and the net sale value, the discounted values at the beginning of the first period are calculated, using an appropriate Discount Rate, adjusted according to the specific characteristics of the property. The main input data are: (i) revenues and relative indexing (contractual lease payments, market lease payments or market sale values expressed as price per square metre); ii) space occupation times, as provided for in the lease agreement (usage plan) or by vacant space absorption times; iii) operating costs (IMU [property tax], administration, insurance, extraordinary maintenance reserves, registration fee); (iv) any investments needed to optimise use; iv) discounting and capitalisation rates.
In order to establish the market lease payments or the sale values, at the basis of the valuation of the individual property, a comparison is made with other similar assets, recently sold or currently offered on the same market or on competitive markets. In the absence of observations directly related to the property to be valued, cases as similar as possible to the same were identified, making the necessary corrections, in accordance with that illustrated below for the "Comparative or Market Approach" method.
The values or lease payments obtained from the market are therefore adjusted to take into account parameters such as age, wear, state of repair, location, current use assumed when the sale takes place. Other factors considered able to influence the value of the properties were also considered, such as the distribution of the surface area, the building size, the type of construction, the foreseeable duration, the particular characteristics in its current use.
In detail, the lease-based DCF is based on the discounting of net cash flows deriving from the current lease agreement, as well as the cash flows determined in subsequent periods from marketing at market lease values. At the end of this period, a value of the property is assumed as if it were sold, at a price obtained by capitalising the annual net income of the property, calculated considering the year after it became operational, at a rate equal to the market rate for investments similar to the property being valued.
On the other hand, the sale-based DCF is based on the discounting of future net revenues deriving from the current lease agreement and from the subsequent sale of the property by applying the unit sales values deriving from market surveys and discounting the sales flows with an appropriate rate which considers the commercial risk of the asset. This method is also used in cases in which the property, being vacant at the valuation date and with certain typical and maintenance characteristics, is believed to be placed in the reference market assuming its sale.
For most of the properties, restructuring costs (capex) were almost always prudentially envisaged, to be carried out either at the end of the existing lease or immediately if the property is vacant and available at the valuation date, in order to relocate or sell the property at its optimal and/or alternative condition of use, in line with the market lease payments/values assumed, as well as considering any capex planned by the Group.

For the properties to be used for hotel accommodation, under a lease agreement, taking into account that their value is closely linked to their relative potential from an operational and business perspective, the appraiser verified the sustainability of the lease payment, estimating the level of sustainability of the operating margin net of non-distributable costs of the hotel structure. Where the tenant has not provided the parameters of the hotel facilities (no. of rooms, average cost, occupancy, etc.), an estimate was made based on comparable market parameters.

Residual method or transformation with DCF method

This valuation method is adopted for properties subject to transformation, such as building land or properties with incomplete development.
The aforementioned method is based on the discounting, at the valuation date, of the cash flows generated during the period in which the real estate transaction is expected to be carried out; since cash flows are the result of the difference between revenues and costs, the fair value - measured with this method - can be defined as the difference between the value of the transformed property and the costs incurred for its transformation. Revenues and costs are at constant values, positioned when they occur and discounted with an appropriate discount rate.

The transformation method is often used to express opinions of economic convenience relating to work to recover existing assets, but can easily be used to provide an estimated value that is valid for the majority of market operators.
In order for the value of the property determined with the method in question to be identified with its fair value, it is however necessary that the economic transaction, linked to the transformation, refers to an "ordinary" operator. Ordinary means an operator with good economic and organisational skills, who has access to funding (own funds), to finance the development work, very similar to those that the majority of operators would obtain, and whose objective is make a profit (on the costs of the developer) proportional to the risk of the project, the costs still to be incurred for the purchase of the same and for its completion, the potential revenues and the relative timing.
This analysis determines an "equivalent return", which represents the return that an ordinary operator expects from the real estate project being valued, in proportion to the risk profile of the same (size, location, quality of the project, competition, market context, etc.). In other words, the equivalent return is the discount rate which, applied to the flow of net revenues expected during the life of the investment of the property, returns a present value of the net revenues equal to the disbursement of the capital initially used.
In ordinary market conditions, the valuations carried out with the method in question are very sensitive to changes in some key parameters. Small changes in these variables, such as sales volumes or the relative construction costs, could in fact have a disproportionate effect on the value obtained; in the same way, the values of the property could be subject to even considerable variations, as a result of changes in market conditions. For this reason, the method in question requires the preparation of a sensitivity analysis on revenues and costs; the value assumed as a reference corresponds to the "barycentric" value of this analysis and also takes into account the progress of the development projects as well as the presence/absence of building permits. The risks related to the location, the characteristics of the site, the restrictions and urban planning risks, any construction site problems (when applicable), off-scale development costs and the timing of the entire real estate project (construction and sale) must also be considered.
For land, in the event that a development project or a business plan is not available, or the relative building permits have not been issued by the competent Authorities, the valuation of the property was carried out considering some prudential factors, depending on the provisions of the urban planning instrument available. In addition, some prudential adjustments were envisaged to consider the greater risk of the transaction, reflected in a higher discount rate, to take into account the risk of incurring higher unforeseeable costs, as well as to take into account a more diluted development timeframe in order to factor in longer times for the design and obtaining the necessary permits.

Market Comparison Approach (MCA)

The comparative method estimates the value of the asset by comparing it with properties recently sold or currently offered for sale on the market, comparable in terms of type, construction and location. This approach is chosen if the property is vacant and is suitable for sale, by type and reference market.
The value of the property is therefore determined by taking into account the sale price or lease payment (known as asking price or rent), resulting from an in-depth market survey, to which specific adjustment factors are applied, deemed adequate in relation to the intrinsic and extrinsic characteristics of the asset being valued, in addition to any other factor deemed relevant. In greater detail, the market values/lease payments obtained from comparable data collected on the reference market are subject to a "normalisation" process to take into account parameters such as: surface area, age, wear and tear, state of repair and the location, in relation to the market experiences identified. The following factors are also considered:

- the distribution of the surface area, or appreciation or otherwise of the functionality of the spaces;
- the building size, or appreciation or otherwise in terms of attractiveness/marketability (sale or lease) of the property;
- the type of construction, namely whether or not the overall qualitative state of the property and its construction type are appreciated;
- the particular characteristics of access and usability, namely the appreciation or otherwise of the location and its accessibility.

Main inputs

Revaluation of lease payments

In real estate lease agreements, a clause is normally envisaged for the annual adjustment of the lease payments corresponding to a variable percentage, depending on the agreements between the parties; unless otherwise indicated, an annual revaluation of the lease of 1.98% was therefore assumed, corresponding to 75% of the change in the consumer price index for blue-collar and white-collar households (FOI) recorded by ISTAT in the year prior to the adjustment date, equal to 2.64%.

<u>Discount Rate</u>

The discount rate is determined on the basis of the Weighted Average Cost of Capital (WACC). In detail, the WACC is the calculation procedure that identifies the rate representing the weighted average cost of capital, and expresses the remuneration requested by investors for a purchase at normal market conditions of a similar asset to the one being valued.

In particular, the WACC was calculated by applying the following formula:

WACC=Ke * (E/(D+E)) + Kd * (1-t) * (D/(D+E)) + IRP

The relevant factors for determining the cost of capital (Ke) are as follows:

Ke = β*(Mrp)+Rf + Additional Risk Premium: represents the cost of capital, calculated using the Capital Asset Pricing Model (CAPM), based on which the return on a risk asset is equal to the sum of a risk-free rate (Rf) and an adequate risk premium, determined based on the indicator ⊠, as illustrated in greater detail below;
β: Beta coefficient (unlevered). It is a measurement of the risk of the reference sector, which measures the reactivity of the return of an investment to market movements[1]. This parameter measures the market risk of the property without considering the impact of the debt (source: Damodaran);
Mrp: Market Risk Premium: refers to the additional return that an investment in a specific real estate market offers compared to an investment deemed risk-free, to offset the risks assumed. The amount of the premium varies according to the specific property, and changes over time due to fluctuations in market risk, due to factors such as location, illiquidity/size of the property, and the riskiness of the type of property and intended use of the property, of the state of repair. It is constructed by the appraiser using a build-up approach of the systematic risk attributable to the property;
Rf: is the rate of return on an investment deemed risk-free, such as that in a government bond of a country with acceptable creditworthiness, assumed to be equal to the Gross Return on Government Bonds [Rendistato] - general index;
Additional Risk premium: this is the additional premium that an investor would need to offset the risks inherent in a target property that are not reflected by the risks of the market or the reference sector (lease status, tenant covenant, country, war, supply chain risk, etc.).

The following are the relevant factors to determine the cost of debt (Kd):

Kd = IRS + Estimated spread: represents the cost of debt, equal to the IRS rate plus a spread;
IRS: Interest Rate Swap: indicates the average interest rate at which the main European banks enter into swaps to hedge interest risk, and which is used as an indexing parameter in the financial markets for the stipulation of bank loans. As a rule, the 15-year IRS is considered, in line with the time horizon of development of the flows;
Estimated Spread: this is the additional delta that credit institutions add to the index listed above to determine the rate at which they grant loans. This parameter depends on the collateral that the investor can provide and on the specific risk of the investment;
t: represents the tax rate.

The weights of the WACC formula relate to the incidence of the individual sources of financing (equity and debt) on the total capital invested in the company, i.e. they depend on the debt ratio and on the incidence of own capital on total capital, as the financial structure of the company significantly affects the cost of capital.

1 If equal to 1, it means that the real estate market moves like the financial market; if less than 1, it means that the growth or decrease is lower than the reference market (less risk); if greater than one, it means that the risk increases/decreases more than the financial market (greater risk).

(E/(D+E) and (D/(D+E): represents the financial structure of each operation, in terms of the combination of equity (E: *Equity*) and debt (D: *Debt*).

In order to mitigate the effects of any short-term fluctuations, in the acquisition of data referring to the risk-free rates (gross return on government bonds [Rendistato] index) and to the IRS rate for the cost of debt, the relative moving averages are considered instead of the precise data referring to the twelve months prior to the valuation date.

The key data considered in the WACC formula to determine the discount rate as at 31 December 2023 are listed below:

- Debt/equity ratio: a financial structure equal to 50% of equity (E) and 50% of debt (D) was assumed;
- Risk-free rate: 3.83% equal to the 12-month moving average of the gross return on government bonds [Rendistato] general index, calculated as the average of the rates in the period between November 2022 and November 2023;
- Unlevered Beta: 0.41%;
- IRS: 3.01% equal to the 12-month moving average of the 15-year IRS, i.e. the daily average of Macrobond data.

For the purposes of discounting the lease payments, two different factors are envisaged:

- lease discount factor (T1): this is the discount rate of the cash flows relating to the period in which the lease payment is received based on the existing agreements, taking into account the degree of reliability of the lessee. This rate is lower than the T2 rate, as defined below, considering that it is related to a lease risk;
- reconversion/exit discounting factor (T2): this is the rate considered for the discounting of the cash flows corresponding to the relocation or exit phase.

Capitalisation rates (Cap Rates)

This is the capitalisation rate of the final net income obtainable in the year following the market-stabilised lease. This rate represents the “synthetic” factor that makes it possible to convert an indication of expected income into an indication of present value.
This rate is deduced from the market, as it represents the ratio between the net lease and the purchase price of the real estate transaction, net of acquisition costs and related taxes.
In detail, the net capitalisation rate used in the estimate reflects the following parameters:

- stabilised lease: i.e. the lease payable in the year following the sale of the asset in question;
- non-recoverable costs: for administration costs for active agreements, insurance, property taxes and registration tax.

Summary of the effects of fair value measurements for 2023

As at 31 December 2023, the Group’s real estate assets amounted to a total of 2,201.0 million, consisting of 1,220.2 million of properties used in operations (head office and branches) and for 980.8 million of properties for investment purposes.
In terms of balance sheet items, the aforementioned assets are represented for 2,042.4 million under the balance sheet asset item “90. Property, plant and equipment” and, for properties for investment purposes for which sales negotiations are in progress, amounting to 158.6 million, in item “120. Assets and disposal groups held for sale”.
The impact in 2023 of the fair value measurement was a negative 174.3 million, recognised for 146.9 million as a balancing entry in the income statement (item “260. Fair value gains (losses) on property, plant and equipment and intangible assets”) and for 27.4 million through a charge to valuation reserves.
The causes underlying this result are many and can be attributed, both to the evolution of market parameters, and to events that have affected some specific properties entailing a revision of the assumptions used in the previous estimates, also taking into account the possible different appreciation of certain characteristics of the property resulting from the change in the appraiser as part of the rotation plan envisaged by the Group policy, as illustrated above.

The following table provides evidence of the Group's real estate assets, both in terms of balance sheet amounts as at 31 December 2023, and in terms of impacts on shareholders' equity in 2023.

(in millions of euro)	Book value as at 31 December 2023	Total impact of fair value measurement	of which on the income statement (item 260)	of which on shareholders' equity (*)
Property used in operations	**1,220.2**	**(75.1)**	**(47.7)**	**(27.4)**
Properties for investment purposes	**980.8**	**(99.2)**	**(99.2)**	**-**
- of which: properties for investment purposes	822.2			
- of which: properties for investment purposes held for sale	158.6			
Total Group real estate assets	**2,201.0**	**(174.3)**	**(146.9)**	**(27.4)**
- of which "Item 90 - Property, plant and equipment"	2,042.4			
- of which "Item 120 - Assets and disposal groups held for sale"	158.6			

(*) Other income components represented in item "50. Property, plant and equipment" of the analytical statement of comprehensive income (Part D).

Scope subject to expert update as at 31 December 2023

Based on the Group policy illustrated above, as at 31 December 2023, the revaluation concerned approximately 85% of the Group's entire real estate assets; in greater detail, the expert update campaign concerned all properties for investment purposes recognised under item "90. Property, plant and equipment" and approximately 75% of properties used in operations, represented by properties with a book value of more than 5 million, adopting 31 December 2023 as the update timing for these properties, and by a perimeter of properties used in operations, the number and book value of which was low, for which an advance appraisal needed to be performed, based on the results returned by the scenario analysis, as illustrated previously.

Type of appraisals as at 31 December 2023

Overall, 728 appraisals were performed, of which 72 were full appraisals, namely with an inspection of the property, as well as a detailed analysis of the available documentation, able to guarantee coverage of approximately 80% of the book value updated by the appraiser.
The remaining 656 appraisals were prepared in "desktop" mode.

Valuation method as at 31 December 2023

With reference to the Group's real estate valuation method, the prevailing one is the DCF used for approximately 85% in terms of the book value subject to appraisal, followed by the comparative method (approximately 12%) and, residually, by the transformation method (approximately 3%).
For the DCF and transformation methods, approximately 90% of the appraised book value is covered by full appraisals; again in terms of appraised book value, approximately 85% of the appraisals conducted using the comparative method are represented by desktop appraisals.

Discount and capitalisation rates as at 31 December 2023

For properties valued on the basis of the DCF method, the discount rates are in a range of between 6% and 12%, with an average value of approximately 8% (7% if weighted with respect to the book value).
The capitalisation rates used to convert the final flow are in a range of between 4% and 10%, with an average value of approximately 7% (6% if weighted on the basis of the book value).

Checking the appraisals as at 31 December 2023

The quality of the appraisals issued by independent experts is subject to a monitoring process by the competent corporate functions of the Group, through a series of formal and substantial sample checks.
In addition, for the most significant properties in terms of book value, able to guarantee coverage of approximately 70% of the properties subject to appraisal, support was requested from other leading independent appraisers, to verify the reasonableness of certain market parameters used by the appraiser appointed for the financial statement valuations, with particular reference to the market inputs used (discount rate, capitalisation rate, market lease payments), the valuation methods adopted and the selected comparables.

Fair value of valuable works of art

The fair value measurement of works of art is determined through specific appraisals issued by qualified, independent companies.
In determining the value of the works, the following elements are considered: the quality of the style, the size (in some cases these are museum-level works), the degree of conservation, origin, presence of a notification of restriction by the state, and the historical and artistic notes proposed in the sheets drawn up by the assigned researchers. More specifically, the reference value for measurement in the financial statements is the "commercial or market value", i.e. the estimated minimum revenues expected on the sale of the work in a short period of time, assumed as a few months. For the purposes of measurement in the financial statements, thus, the "insured value", which is normally higher than the commercial value by a range of 20%-30%, was not considered, as that value configuration refers to the hypothetical opportunity to repurchase on the market a work equivalent to the one lost, at a significantly higher cost than the sale cost.
The Group policy states that the appraisal may be updated with a frequency of more than one year, to be defined based on the characteristics of the work of art and the performance of the market, taking account of the objective of ensuring that the book value is a reasonable approximation of the fair market value.

Fair value hierarchy of real estate assets and works of art

The fair value of property and works of art is classified in level 3 of the fair value hierarchy set out by the accounting standard IFRS 13, as it significantly depends on the estimates made by the management, which feature elements of judgement and subjectivity, in relation to the unique, distinctive characteristics of the object to be evaluated.
In particular, the selection of relevant inputs (income flows, discount rates, value per square meter, prices of similar transactions) for measuring the fair value of properties is influenced by the specific characteristics of the properties in question, such as, by way of example, their geographical and commercial position, accessibility and infrastructure, the urban context, the state of conservation, the size, any easements, the state of outdoor/indoor facilities. In addition, in the presence of situations where marketing and sale is difficult, further adjustments may be necessary based on the sales policy that the company management intends to pursue.
Theoretically, there could be circumstances deemed absolutely exceptional, in which the fair value of the properties could be considered in level 2, i.e., determined based on parameters considered observable in active markets. In that case, there must be a sufficient volume of transactions that have taken place in a recent period of time with respect to the valuation date and no significant adjustments can be made, due to the high similarity between the unit to be valued and the units involved in the said transactions (e.g. residential units that are part of a building/area with a sufficient number of comparable units or offices located in a business district with several similar buildings featuring comparable offices).
In that regard, it must be noted that, at the reporting date, the fair value of real estate assets and works of art is fully classified in level 3.

Financial assets and liabilities at amortised cost in the financial statements

For financial assets and liabilities recognised in the financial statements based on amortised cost, classified in the accounting categories of "Financial assets at amortised cost" (loans to banks and customers) and "Financial liabilities at amortised cost" (due to banks and customers and debt securities in issue), the determination of fair value is important only for reporting purposes, in line with the provisions of the reference accounting standard IFRS 7. In particular:

- for performing medium/long-term loans (mostly loans represented by mortgage loans and leases), fair value is determined on the basis of cash flows, suitably adjusted for expected losses, on the basis of PD and LGD parameters. These flows are discounted using a market interest rate adjusted to take account of a premium considered to express risks and uncertainties. For the above loans, the fair value is entirely classified at level 3 of the fair value hierarchy;
- for "non-performing" loans (bad loans, unlikely to pay and past due), the fair value is typically recorded as net book value and is included in level 3 of the fair value hierarchy. In this regard, it should be noted that, recently, the Italian market for NPLs (Non-Performing Loans) saw the completion of significant transactions for the sale of non-performing loans. However, the prices of the above transactions were affected by the specific characteristics of the loans sold and the variability of the returns requested by the purchasing counterparties. The fair value determined on the basis of the above transactions would therefore be characterised by a high dispersion of values, such as to render the identification of a reference value to be

used for the purposes of information in the financial statements non-objective. For this reason, the fair value of non-performing loans has been traditionally set at the book value;
- for debt securities classified in the portfolio of "Loans to banks or customers" or "Debt securities in issue", the fair value is measured by using prices obtained on active markets or valuation models, as described in the previous paragraph "Financial assets and liabilities measured at fair value on a recurring basis", to which reference is made also as regards the assignment of fair value in the three-level fair value hierarchy;
- for demand or short-term receivables and payables, the book value is considered a good approximation of fair value, as permitted by IFRS 7. The relative fair value, which is typically recorded as book value, is included in level 3.

With regard to medium-long term performing and non-performing loans, note that the methods and the assumptions used to estimate fair value are based on subjective valuations (level 3). For this reason, the fair value shown in the financial statements for reporting purposes only, could be significantly different to the values calculated for different purposes, just as it may not be comparable to those provided by other financial institutions.

A.4.2 Processes and sensitivity of valuations

For an examination of the techniques, inputs and valuation processes adopted by the Group for the instruments classified in level 3 of the fair value hierarchy, please refer to the previous paragraph.
Exposures in level 3 financial instruments totalled 2,010.9 million and are mostly represented by equity instruments, UCIT units and loans mandatorily measured at fair value as illustrated below.

Equity instruments and UCIT units

Investments in equity instruments and in UCIT units, classified as level 3, totalled 1,378.1 million (corresponding to 68.5% of level 3 financial assets measured at fair value), as illustrated in more detail in the paragraph below "A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: distribution by fair value hierarchy".
For the above instruments, it is not usually possible to make any quantitative sensitivity analysis of the fair value, with respect to the change in non-observable inputs, insofar as the fair value was acquired from external sources or was generated by a model with specific inputs (for example, the company's capital values) and for which the necessary information for a sensitivity analysis is not available, with the exception of that stated below.
For the UCIT units held by the Group, following the contribution of non-performing loans not qualified as real estate funds, the measurement at fair value was carried out on the basis of the Discounted Cash Flow technique. The inputs used are as follows:
- cash flows referring to the net distributions envisaged for investors in the business plans of the respective transactions;
- discount rate between 8.4% and 10.7%, depending on the capital structure and the risk premium of the transaction

For these funds, whose book value amounts to 209.1 million[1], a sensitivity analysis was carried out with respect to the discount rate, determined on the basis of the Weighted Average Cost of Capital ("WACC") model. The above analysis shows that, if the discount rate is changed by +100/-100 bps, the fair value would record a change of approximately -/+5 million respectively (-/+2.5% in percentage terms).
For more details on the contribution funds of non-performing loans, please refer to that illustrated in "Section 2 – D. Sale transactions – Financial assets sold and fully derecognised" contained in Part E of these Notes.

Loans mandatorily measured at fair value

Level 3 financial instruments include loans to customers which, if they do not pass the SPPI test, are classified in the portfolio of assets mandatorily measured at fair value, equal to 472.5 million (corresponding to 23.5% of level 3 financial assets measured at fair value).
For these instruments, the fair value is affected by both the forecasts of recovery of contractual cash flows and by the financial component linked to the selection of discount rates.

[1] The total book value as at 31 December 2023 of contribution funds, including real estate funds valued on the basis of NAV, amounted to 313.7 million.

In particular, for the main positions, amounting to 318 million (67% of the book value), a sensitivity analysis was conducted of the fair value with respect to the discount rate.
The above analysis shows that, if the discount rate is changed by +/-100 bps, the fair value would record a change of approximately -/+ 5 million (1.6% in percentage terms).

A.4.3 Fair value hierarchy

For the purpose of preparing the disclosure on transfers between levels set out in paragraphs A.4.5.1, A.4.5.2 and A.4.5.3, it is noted that, for securities in the hierarchy as at 31 December 2023 which had a different level of fair value than as at 1 January 2023, it was assumed that the transfer between levels occurred with regard to the balances at the beginning of the reference period.

A.4.4 Other information

For derivative contracts included in the same Netting arrangement, to calculate counterparty risk, the Group did not use the option of measuring net exposure considering all of the instruments covered by the above-mentioned arrangement, as illustrated in paragraph "A.4.1 Fair value levels 2 and 3: valuation techniques and input used" above. In the presence of collateral agreements (CSA), the exposure associated with the individual derivative is determined in relation to its marginal contribution to the expected net exposure generated by all the contracts stipulated with a given counterparty within the same CSA.

QUANTITATIVE INFORMATION

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: distribution by fair value hierarchy

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

Assets/liabilities measured at fair value	31/12/2023			31/12/2022		
	L1	L2	L3	L1	L2	L3
1. Financial assets at fair value through profit and loss	7,626,280	3,417,370	1,723,884	4,884,588	2,823,048	1,227,859
a) financial assets held for trading	2,495,994	1,857,805	204	1,721,009	2,786,156	1,332
b) financial assets designated at fair value	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	5,130,286	1,559,565	1,723,680	3,163,579	36,892	1,226,527
2. Financial assets measured at fair value through other comprehensive income	19,222,017	170,632	286,995	12,487,636	176,477	162,578
3. Hedging derivatives	-	980,017	-	-	1,717,211	-
4. Property, plant and equipment	-	-	2,095,358	-	-	2,319,802
5. Intangible assets	-	-	-	-	-	-
Total	**26,848,297**	**4,568,019**	**4,106,237**	**17,372,224**	**4,716,736**	**3,710,239**
1. Financial liabilities held for trading	213,386	20,680,770	-	180,938	10,000,754	-
2. Financial liabilities designated at fair value	5,966	6,555,904	18,295	-	3,937,468	18,295
3. Hedging derivatives	-	1,041,678	-	-	948,424	-
Total	**219,352**	**28,278,352**	**18,295**	**180,938**	**14,886,646**	**18,295**

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

Financial assets measured at fair value on a recurring basis

As at 31 December 2023, financial instruments measured significantly on the basis of non-observable parameters (Level 3) were 85.7% comprised of instruments classified in “Other financial assets mandatorily measured at fair value” and 14.3% comprised of instruments classified in the portfolio of “Financial assets measured at fair value through other comprehensive income”; “Financial assets held for trading” represents a residual portion.
More specifically, level 3 financial assets amounted to 2,010.8 million and are represented by the following types of investment:

- unlisted equity instruments of 199.5 million, mostly valued on the basis of internal equity models or with transaction prices, which do not meet the requirements to be assigned to level 2;
- UCIT units of 1,178.6 million; these are funds characterised by significant levels of illiquidity, and for which the process to evaluate the assets of the fund requires a considerable amount of assumptions and estimates. For more details on UCIT units held by the Parent Company in relation to sales of multi-originator loans, refer to that illustrated in “Section 2 – D. Sale transactions – Financial assets sold and fully derecognised” contained in Part E of these Notes;
- loans to customers amounting to 472.5 million, measured at fair value, for failure to pass the SPPI test, as the related cash flows do not exclusively represent the payment of interest and principal,
- debt securities of 160.2 million.

With regard to derivative financial instruments held for trading and hedging, the same are almost all classified as level 2, with the exception of listed derivatives classified as level 1, as illustrated below:

- level 1 includes listed derivatives (futures and options), measured on the basis of the prices provided by the Clearing Houses, for a total of 148.0 million;

- level 2 includes Over The Counter (OTC) derivatives measured on the basis of models that use observable market parameters to a significant extent, or on the basis of prices originating from independent sources, for 2,724.7 million.

Financial liabilities measured at fair value on a recurring basis

Level 1 financial liabilities refer to listed trading derivatives for 122.0 million and to technical overdrafts on securities listed in active markets for 91.4 million.
The remaining financial liabilities are primarily classified as level 2 of the fair value hierarchy and mainly regard the portfolio of "Financial liabilities held for trading" relating to Bond Repo trading for 17,523.7 million, financial and credit derivatives for 1,644.9 million and issues of Certificates unconditionally guaranteed by Banca Akros for 1,512.2 million. "Financial liabilities designated at fair value", classified as level 2, mainly include liabilities related to Class III insurance products (unit-linked and index-linked policies), the benefits of which are correlated with the value of market indices and units of investment funds, for 2,794.1 million and unconditionally guaranteed capital Certificates issued by Banco BPM for a book value of 3,761.7 million (2,467.5 million as at 31 December 2022); while the 18.3 million represented at level 3, relate to liabilities recognised against Loans transferred and not derecognised, measured at fair value.

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

During 2023, the only transfer of a significant amount concerned a bond belonging to the portfolio of "Financial assets measured at fair value through other comprehensive income", transferred from level 2 to level 1 for 9.5 million (opening value).

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

Based on the method illustrated in the section above entitled "A.4.1 Fair value levels 2 and 3: valuation techniques and input used", as at 31 December 2023, cumulative adjustments made to the fair value of derivative instruments, other than issues of certificates, to account for counterparty risk "Credit Valuation Adjustment (CVA) and Debt Valuation Adjustment (DVA)", were positive overall for 10.3 million, and were comprised by:

- adjustments for CVA which resulted in a cumulative loss, in terms of lower assets/higher liabilities, of 1.0 million;
- adjustments for DVA which resulted in a cumulative benefit, in terms of higher assets/lower liabilities, of 11.3 million.

As at 31 December 2022, cumulative fair value adjustments to take account of counterparty risk (CVA/DVA) were positive overall for 32.8 million, equal to the imbalance between negative adjustments for CVA (1.7 million) and positive adjustments for DVA (34.5 million).
The resulting impact on the income statement for 2023 was therefore a negative 22.5 million.
The aforementioned evolution of the DVA/CVA corrective measures was influenced by both the trend in interest rates and the improvement in own creditworthiness.

In detail, the decrease in interest rates, which occurred during the year, had a significant impact on the fair value of derivatives and consequently on the measurement of counterparty risk (CVA/DVA), in particular for contracts not backed by Credit Support Annex (CSA) agreements. For the latter, in fact, there is no counterparty risk mitigation element represented by the exchange of collateral, based on the change in the fair value of the derivatives. The decrease in the fair value of derivatives recorded in the year, and in particular of liabilities, led to a decrease in the CVA/DVA adjustments, and in particular in the DVA, with the resulting recognition of an overall negative economic effect for 2023.

Property, plant and equipment measured at fair value on a recurring basis

Property, plant and equipment measured at fair value on a recurring basis, entirely classified as level 3, are represented by property and valuable works of art.

Sub-item "4. Property, plant and equipment" includes the assets classified in item 90 of balance sheet assets and measured at fair value. These regard:

- owned property used in operations and for investment purposes, for a total of 2,042.4 million;
- valuable works of art for 53.0 million.

In that regard, it is noted that, in addition to the above property, plant and equipment, the Group also holds property measured at fair value on a recurring basis, for 158.6 million (level 3 in the fair value hierarchy), classified in balance sheet item "120. Non-current assets and disposal groups held for sale", in relation to the sales negotiations underway.

A.4.5.2 Annual changes in assets measured at fair value on a recurring basis (level 3)

	Financial assets at fair value through profit and loss							
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily measured at fair value	Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property, plant and equipment	Intangible assets
1. Opening balance	**1,227,859**	**1,332**	**-**	**1,226,527**	**162,578**	**-**	**2,319,802**	**-**
2. Increases	**701,795**	**12**	**-**	**701,783**	**145,848**	**-**	**276,579**	**-**
2.1. Purchases	221,333	-	-	221,333	507	-	35,002	-
2.2. Profits charged to:	61,782	5	-	61,777	17,507	-	190,527	-
2.2.1. Income statement	61,782	5	-	61,777	-	-	129,064	-
- of which capital gains	57,670	-	-	57,670	-	-	120,037	-
2.2.2. Shareholders' equity	-	X	X	X	17,507	-	61,463	-
2.3. Transfers from other levels	6,214	-	-	6,214	-	-	-	-
2.4. Other increases	412,466	7	-	412,459	127,834	-	51,050	-
3. Decreases	**(205,770)**	**(1,140)**	**-**	**(204,630)**	**(21,431)**	**-**	**(501,023)**	**-**
3.1. Sales	(24,087)	(1)	-	(24,086)	(10,823)	-	(5,769)	-
3.2. Redemptions	(44,039)	(4)	-	(44,035)	-	-	-	-
3.3. Losses charged to:	(55,003)	(437)	-	(54,566)	(10,159)	-	(375,511)	-
3.3.1. Income statement	(55,003)	(437)	-	(54,566)	-	-	(286,604)	-
- of which capital losses	(49,941)	(434)	-	(49,507)	-	-	(269,195)	-
3.3.2. Shareholders' equity	-	X	X	X	(10,159)	-	(88,907)	-
3.4. Transfers to other levels	(1)	(1)	-	-	-	-	-	-
3.5. Other decreases	(82,640)	(697)	-	(81,943)	(449)	-	(119,743)	-
4. Closing balance	**1,723,884**	**204**	**-**	**1,723,680**	**286,995**	**-**	**2,095,358**	**-**

"Transfers from other levels" of financial assets refer to the book value at the beginning of the year of a security for which, at the reporting date, reference was made to the transaction price that does not meet the requirements for allocation to level 2.

"Other increases" and "Other decreases" include the contribution of the business combination of the insurance company Vera Vita for 458.6 million.

Sub-items "2.2.1 Profits charged to the Income statement" and "3.3.1 Losses charged to the Income statement" include the profits and losses recognised in total in the income statement for the year, relating to the following items:

- "80. Net trading income" for "financial assets held for trading";
- "110. b) Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss" for the "other financial assets mandatorily measured at fair value";
- "260. Fair value gains (losses) on property, plant and equipment and intangible assets" for the adjustment to fair value of property, plant and equipment measured on the basis of the fair value criterion (IAS 40) or the revalued amount method (IAS 16);

- "210. Depreciation and impairment losses on property, plant and equipment" for depreciation charges on property used in operations, measured on the basis of the revalued amount criterion (IAS 16);
- "280. Gains (losses) on disposal of investments" for the recognition of the gain or loss made from the sale of property, plant or equipment, represented by property or by works of art and measured on the basis of the fair value/revalued amount criterion.

Sub-items "2.2.2 Profits charged to Shareholders' equity" and "3.3.2 Losses charged to Shareholders' equity" include the profits and losses recognised in total as a balancing entry of the shareholders' equity item "120. Valuation reserves", and shown in the statement of comprehensive income relating to the following items:

- "20. Equity instruments designated at fair value through other comprehensive income";
- "140. Financial assets (other than equity instruments) measured at fair value through other comprehensive income" for the other securities.
- "50. Property, plant and equipment".

A.4.5.3 Annual changes in liabilities measured at fair value on a recurring basis (level 3)

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

A.4.5.4 Assets and liabilities not measured at fair value, or measured at fair value on a non-recurring basis: distribution by fair value hierarchy

Assets/Liabilities not measured at fair value, or measured at fair value on a non-recurring basis	31/12/2023				31/12/2022			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets at amortised cost	135,192,553	24,701,692	64,254	108,647,755	139,139,766	24,206,671	176,198	111,061,524
2. Property, plant and equipment held for investment purposes	-	-	-	-	-	-	-	-
3. Non-current assets and disposal groups held for sale	-	-	-	-	-	-	-	-
Total	**135,192,553**	**24,701,692**	**64,254**	**108,647,755**	**139,139,766**	**24,206,671**	**176,198**	**111,061,524**
1. Financial liabilities at amortised cost	143,185,876	10,997,896	7,875,385	124,299,014	153,874,094	8,866,975	3,697,759	140,951,573
2. Liabilities associated with assets classified as held for sale	-	-	-	-	-	-	-	-
Total	**143,185,876**	**10,997,896**	**7,875,385**	**124,299,014**	**153,874,094**	**8,866,975**	**3,697,759**	**140,951,573**

Assets and liabilities not measured at fair value

Financial assets and liabilities classified in level 1 and level 2 of the fair value hierarchy refer to debt securities/bonds in the portfolio (assets) or own issues (liabilities), for which listed prices available in active markets or valuation techniques whose relevant parameters are observable on the market were used. In greater detail, securities held in assets are mainly represented by government bonds classified in level 1.

The remaining financial assets and liabilities at amortised cost (loans, deposits, current accounts, other payables) are classified in level 3, as:
- the fair value was determined on the basis of unobservable parameters, mainly attributable to estimates of expected losses determined on the basis of unobservable market indicators; or
- the fair value was not measured, as it was deemed approximately equal to the book value, as permitted by accounting standard IFRS 7.

For said types of financial instruments, the selection of techniques and parameters used in estimating the fair value to indicate in the financial statements only for disclosure purposes, as well as the appreciation of the significance of the unobservable inputs require significant judgements. It cannot therefore be ruled out that a different approach to said parameters or the use of alternative valuation techniques may lead to significantly different fair values, also depending on the purpose for which the same are being calculated.

For the disclosure on the methods of determining the fair value of financial assets and liabilities at amortised cost, refer to that illustrated in the previous paragraphs "Financial assets and liabilities at amortised cost in the financial statements".

Assets and liabilities measured at fair value on a non-recurring basis

In line with the provisions envisaged by Circular no. 262 for assets and liabilities measured at fair value on a non-recurring basis, a disclosure of the three-level fair value hierarchy has to be provided. By way of example, this case would arise if a tangible asset, usually measured on the basis of the cost criterion, were to be measured at fair value, net of costs to sell, following its IFRS 5 classification as a non-current asset held for sale.
In this regard, it must be clarified that as at 31 December 2023, as in the previous year, no disclosure on the fair value hierarchy of assets and liabilities measured at fair value on a non-recurring basis is not provided, as the Group does not own this type of asset.

A.5 DISCLOSURE OF "DAY ONE PROFIT/LOSS"

Pursuant to IFRS 7, paragraph 28, in the area of Group financial instruments, note that at the reporting date, there were no impacts deriving from the "Day 1 Profit/Loss", understood as the difference between the fair value at the time of initial recognition (transaction price) and the amount determined at that date using a measurement technique.

PART B – INFORMATION ON THE CONSOLIDATED BALANCE SHEET

ASSETS

Section 1 - Cash and cash equivalents - Item 10

1.1 Cash and cash equivalents: breakdown

	Total 31/12/2023	Total 31/12/2022
a) Cash	454,398	676,459
b) Current accounts and demand deposits with Central Banks	17,410,600	12,034,192
c) Current accounts and demand deposits with banks	432,498	420,164
Total	**18,297,496**	**13,130,815**

The sub-item b) "Current accounts and Demand deposits with Central Banks", of 17.4 billion (12.0 billion as at 31 December 2022), shows one short-term deposit with the Bank of Italy.

Section 2 - Financial assets at fair value through profit and loss – Item 20

2.1 Financial assets held for trading: breakdown by product

Items/Amounts	Total 31/12/2023			Total 31/12/2022		
	L1	L2	L3	L1	L2	L3
A. On-balance sheet assets						
1. Debt securities	388,873	43,132	-	219,452	40,789	-
1.1 Structured securities	1,698	38,478	-	657	32,476	-
1.2 Other debt securities	387,175	4,654	-	218,795	8,313	-
2. Equity instruments	1,949,389	-	18	1,333,525	-	18
3. UCIT units	9,712	-	121	33,398	-	128
4. Loans	-	69,944	-	-	157,184	-
4.1 Repurchase agreements	-	69,944	-	-	157,184	-
4.2 Other	-	-	-	-	-	-
Total (A)	**2,347,974**	**113,076**	**139**	**1,586,375**	**197,973**	**146**
B. Derivative instruments	-	-	-	-	-	-
1. Financial derivatives	148,020	1,744,326	65	134,634	2,587,772	1,186
1.1 held for trading	148,020	1,319,599	65	134,634	2,465,536	1,186
1.2 connected with the fair value	-	424,715	-	-	122,222	-
1.3 other	-	12	-	-	14	-
2. Credit derivatives	-	403	-	-	411	-
2.1 held for trading	-	403	-	-	411	-
2.2 connected with the fair value	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	**148,020**	**1,744,729**	**65**	**134,634**	**2,588,183**	**1,186**
Total (A+B)	**2,495,994**	**1,857,805**	**204**	**1,721,009**	**2,786,156**	**1,332**

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

Sub-item 1.2 “Other debt securities” includes subordinated financial assets mainly issued by banks and insurance companies of 19.3 million classified as level 1. The previous year they amounted to 31.2 million classified as level 1 and 0.5 million classified as level 2.

Item 4. “Loans” is fully represented by trading repurchase agreements, mainly entered into with Central Counterparties.

The table below presents the breakdown of UCIT units by type of fund, mostly attributable to real estate funds.

Items/Amounts	31/12/2023	31/12/2022
Share Funds	1,061	27,659
Real Estate Funds	8,772	5,867
Total	**9,833**	**33,526**

2.2 Financial assets held for trading: breakdown by debtor/issuer/counterparty

Items/Amounts	Total 31/12/2023	Total 31/12/2022
A. On-balance sheet assets		
1. Debt securities	**432,005**	**260,241**
a) Central Banks	-	-
b) Public Administrations	164,103	28,950
c) Banks	149,795	137,602
d) Other financial companies	60,528	42,746
of which: insurance companies	6,962	7,989
e) Non-financial companies	57,579	50,943
2. Equity instruments	**1,949,407**	**1,333,543**
a) Banks	56,046	52,897
b) Other financial companies	146,461	83,230
of which: insurance companies	1,049	1,589
c) Non-financial companies	1,746,900	1,197,412
d) Other issuers	-	4
3. UCIT units	**9,833**	**33,526**
4. Loans	**69,944**	**157,184**
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	48,654	125,388
d) Other financial companies	21,290	31,796
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total (A)	**2,461,189**	**1,784,494**
B. Derivative instruments		
a) Central Counterparties	466,840	44,980
b) Other	1,425,974	2,679,023
Total (B)	**1,892,814**	**2,724,003**
Total (A+B)	**4,354,003**	**4,508,497**

2.3 Financial assets designated at fair value: breakdown by product

As at 31 December 2023, as in the previous year, the Group had no assets classified in the portfolio in question.

2.4 Financial assets designated at fair value: breakdown by debtor/issuer

As at 31 December 2023, as in the previous year, the Group had no assets classified in the portfolio in question.

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

Items/Amounts	Total 31/12/2023			Total 31/12/2022		
	L1	L2	L3	L1	L2	L3
1. Debt securities	193,887	123,142	32,454	38,063	-	41,789
1.1 Structured securities	-	2	1,000	-	-	1,000
1.2 Other debt securities	193,887	123,140	31,454	38,063	-	40,789
2. Equity instruments	245,625	30,476	40,207	266,088	36,892	32,056
3. UCIT units	4,690,774	1,405,947	1,178,504	2,859,428	-	637,895
4. Loans	-	-	472,515	-	-	514,787
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	472,515	-	-	514,787
Total	**5,130,286**	**1,559,565**	**1,723,680**	**3,163,579**	**36,892**	**1,226,527**

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

Exposure to debt securities amounts to a total 349.5 million (79.9 million as at 31 December 2022), and is represented almost entirely by bonds issued by financial companies and banks. In particular, sub-item 1.2 "Other debt securities" includes:

- subordinated financial assets due to banks and insurance companies classified as level 1 for 22.4 million (nominal value of 22.6 million) compared to 38.1 million (nominal value of 38.4 million) in 2022 classified in the same level;
- Asset Backed Securities (ABS) for 31.5 million (40.8 million in 2022), of which 31.3 million with subordination clauses, finalised through the following vehicles: Pharma Finance S.r.l., BNT Portfolio SPV, Red Sea SPV, Leviticus SPV, Tiberina SPV, Titan SPV, Tevere SPV, Aurelia SPV and Sun SPV. Those securities are classified as level 3. For further details please refer to paragraph "C. Securitisation transactions" in Part E of these Notes.

Item 2 "Equity instruments", which amounts to a total of 316.3 million (335.0 million in 2022), saw the decrease of the interest in the share capital of Nexi S.p.A., the residual value of which, classified as level 1, amounts to 9.3 million (132.9 million in 2022).

Lastly, it should be noted that the change with respect to the previous year in "Financial assets mandatorily measured at fair value" is mainly due to the business combination represented by the acquisition of the insurance companies Vera Vita and BBPM Life. The assets pertaining to the aforementioned companies amount to 3,933.5 million and are mainly represented by UCIT units for 3,663.3 million which, together with those present in the Banco BPM Vita portfolio, represent the total contribution of the insurance segment (5,832.8 million). These assets are represented, for 4,510.3 million, by investments underlying the Unit-linked contracts as illustrated in detail in "Part B - Information on the consolidated balance sheet - Other information" of these Notes.
For a more thorough analysis of the changes in balance sheet balances during 2023, following the above-cited business combination, please refer to the "Consolidated balance sheet: contribution of insurance companies" provided as an attachment to these financial statements.

The table below presents the breakdown of UCIT units.

Items/Amounts	31/12/2023	31/12/2022
Share Funds	2,108,685	942,398
Balanced Funds	52,636	12,081
Bond Funds	3,658,497	2,080,100
Liquidity Funds	498,177	113,458
Flexible Funds	359,410	63,333
Hedge Funds	5,116	3,456
Real Estate Funds	383,618	71,116
Private Debt and similar funds	209,086	211,381
Total	**7,275,225**	**3,497,323**

"Private Debt and similar funds" refer to the shares attributed to the Group as part of multi-originator sales of non-performing loans. These transactions fall within those illustrated in Part E of these Notes to the financial statements, in the paragraph "Multi-originator sales of loans to mutual investment funds".

2.6 Financial assets mandatorily measured at fair value: breakdown by debtor/issuer

	Total 31/12/2023	Total 31/12/2022
1. Equity instruments	**316,308**	**335,036**
of which: banks	-	-
of which: other financial companies	23,649	144,656
of which: non-financial companies	56,592	57,405
2. Debt securities	**349,483**	**79,852**
a) Central Banks	85,750	-
b) Public Administrations	35,647	-
c) Banks	146,443	22,647
d) Other financial companies	57,226	56,205
of which: insurance companies	7,121	15,416
e) Non-financial companies	24,417	1,000
3. UCIT units	**7,275,225**	**3,497,323**
4. Loans	**472,515**	**514,787**
a) Central Banks	-	-
b) Public Administrations	2,679	2,930
c) Banks	-	-
d) Other financial companies	110,904	99,000
of which: insurance companies	-	-
e) Non-financial companies	328,295	375,856
f) Households	30,637	37,001
Total	**8,413,531**	**4,426,998**

Section 3 - Financial assets measured at fair value through other comprehensive income – Item 30

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

Items/Amounts	Total 31/12/2023			Total 31/12/2022		
	L1	L2	L3	L1	L2	L3
1. Debt securities	19,218,007	57,107	127,785	12,477,891	62,952	-
1.1 Structured securities	-	6,333	-	-	6,218	-
1.2 Other debt securities	19,218,007	50,774	127,785	12,477,891	56,734	-
2. Equity instruments	4,010	113,525	159,210	9,745	113,525	162,578
3. Loans	-	-	-	-	-	-
Total	**19,222,017**	**170,632**	**286,995**	**12,487,636**	**176,477**	**162,578**

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

The change in 2023 is explained for 5.3 billion by the business combination of Vera Vita and Banco BPM Life in December 2023.
For a more thorough analysis of the changes in balance sheet balances during 2023, following the above-cited business combination, please refer to the "Consolidated balance sheet: contribution of insurance companies" provided as an attachment to these financial statements.

Exposure in debt securities amounted to a total of 19,402.9 million (12,540.8 million as at 31 December 2022) and was mainly represented by bonds issued by governments and banks.

Subordinated assets amounted to 3.9 million (4.0 million in terms of nominal value) and refer to securities issued by banks; in greater detail, said assets are shown under the sub-item "1.2 Other debt securities", under level 1. In the previous year, those assets amounted to 44.8 million (53.0 million in terms of nominal value), classified under level 1.

The exposure held in equity instruments amounted to a total of 276.7 million (285.8 million as at 31 December 2022). More specifically:

- Level 2 equity instruments include the stakes held in the share capital of the Bank of Italy (4,541 shares), equal to 1.5137% of the entire share capital. The book value of 113.5 million is obtained by applying the value of 25,000 euro to each share. Note that these shares derive from the capital increase operation carried out by the Bank of Italy in 2013 as an effect of Italian Decree Law 133 of 30 November 2013, converted with Italian Law no. 5 of 29 January 2014, leading to the issuing of new shares, with a value of 25,000 per unit;
- Level 3 equity instruments include shares held in C.R. Asti S.p.A. and Palladio Holding S.p.A. and Astaris S.p.A. for 52.4 million, 39.5 million and 10.8 million, respectively.

Equity instruments deriving from the recovery of impaired financial assets came to 25.5 million (29.6 million as at 31 December 2022).

3.2 Financial assets measured at fair value through other comprehensive income: breakdown by debtor/issuer

Items/Amounts	Total 31/12/2023	Total 31/12/2022
1. Debt securities	**19,402,899**	**12,540,843**
a) Central Banks	57,059	-
b) Public Administrations	15,510,435	10,087,530
c) Banks	960,654	1,080,972
d) Other financial companies	2,156,612	926,007
of which: insurance companies	-	45,153
e) Non-financial companies	718,139	446,334
2. Equity instruments	**276,745**	**285,848**
a) Banks	165,985	170,478
b) Other issuers:	110,760	115,370
- other financial companies	56,565	49,918
of which: insurance companies	-	-
- non-financial companies	54,069	61,120
- other	126	4,332
3. Loans	**-**	**-**
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**19,679,644**	**12,826,691**

3.3 Financial assets measured at fair value through other comprehensive income: gross value and total value adjustments

	Gross value					Total value adjustments				
	Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Acquired or originated impaired	Stage 1	Stage 2	Stage 3	Acquired or originated impaired	Total partial write-offs *
Debt securities	19,205,324	11,264,935	202,607	-	-	(4,002)	(1,030)	-	-	-
Loans	-	-	-	-	-	-	-	-	-	-
Total 31/12/2023	**19,205,324**	**11,264,935**	**202,607**	**-**	**-**	**(4,002)**	**(1,030)**	**-**	**-**	**-**
Total 31/12/2022	**12,498,030**	**6,723,157**	**47,477**	**-**	**-**	**(3,814)**	**(850)**	**-**	**-**	**-**

(*) Value to be shown for disclosure purposes.

Section 4 – Financial assets at amortised cost – Item 40

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

Transaction type/Amounts	Total 31/12/2023						Total 31/12/2022					
	Book value			Fair value			Book value			Fair value		
	Stage 1 and Stage 2	Stage 3	Acquired or originated impaired	L1	L2	L3	Stage 1 and Stage 2	Stage 3	Acquired or originated impaired	L1	L2	L3
A. Loans to Central Banks	**933,326**	**-**	**-**	**-**	**-**	**933,326**	**1,297,716**	**-**	**-**	**-**	**-**	**1,297,716**
1. Fixed-term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Minimum reserve	930,779	-	-	X	X	X	1,297,716	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	2,547	-	-	X	X	X	-	-	-	X	X	X
B. Loans to banks	**4,992,783**	**-**	**-**	**1,717,634**	**62,724**	**3,213,537**	**4,194,522**	**-**	**-**	**1,213,783**	**60,478**	**2,880,451**
1. Loans	3,208,314	-	-	-	-	3,213,537	2,880,185	-	-	-	-	2,880,451
1.1 Current accounts	-	-	-	X	X	X	-	-	-	X	X	X
1.2. Fixed-term deposits	277,434	-	-	X	X	X	113,414	-	-	X	X	X
1.3. Other loans:	2,930,880	-	-	X	X	X	2,766,771	-	-	X	X	X
- Reverse repurchase agreements	798,375	-	-	X	X	X	792,744	-	-	X	X	X
- Loans for leases	-	-	-	X	X	X	372	-	-	X	X	X
- Other	2,132,505	-	-	X	X	X	1,973,655	-	-	X	X	X
2. Debt securities	1,784,469	-	-	1,717,634	62,724	-	1,314,337	-	-	1,213,783	60,478	-
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	1,784,469	-	-	1,717,634	62,724	-	1,314,337	-	-	1,213,783	60,478	-
Total	**5,926,109**	**-**	**-**	**1,717,634**	**62,724**	**4,146,863**	**5,492,238**	**-**	**-**	**1,213,783**	**60,478**	**4,178,167**

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

Item B.1.3 "Other loans – other" includes security deposits for "ISMA" and "CSA" contracts for 1,237.7 million (995.6 million in 2022), loans with medium/long-term repayment plans, loans for securities trading transactions not yet settled and receivables for discounts on bills.

The item in question also includes operating receivables in the amount of approximately 5.8 million, associated with revenues accruing in 2023 but not yet received as of the end of the year.

Item B.2 "Debt securities" includes subordinated securities for an amount of 18.7 million (36.9 million in 2022).

For details on non-performing assets, please see "Part E - Information on risks and related hedging policies, Section 2 - Risks of prudential consolidation, 1.1 Credit risk".

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

Transaction type/Amounts	Total 31/12/2023						Total 31/12/2022					
	Book value			Fair value			Book value			Fair value		
	Stage 1 and Stage 2	Stage 3	Acquired or originated impaired	L1	L2	L3	Stage 1 and Stage 2	Stage 3	Acquired or originated impaired	L1	L2	L3
1. Loans	**102,049,241**	**1,824,035**	**141,890**	**-**	**-**	**102,464,851**	**105,032,995**	**2,260,700**	**228,303**	**-**	**-**	**104,649,814**
1. Current accounts	7,455,398	140,610	1,603	X	X	X	8,367,448	170,260	34,156	X	X	X
2. Reverse repurchase agreements	4,833,466	-	-	X	X	X	1,883,322	-	-	X	X	X
3. Mortgage loans	77,039,793	1,234,850	71,540	X	X	X	80,358,094	1,554,835	106,840	X	X	X
4. Credit cards, personal loans and salary-backed loans	656,754	9,382	70	X	X	X	953,951	13,902	88	X	X	X
5. Loans for leases	398,795	118,295	1,592	X	X	X	532,078	245,953	2,155	X	X	X
6. Factoring	81,271	-	-	X	X	X	90,585	-	-	X	X	X
7. Other loans	11,583,764	320,898	67,085	X	X	X	12,847,517	275,750	85,064	X	X	X
2. Debt securities	**25,251,278**	**-**	**-**	**22,984,058**	**1,530**	**2,036,041**	**26,125,530**	**-**	**-**	**22,992,888**	**115,720**	**2,233,543**
1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2. Other debt securities	25,251,278	-	-	22,984,058	1,530	2,036,041	26,125,530	-	-	22,992,888	115,720	2,233,543
Total	**127,300,519**	**1,824,035**	**141,890**	**22,984,058**	**1,530**	**104,500,892**	**131,158,525**	**2,260,700**	**228,303**	**22,992,888**	**115,720**	**106,883,357**

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

Net loans to customers amounted to 129,266.4 million (133,647.5 million as at 31 December 2022). Excluding debt securities, the analysis of the portfolio by type shows mortgage loans accounting for the largest part, representing 75.3% of the total (76.3% in 2022).

Item "1.7. Other loans" mainly includes loans for advances on bills, documents and similar instruments subject to collection, subsidies not settled in the current account, loans with medium-long term repayment plans and operating receivables associated with the provision of financial services. In particular, operating receivables include 208.7 million for fees and commissions accruing in 2023, against ordinary contacts with customers, which will be received during 2024 (mainly relative to securities placement for 90.4 million and the distribution of insurance products for third parties for 90.2 million). In 2022 these amounted to 218.5 million, almost fully collected during 2023. For further details, please refer to that set out at the bottom of Table "2.1 Fee and commission income: breakdown" of Part C – Information on the Consolidated Income Statement.

Stage 3 non-performing loans amounted to 1,824.0 million, marking a decrease compared to the previous year (2,260.7 million), also due to additional derisking transactions finalised during the year.

For more details about credit quality, please see Part E "Section 1 - Risks of the consolidated book - A. Credit quality" and "Section 2 - Risks of prudential consolidation, 1.1 Credit risk - A. Credit quality".

Item 2. Debt securities, classified under level 3, include securities issued as part of own securitisation transactions for 1,414.1 million (1,933.7 million in 2022) of which:

- 592 million (761.1 million in 2022) relating to senior securities issued by Red Sea SPV;
- 550.2 million (743.6 million in 2022) relating to senior securities issued by Leviticus SPV;
- 0 million (42.2 million in 2022) relating to senior securities issued and redeemed in 2023 by Tiberina SPV;
- 14 million (24.2 million in 2022) relating to senior securities issued by Titan SPV;
- 202.3 million (266.6 million in 2022) relating to senior securities issued by Aurelia SPV;
- 55.6 million relating to senior securities issued by Tevere SPV.

Third-party securitisations of 510.1 million (206 million in 2022) are also included.

For information on loans granted with a public guarantee following the Covid emergency, please refer to the paragraph "Covid-19 - Declaration of the end of the pandemic emergency and related support measures granted by the Group" in "Section 5 - Other aspects" of Part A of these Notes to the financial statements.

4.3 Financial assets at amortised cost: breakdown by debtor/issuer of loans to customers

Transaction type/Amounts	Total 31/12/2023			Total 31/12/2022		
	Stage 1 and Stage 2	Stage 3	Acquired or originated impaired	Stage 1 and Stage 2	Stage 3	Acquired or originated impaired
1. Debt securities	**25,251,278**	**-**	**-**	**26,125,530**	**-**	**-**
a) Public Administrations	22,409,294	-	-	23,115,576	-	-
b) Other financial companies	2,548,985	-	-	2,779,572	-	-
of which: insurance companies	-	-	-	2,497	-	-
c) Non-financial companies	292,999	-	-	230,382	-	-
2. Loans to:	**102,049,241**	**1,824,035**	**141,890**	**105,032,995**	**2,260,700**	**228,303**
a) Public Administrations	1,688,780	484	489	1,873,998	360	17
b) Other financial companies	13,274,443	56,322	82	10,420,735	80,173	56
of which: insurance companies	25,974	27	-	86,401	-	-
c) Non-financial companies	54,199,491	1,202,797	116,328	58,496,660	1,536,722	195,805
d) Households	32,886,527	564,432	24,991	34,241,602	643,445	32,425
Total	**127,300,519**	**1,824,035**	**141,890**	**131,158,525**	**2,260,700**	**228,303**

4.4 Financial assets at amortised cost: gross value and total value adjustments

	Gross value					Total value adjustments				
	Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Acquired or originated impaired	Stage 1	Stage 2	Stage 3	Acquired or originated impaired	Total partial write-offs *
Debt securities	26,919,443	22,352,280	126,751	2,499	-	(9,534)	(913)	(2,499)	-	-
Loans	94,433,941	-	12,177,879	3,680,784	178,105	(104,574)	(316,365)	(1,856,749)	(36,215)	112,838
Total 31/12/2023	**121,353,384**	**22,352,280**	**12,304,630**	**3,683,283**	**178,105**	**(114,108)**	**(317,278)**	**(1,859,248)**	**(36,215)**	**112,838**
Total 31/12/2022	**126,209,546**	**23,069,985**	**10,860,076**	**4,545,015**	**367,116**	**(160,295)**	**(258,564)**	**(2,284,315)**	**(138,813)**	**379,862**

(*) Value to be shown for disclosure purposes.

The amount shown in the column "of which: Instruments with low credit risk", of 22,352.3 million (23,070.0 million in 2022) mainly regards Italian and foreign government securities.

Section 5 - Hedging derivatives – Item 50

5.1 Hedging derivatives: breakdown by hedge type and by level

	Fair Value 31/12/2023			NV	Fair Value 31/12/2022			NV
	L1	L2	L3	31/12/2023	L1	L2	L3	31/12/2022
A. Financial derivatives								
1) Fair value	-	978,392	-	22,273,063	-	1,717,211	-	22,177,838
2) Cash flows	-	1,625	-	65,000	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives								
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**980,017**	**-**	**22,338,063**	**-**	**1,717,211**	**-**	**22,177,838**

NV = notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

5.2 Hedging derivatives: breakdown by portfolio hedged and type of hedge

Operations/Hedge type	Fair Value							Cash flows		Foreign investments
	Micro hedging									
	debt securities and interest rates	equity instruments and share indices	currencies and gold	credit	commodities	other	Macro hedging	Micro hedging	Macro hedging	
1. Financial assets measured at fair value through other comprehensive income	330,574	-	-	-	X	X	X	-	X	X
2. Financial assets at amortised cost	252,639	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	186,369	X	1,625	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**583,213**	**-**	**-**	**-**	**-**	**-**	**186,369**	**-**	**1,625**	**-**
1. Financial liabilities	93,914	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	114,896	X	-	X
Total liabilities	93,914	-	-	-	-	-	114,896	-	-	-
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

Section 6 - Fair value change of financial assets in macro fair value hedge portfolios - Item 60

6.1 - Fair value change of hedged assets: breakdown by hedged portfolios

Fair value change of hedged assets/Amounts	Total 31/12/2023	Total 31/12/2022
1. Increase	**204,129**	**11,454**
1.1 of specific portfolios:	204,129	11,454
a) financial assets at amortised cost	204,129	11,454
b) financial assets measured at fair value through other comprehensive income	-	-
1.2 total	-	-
2. Decrease	**(273,093)**	**(499,857)**
2.1 of specific portfolios:	(273,093)	(499,857)
a) financial assets at amortised cost	(273,093)	(499,857)
b) financial assets measured at fair value through other comprehensive income	-	-
2.2 total	-	-
Total	**(68,964)**	**(488,403)**

The fair value change of financial assets in macro fair value hedge portfolios refers to fair value changes in certain specific portfolios of assets at amortised cost, due to interest rate fluctuations.

Fair value gains and losses relative to hedging derivatives and the portfolio hedged are indicated in item 90 “Fair value gains/losses on hedging derivatives”.

Section 7 - Interests in associates and joint ventures – Item 70

As at 31 December 2023, the book value of the item “Interests in associates and joint ventures” totalled 1,454.2 million (1,652.5 million as at 31 December 2022, restated to provide a like-for-like comparison), relative to:

- significant interests of 1,187.9 million (1,370.7 million as at 31 December 2022 restated to provide a like-for-like comparison), as shown in table 7.2 below, by individual interest;
- non-significant interests of 266.3 million (281.8 million as at 31 December 2022 restated to provide a like-for-like comparison), as shown in table 7.4 below, as a whole.

The scope of “significant interests” was determined by considering the materiality of the book value of the investment and the stake held in the investee’s assets with respect to the overall amounts indicated in the consolidated financial statements.

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

Company name	Registered office	Operational headquarters	Type of relationship (a)	Investment relationship		Available
				Holder	% held	% votes
A. Companies subject to joint control						
N/A						
B. Companies subject to significant influence						
1. Agos Ducato S.p.A. Share capital € 638,655,160.00	Milan	Milan	1	Banco BPM	39.000%	39.000%
2. Alba Leasing S.p.A. Share capital € 357,953,058.13	Milan	Milan	1	Banco BPM	39.189%	39.189%
3. Anima Holding S.p.A. Share capital € 7,291,809.72	Milan	Milan	1	Banco BPM	21.708%	21.708%
4. Aosta Factor S.p.A. Share capital € 14,993,000.00	Aosta	Aosta	1	Banco BPM	20.690%	20.690%
5. Banco BPM Assicurazioni S.p.A. Share capital € 22,000,000.00	Milan	Milan	1	Banco BPM Vita	35.000%	35.000%
6. Calliope Finance S.r.l. in liquidation Share capital € 600,000.00	Milan	Milan	1	Banco BPM	50.000%	50.000%
7. Etica SGR S.p.A. (*) Share capital € 4,500,000.00	Milan	Milan	1	Banco BPM	19.444%	19.444%
8. Gardant Liberty Servicing S.p.A. Share capital € 150,000.00	Rome	Rome	1	Banco BPM	30.000%	30.000%
9. GEMA Magazzini Generali BPV-BSGSP S.p.A. Share capital € 3,000,000.00	Castelnovo Sotto (RE)	Castelnovo Sotto (RE)	1	Banco BPM	33.333%	33.333%
10. SelmaBipiemme Leasing S.p.A. Share capital € 41,305,000.00	Milan	Milan	1	Banco BPM	40.000%	40.000%
11. S.E.T.A. Società Edilizia Tavazzano S.r.l. in liquidation Share capital € 20,000.00	Milan	Milan	1	Banco BPM	32.500%	32.500%
12. Vera Assicurazioni S.p.A. Share capital € 63,500,000.00	Milan	Milan	1	Banco BPM Vita	35.000%	35.000%
13. Vorvel SIM S.p.A. Share capital € 7,300,000.00	Milan	Milan	1	Banca Akros	20.000%	20.000%

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

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

Company name	Book value	Fair value	Dividends received
A. Companies subject to joint control			
N/A			
B. Companies subject to significant influence			
Agos Ducato S.p.A.	760,444	-	72,150
Alba Leasing S.p.A.	169,134	-	-
Anima Holding S.p.A.	258,333	286,553	15,721
Total	**1,187,911**	286,553	**87,871**

Note that dividends received during the year were recognised as decreasing the book value of the interest (as described in "Part A - Accounting policies" in these Notes), in that the profits which gave rise to them were indicated in the financial statements as at 31 December 2023, as a result of measuring the investment using the equity method.

7.3 Significant interests in associates and joint ventures: accounting information

The table below provides data obtained from the draft financial statements as at 31 December 2023 approved by the Boards of Directors and provided by associated companies or, when not available, the most recent balance sheets (relative to 100% of the interest and not the percentage held by the Group, as established under IFRS 12). Note that measurement using the equity method was performed on the basis of this data.

Company name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Net interest income	Value adjustments and recoveries on property, plant and equipment and intangible assets	Profit (loss) before tax from continuing operations	Profit (loss) after tax from continuing operations	Profit (loss) after tax from discontinued operations	Net profit (loss) for the year (1)	Other income components after tax (2)	Comprehensive income (3) = (1) + (2)
A. Companies subject to joint control														
N/A														
B. Companies subject to significant influence														
Agos Ducato S.p.A.	X	17,431,740	2,053,071	16,934,213	308,638	814,269	X	X	277,998	187,667	-	187,667	280	187,947
Alba Leasing S.p.A.	X	5,205,172	117,398	4,699,989	189,634	80,222	X	X	10,823	7,211	-	7,211	11	7,222
Anima Holding S.p.A.	X	731,752	1,658,671	767,569	197,048	377,073	X	X	219,828	148,879	_	148,879	9,887	158,766

Reconciliation of net assets and the book value of the investee in the financial statements

	Net assets (*)	% Investment stake	Net assets held	Adjustments	Book value
A. Companies subject to joint control					
N/A					
B. Companies subject to significant influence					
Agos Ducato S.p.A.	2,241,960	39.000%	874,364	(113,920)	760,444
Alba Leasing S.p.A.	432,947	39.189%	169,668	(534)	169,134
Anima Holding S.p.A.	1,425,806	21.708%	309,514	(51,181)	258,333

(*) The amount of net assets, equal to the sum of "Financial assets" and "Non-financial assets", minus "Financial liabilities" and "Non-financial liabilities" indicated in table 7.3, corresponds to the total shareholders' equity of the investee.

Agos Ducato is a financial company controlled by the international Crédit Agricole Group through Crédit Agricole Consumer Finance. The company works in the household loan sector within which it provides loans, mainly for the purchasing of goods and services, as well as personal loans.
Alba Leasing operates in the lease sector and originated from the restructuring of the former Banca Italease Group. The company offers financing in the form of lease contracts, placing its products through the banking channel, including Banco BPM network.
Anima Holding S.p.A. is a financial holding company that is the Parent Company of Anima Group, which carries out collective asset management by managing mutual investment funds and pension funds.

7.4 Non-significant interests in associates and joint ventures: accounting information

The table below provides accounting information, cumulative by type of investment relationship, with reference to non-significant companies subject to significant influence. The information is taken from the most recent financial statements or most recent accounting statement available and calculated with reference to the stake held by the Group, as established under IFRS 12.

	Book value of interests	Total assets	Total liabilities	Total revenues	Profit (loss) after tax from continuing operations	Profit (loss) after tax from discontinued operations	Net profit (loss) for the year (1)	Other income components after tax (2)	Comprehensive income (3) = (1) + (2)
A. **Subsidiaries controlled jointly**									
N/A									
B. **Companies subject to significant influence**	266,338	924,469	731,332	42,958	17,722	-	17,722	5,226	22,948

7.5 Interests in associates and joint ventures: annual changes

	31/12/2023	31/12/2022 (*)
A. Opening balance	**1,652,548**	**1,794,116**
B. Increases	**360,870**	**159,920**
B.1 Acquisitions	174,235	700
B.2 Recoveries		
B.3 Revaluations		
B.4 Other changes	186,635	159,220
C. Decreases	**(559,169)**	**(301,488)**
C.1 Sales	(223,326)	(75,000)
C.2 Value adjustments		
C.3 Write-downs		
C.4 Other changes	(335,843)	(226,488)
D. Closing balance	**1,454,249**	**1,652,548**
E. Total revaluations		-
F. Total adjustments	**(625,921)**	**(625,921)**

(*) The figures relating to the previous year have been restated following the retrospective application of IFRS 17 and IFRS 9 for associated insurance companies.

The purchases (item B.1) refer to the acquisition of 65% of the share capital of Vera Assicurazioni from Generali Italia, the sales (Item C.1) to the simultaneous sale of the same interest to Credit Agricole Assurances.
Other increases (item B.4) include:

- the portion of profits for the year achieved by the investees pertaining to the Group for a total amount of 144.2 million (for details, please see "Section 17 - Gains (losses) of associates and joint ventures" in Part C of these Notes).
- the effects pertaining to the Group of valuation reserves and other reserves of associates (7.9 million)
- the entry of Banco BPM Assicurazioni (22.9 million) which, following the sale of the 65% interest to Credit Agricole Assurances, leaves the scope of line-by-line consolidation and falls under "Interests in associates and joint ventures".
- the overall effects relating to the purchase of 65% of Vera Assicurazioni from Generali Italia and the simultaneous sale to Credit Agricole Assurances (11.7 million);

Other decreases (item C.4) include:

- the effect of the distribution of dividends on the capital of Agos Ducato (-72.1 million), Anima Holding (-15.7 million), Vera Assicurazioni (-7.4 million), Gardant Liberty Servicing (-2.1 million), Etica SGR (-1.5 million) and SelmaBipiemme Leasing (-9.5 million);
- the portion of losses for the year recorded by the investees pertaining to the Group, equal to -0.1 million;
- the effect of the exit from the scope of the "Interests in associates and joint ventures" of Vera Vita (-227.3 million) which, following the acquisition of control, is consolidated on a line-by-line basis from 31 December 2023.

For further details on the impacts deriving from transactions relating to the reorganisation of the bancassurance business, please refer to Part G – Business combinations regarding companies or divisions in the Notes to the consolidated financial statements.

7.6 Valuations and significant assumptions to establish the existence of joint control or significant influence

Significant influence exists when the power to participate in the entity's management and financial decisions is held, based on voting rights held or the in the presence of special contractual agreements, as better described in "Part A - Accounting policies" of these Notes. As at 31 December 2023, the scope of companies subject to significant influence involved companies in which 20% or more of voting rights is held, without, however, holding the right to exclusively direct the entity's significant activities, as can be seen in table 7.1 above.
With regard to Etica SGR, despite holding less than 20% of the shareholding, it is believed that there is significant influence by virtue of the placement agreements in place between Banco BPM Group and Etica SGR.

As at 31 December 2023 there were no companies under joint control, that is entities for which unanimous consent of all parties sharing control is required to make strategic financial and management decisions.

7.7 Commitments relative to interests in companies under joint control

There are no interests in companies under joint control.

7.8 Commitments relative to interests in companies subject to significant influence

Commitments deriving from agreements with Crédit Agricole for consumer loans

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

- formalised, inter alia: (a) a new Shareholders' Agreement, (b) a new Distribution Agreement, and (c) a new Funding Agreement;
- resulted in the transfer of ProFamily to Agos Ducato, through the finalisation of a demerger of ProFamily's non-captive operations in favour of a newly established company, which retained the name ProFamily, 100%-owned by Banco BPM and subsequently merged into Banco BPM.

On 18 December 2020, an Amendment Agreement between the parties was signed, with a view to further consolidating the existing partnership related to the consumer finance activities in Italy of Agos Ducato, through which some changes were made to the agreements signed in 2018. Those amendments, inter alia, extend by an additional 24 months, and therefore, up to 31 July 2023, the term for the exercise of the put option referring to a 10% investment in the capital of Agos Ducato held by Banco BPM, at the previously agreed strike price of 150 million.
Lastly, as part of the Banco BPM's bancassurance evolution project, which included the launch of a 20-year commercial partnership with Crédit Agricole Assurances S.A. in the Non-Life and Protection segment, on 12 May 2023, the term for the exercise of the put option was extended for a further two years, i.e. until 31 July 2025 (this further extension was conditional on the closing of the transaction for the acquisition by Crédit Agricole Assurances of the equity interests in Banco BPM Assicurazioni and in Vera Assicurazioni, finalised on 14 December 2023).
Those agreements also provide, in the event that an extraordinary transaction is finalised (understood as: acquisition of control of Banco BPM by a third party operator or several third party operators in concert; merger of Banco BPM with third party operators; acquisition by Banco BPM of another bank or other distribution channels; or acquisition by Banco BPM of a third party operator) the parties shall discuss in good faith, inter alia, depending on the case: i) the possible acquisition by Agos Ducato, at market value, of the entity which, due to the extraordinary transaction, works in the consumer credit segment; ii) the extension of the new Distribution Agreement to the third party operator's distribution network; or iii) the inclusion of the additional distribution channel acquired in the distribution network of Banco BPM Group.

Commitments deriving from bancassurance agreements with Crédit Agricole Assurances S.A.

During the year, the Group continued with the process of integrating the insurance business started in 2022 with the acquisition of control of the companies Banco BPM Vita and Banco BPM Assicurazioni, and with the finalisation of an agreement with Crédit Agricole Assurances for the launch of a commercial partnership in the Non-Life/Protection business segment.
In particular, on 14 December 2023, Banco BPM Group completed the internalisation of the Life business through its acquisition from Generali Italia, for a total consideration of 392.4 million:

- 65% of the share capital of Vera Vita S.p.A., which in turn holds 100% of the share capital, and Vera Financial Dac (which at the same time changed its company name to BBPM Life Dac);
- 65% of the share capital of Vera Assicurazioni S.p.A. (which in turn holds 100% of the share capital of Vera Protezione S.p.A.).

The deferred price component will be added to the price paid to Generali Italia, which will be settled in 2024, proportional to 65% of the profits accrued by the companies from 1 January 2023 to 14 December 2023.

On the same date, the Group completed the sale to Crédit Agricole Assurances, for a total consideration of 243.6 million, of shares representing 65% of the share capital of Vera Assicurazioni S.p.A. (which holds 100% of the share capital of Vera Protezione S.p.A.) and 65% of the share capital of Banco BPM Assicurazioni, previously held by Banco BPM and Banco BPM Vita respectively.
This price will be subject to adjustment in favour of Banco BPM Group on the basis of the final values of the Own Funds of the companies as at 31 December 2023. In addition, this price will be subject to possible adjustments by way of earn-out and claw-back in the event of situations of "Overperformance" or "Underperformance" of the production levels, respectively, within the terms and conditions set forth in the agreements between the parties.
That being said, the Shareholders' Agreement relating to the aforementioned equity interests held in Banco BPM Assicurazioni S.p.A., Vera Assicurazioni S.p.A. and, indirectly, Vera Protezione S.p.A., contemplated by the partnership with Crédit Agricole Assurances S.A., envisages, among other things, the granting of a Put Option to Crédit Agricole Assurance S.A. and a Call Option to Banco BPM referring to all the equity investments held by Crédit Agricole Assurances S.A., in the capital of the companies, exercisable upon the occurrence of certain exceptional events (so-called "triggering events"). In particular, Crédit Agricole Assurances S.A. and Banco BPM S.p.A. may exercise the Put Option and the Call Option, inter alia, in the following cases:

a) change of control of the respective counterparty (and/or, in relation to Crédit Agricole Assurances S.A., of the parent company);
b) termination of the Distribution Agreement;
c) in the event of significant Underperformance, in relation to which the corrective actions have not led to an improvement in company performance.

The exercise prices of the Put and Call Options will be determined according to pre-established mechanisms linked to the valuation of the residual business of the companies, envisaged by the agreements between the parties.

Commitments arising from agreements with Anima on Asset Management

It should be noted that during 2017 and subsequent years, in execution of the agreements signed on 9 November 2017 between Banco BPM and Anima Holding, a series of agreements were signed to regulate:

- the sale to Anima Holding of Aletti Gestielle SGR;
- the long-term partnership in the asset management sector between Banco BPM Group and Anima Group;
- the sale by Banca Aletti to Anima SGR of the mandates for the exclusive management of certain insurance assets related to the insurance products of the group's Life insurance companies and of the Non-Life bancassurance JVs through the Banco BPM network.

These agreements, which have a total duration of 20 years from their origin, include: (i) exclusive preferential access by the Anima Group to Banco BPM Group's present and future distribution networks, with different characteristics between the "retail" network and the other networks, (ii) the distribution of products such as UCITs and Individual Portfolio Management and other products and services of the Anima Group, (iii) the essential economic terms relating to the Partnership, including the minimum expected levels and objectives and certain protection and guarantee mechanisms related to the failure to achieve them.
On 14 May 2020, Anima Group and Banco BPM Group (Banco BPM and Banca Aletti) renegotiated the framework partnership agreement, concerning both the redefinition of the expected target levels and the deadline for achieving them.
For the provisions for risks and charges to cover commitments arising from the sale of interests in associates and joint ventures and any related partnership agreements, reference should be made to the contents of the following section "Liability provisions - Items 90 and 100".

Provisions for risks and charges established to cover the commitments arising on the disposal of interests and any related partnership agreements are illustrated in paragraph 10.6.3 "Other provisions" below of Part B – liabilities of these Notes.

7.9 Significant restrictions

For interests subject to significant influence, no significant restrictions on the transfer of funds relative to companies in Banco BPM Group were identified, other than those associated with regulatory standards, which may require that a minimum amount of own funds be maintained, or those associated with the provisions of the Italian Civil Code with regards to profits and distributable reserves.

7.10 Other information

The associated company SelmaBipiemme Leasing ended its financial year on 30 June 2023. For the purposes of measuring it using the equity method, the income statement was reconstructed, comprised by the second half of the financial year, 1 July 2022 - 30 June 2023, and by an income statement approved by the company relative to the half year 1 July 2023 - 31 December 2023.

Impairment testing to determine whether there has been a permanent loss in value

In application of international accounting standards, the estimate of the recoverable value and the consequent comparison with the relative book value must be made exclusively for interests in associates or JVs, for which evidence of a potential impairment loss has emerged (impairment indicator).
As at 31 December 2023, this test was carried out exclusively on the interest in Gardant Liberty Servicing S.p.A..

Analysis of potential impairment triggers

In 2023, Gardant Liberty Servicing S.p.A. achieved operating results lower than the budget targets and those recorded in the previous year. This circumstance was considered a potential impairment indicator, which therefore suggested the execution of a test aimed at ascertaining the recoverability of the book values.

The book value of the interest held is indicated in the following table:

millions of euro	Book value
Gardant Liberty Servicing S.p.A.	45.4

Calculation methodology, cost of equity and results

The recoverable value of the investee was estimated by applying the most widely used methods for the valuation of non-financial companies such as the Discounted Cash Flow (the Asset Side and Equity Side versions), the Dividend Discount Model and the income-based approach.
The expected flows up until 2025 were discounted on the basis of a cost of equity of 5.78%, determined on the basis of the Capital Asset Pricing Model (CAPM) method and in line with that used to determine the recoverable value of the CGUs (paragraph “B. Criteria used to determine the recoverable value of the CGUs”).

As a result of the checks carried out, for the interest held in the associated company Gardant Liberty Servicing, the impairment test conducted as at 31 December 2023 did not reveal the need to recognise any impairment, showing a positive margin between the recoverable value and the book value.

Section 8 – Insurance assets – Item 80

Reinsurance assets are represented in item 80 b) of assets for 7.9 million (7.2 million as at 31 December 2022).
Reinsurance liabilities are represented in item 110 b) of liabilities for 11 thousand (zero as at 31 December 2022).

Reinsurance represents a marginal activity within the operations of the Group’s insurance companies, and is mainly aimed at covering a portion of risks of premature death relating to policies linked to the stipulation of mortgages.

Due to the insignificance of the item, the quantitative tables relating to these items are omitted.

Section 9 - Property, plant and equipment – Item 90

Property, plant and equipment totalled 2,858.0 million as at 31 December 2023, compared with the amount of 3,034.7 million of the previous year. In detail, the aforementioned assets are represented by:

- property, plant and equipment used in operations valued at cost of 762.6 million, mainly concerning rights of use relating to property rental contracts;

- property used in operations and valuable works of art measured on the basis of the restatement of values of 1,273.2 million;
- property held for investment purposes measured at fair value of 822.2 million.

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

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

Asset/Amounts	Total 31/12/2023	Total 31/12/2022 (*)
1. Owned assets	**67,849**	**74,386**
a) land	-	-
b) buildings	-	-
c) furniture	11,142	12,976
d) electronic systems	51,034	52,879
e) other	5,673	8,531
2. Rights of use acquired through leases	**694,746**	**640,501**
a) land	-	-
b) buildings	665,667	605,978
c) furniture	-	-
d) electronic systems	27,483	34,115
e) other	1,596	408
Total	**762,595**	**714,887**
of which: obtained through the enforcement of guarantees received	-	-

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

9.2 Property, plant and equipment held for investment purposes: breakdown of assets at cost

As the Group does not hold property, plant and equipment for investment purposes valued at cost, the relative table is omitted.

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

Asset/Amounts	Total 31/12/2023			Total 31/12/2022		
	L1	L2	L3	L1	L2	L3
1. Owned assets	**-**	**-**	**1,273,164**	**-**	**-**	**1,364,519**
a) land	-	-	889,908	-	-	994,246
b) buildings	-	-	330,300	-	-	317,304
c) furniture	-	-	-	-	-	-
d) electronic systems	-	-	-	-	-	-
e) other	-	-	52,956	-	-	52,969
2. Rights of use acquired through leases	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
c) furniture	-	-	-	-	-	-
d) electronic systems	-	-	-	-	-	-
e) other	-	-	-	-	-	-
Total	**-**	**-**	**1,273,164**	**-**	**-**	**1,364,519**
of which: obtained through the enforcement of guarantees received	-	-	19,707	-	-	20,385

Revalued owned assets refer to the owned properties used for business operations of the Group companies and valuable works of art.

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

Asset/Amounts	Total 31/12/2023			Total 31/12/2022		
	L1	L2	L3	L1	L2	L3
1. Owned assets	**-**	**-**	**822,194**	**-**	**-**	**955,283**
a) land	-	-	473,944	-	-	670,863
b) buildings	-	-	348,250	-	-	284,420
2. Rights of use acquired through leases	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
Total	**-**	**-**	**822,194**	**-**	**-**	**955,283**
of which: obtained through the enforcement of guarantees received	-	-	414,021	-	-	475,977

Owned assets measured at fair value are represented by the owned properties not used for business operations of Banco BPM Group.
In that regard, it is specified that the Group does not hold investment assets represented by the rights of use acquired through leases. Instead, property held for investment purposes granted through operating leases amounted to 438.9 million.

9.5 Inventories of property, plant and equipment governed by IAS 2: breakdown

The Group does not hold any property, plant and equipment classified as inventories pursuant to IAS 2.

9.6 Property, plant and equipment used in operations: annual changes

	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balance (*)	**994,246**	**1,405,218**	**475,121**	**947,315**	**352,104**	**4,174,004**
A.1 Total net impairment (*)	-	(481,936)	(462,145)	(860,321)	(290,199)	(2,094,601)
A.2 Net opening balance (*)	**994,246**	**923,282**	**12,976**	**86,994**	**61,905**	**2,079,403**
B. Increases:	**13,495**	**202,388**	**2,395**	**29,919**	**7,986**	**256,183**
B.1 Acquisitions	219	21,554	2,171	22,303	1,424	47,671
- of which business combinations	-	-	-	-	-	-
B.2 Capitalised expenses for improvements	63	10,723	-	-	-	10,786
B.3 Recoveries	-	33	-	-	53	86
B.4 Positive changes in fair value recognised to	11,300	54,065	-	-	-	65,365
a) shareholders' equity	9,590	51,873	-	-	-	61,463
b) income statement	1,710	2,192	-	-	-	3,902
B.5 Exchange gains	-	76	-	-	7	83
B.6 Transfers from property held for investment purposes	1,504	802	X	X	X	2,306
B.7 Other changes	409	115,135	224	7,616	6,502	129,886
C. Decreases:	**(117,833)**	**(129,703)**	**(4,229)**	**(38,396)**	**(9,666)**	**(299,827)**
C.1 Sales	-	-	(34)	-	(92)	(126)
- of which business combinations	-	-	-	-	-	-
C.2 Depreciation	-	(96,722)	(4,157)	(37,954)	(9,428)	(148,261)
C.3 Losses on impairment recognised to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Negative changes in fair value recognised to	(110,053)	(30,412)	-	-	(13)	(140,478)
a) shareholders' equity	(74,722)	(14,173)	-	-	(13)	(88,908)
b) income statement	(35,331)	(16,239)	-	-	-	(51,570)
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to:	(7,780)	(2,230)	(38)	(214)	(6)	(10,268)
a) property, plant and equipment held for investment purposes	(6,257)	(1,913)	X	X	X	(8,170)
b) non-current assets and disposal groups held for sale	(1,523)	(317)	(38)	(214)	(6)	(2,098)
C.7 Other changes	-	(339)	-	(228)	(127)	(694)
D. Net closing balance	**889,908**	**995,967**	**11,142**	**78,517**	**60,225**	**2,035,759**
D.1 Total net impairment	-	(648,122)	(465,186)	(880,183)	(294,593)	(2,288,084)
D.2 Gross closing balance	**889,908**	**1,644,089**	**476,328**	**958,700**	**354,818**	**4,323,843**
E. Measurement at cost	350,814	445,921	-	-	10,935	807,670

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

To ensure better understanding of the changes in the assets in question, it must be specified that:

- the changes refer to owned property, plant and equipment and the rights of use acquired through leases;
- the sub-items "B.4 Positive changes in fair value" and "C.4 Negative changes in fair value" include the effects of the fair value measurement of the Group's real estate assets and valuable works of art, negative overall for 75.1 million. Said effects are reported in the statement of comprehensive income for 27.4 million and in the income statement item "260. Fair value gains (losses) on property, plant and equipment and intangible assets" for negative 47.7 million;
- in sub-items "B.7 - Other changes" and "C.7 - Other changes", in the column "buildings", the increases and decreases related to the rights of use of some properties are shown respectively, resulting from the changes in the duration of the lease agreements, mainly to take into account the Group's right to renew the lease agreements at the end of the first period or, in the absence of cancellation in the 12 months prior to the first period, to take the subsequent renewal periods into account.

For the details of the movements in the rights of use acquired through leases, refer to table 9.6 bis below.

Lastly, sub-item "E. Measurement at cost" represents the amount that would result from the measurement at cost of property, plant and equipment (property and works of art) that are measured in the financial statements using the restatement approach, in compliance with the instructions set out in Bank of Italy Circular no. 262.

9.6 bis Property, plant and equipment used in operations - Rights of use acquired through leases: annual changes

The changes during the year in the rights of use acquired through leases, already included in table 9.6 above, are shown below, referring to that previously illustrated for the related dynamics.

	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balance (*)	**-**	**1,025,845**	**-**	**54,118**	**3,078**	**1,083,041**
A.1 Total net impairment (*)	-	(419,867)	-	(20,003)	(2,670)	(442,540)
A.2 Net opening balance (*)	**-**	**605,978**	**-**	**34,115**	**408**	**640,501**
B. Increases:	**-**	**140,375**	**-**	**11,286**	**7,087**	**158,748**
B.1 Acquisitions	-	20,766	-	3,751	531	25,048
- of which business combinations	-	-	-	-	-	-
B.2 Capitalised expenses for improvements	-	4,643	-	-	-	4,643
B.3 Recoveries	-	33	-	-	53	86
B.4 Positive changes in fair value recognised to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Exchange gains	-	76	-	-	2	78
B.6 Transfers from property held for investment purposes	-	-	X	X	X	-
B.7 Other changes	-	114,857	-	7,535	6,501	128,893
C. Decreases:	**-**	**(80,686)**	**-**	**(17,918)**	**(5,899)**	**(104,503)**
C.1 Sales	-	-	-	-	-	-
- of which business combinations	-	-	-	-	-	-
C.2 Depreciation	-	(80,347)	-	(17,918)	(5,857)	(104,122)
C.3 Losses on impairment recognised to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Negative changes in fair value recognised to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) property, plant and equipment held for investment purposes	-	-	X	X	X	-
b) non-current assets and disposal groups held for sale	-	-	-	-	-	-
C.7 Other changes	-	(339)	-	-	(42)	(381)
D. Net closing balance	**-**	**665,667**	**-**	**27,483**	**1,596**	**694,746**
D.1 Total net impairment	-	(519,647)	-	(36,106)	(4,750)	(560,503)
D.2 Gross closing balance	**-**	**1,185,314**	**-**	**63,589**	**6,346**	**1,255,249**
E. Measurement at cost	-	-	-	-	-	-

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

9.7 Property, plant and equipment held for investment purposes: annual changes

	Total	
	Land	Buildings
A. Opening balance	**670,863**	**284,420**
B. Increases	**80,231**	**129,942**
B.1 Acquisitions	2,448	23,416
- of which business combinations	-	-
B.2 Capitalised expenses for improvements	112	1,876
B.3 Positive changes in fair value	32,003	91,762
B.4 Recoveries	-	-
B.5 Exchange gains	-	-
B.6 Transfers from properties used in operations	6,257	1,913
B.7 Other changes	39,411	10,975
C. Decreases	**(277,150)**	**(66,112)**
C.1 Sales	(1,519)	(3,873)
- of which business combinations	-	-
C.2 Depreciation	-	-
C.3 Negative changes in fair value	(184,965)	(32,660)
C.4 Losses on impairment	-	-
C.5 Exchange losses	-	-
C.6 Transfers to:	(90,666)	(29,146)
a) properties used in operations	(1,504)	(802)
b) non-current assets and disposal groups held for sale	(89,162)	(28,344)
C.7 Other changes	-	(433)
D. Closing balance	**473,944**	**348,250**
E. Measurement at fair value through profit and loss	-	-

As at 31 December 2023, assets held for investment purposes, fully represented by owned properties at fair value, amounted to 822.2 million (955.3 million as at 31 December 2022).

For the purpose of understanding the changes in the assets in question, it is specified that:

- the changes attributable to changes in the estimate of fair value, equal to the mismatch between sub-items B.3 and C.3, which totals a negative amount of 93.9 million, are recognised under the income statement item "260. Fair value gains (losses) on property, plant and equipment and intangible assets";
- the sub-item "E. Measurement at fair value through profit and loss", to be completed for properties for investment purposes measured at cost, is blank as all the properties are measured at fair value.

9.8 Inventories of property, plant and equipment governed by IAS 2: annual changes

The Group does not hold any property, plant and equipment classified as inventories pursuant to IAS 2.

9.9 Commitments to purchase property, plant and equipment

At the reporting date, there were no commitments for the purchase of property, plant and equipment of a significant amount.

Section 10 - Intangible assets – Item 100

10.1 Intangible assets: breakdown by type of asset

Asset/Amounts	Total 31/12/2023		Total 31/12/2022 (*)	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	X	**56,709**	X	**56,709**
A.1.1 attributable to the Group	X	56,709	X	56,709
A.1.2 attributable to non-controlling interests	X	-	X	-
A.2 Other intangible assets	**696,444**	**504,272**	**694,143**	**504,272**
of which: software	415,302	**-**	**398,022**	**-**
A.2.1 Assets at cost:	696,444	504,272	694,143	504,272
a) Internally generated intangible assets	-	-	-	-
b) Other assets	696,444	504,272	694,143	504,272
A.2.2 Assets at fair value:	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
Total	**696,444**	**560,981**	**694,143**	**560,981**

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

Intangible assets with a finite life - summary

Intangible assets with a finite life are mainly comprised by:

- external costs capitalised for the development/purchase of software for an amount of 415.3 million;
- the value of "Client Relationships" acquired as part of the business combinations of BPM Group and Banca Popolare Italiana Group for a total of 242.2 million;
- the "Value of Business Acquired" (VoBA), resulting from the PPA process of the insurance companies acquired for a total of 39.0 million.

For further details on the breakdown and on the change compared to the previous year, please refer to that illustrated below.

Intangible assets with a finite life - Client Relationship

The Client Relationship identifies the activities linked to measuring the relationship with customers that arise on Purchase Price Allocation (PPA) following business combinations recorded pursuant to IFRS 3.
Those assets, which are part of intangible assets with a finite life, represent the ability of the relationships existing at the date of the business combination to generate income flows over the expected residual life of those relationships.
In line with guidelines of IFRS 3, to measure the Client Relationship, only those relationships established prior to the acquisition date are considered. Therefore, the generation capacity of new relationships is not measured.
The measurement method used to estimate the value of the Client Relationship at the date of PPA is based on the discounting of net future cash flows over the period that expresses the estimated residual duration of the relationships existing at the date the business combination occurred.
Each intangible asset representing a Client Relationship is assigned a useful life, defining the percentage of amortisation represented by the estimated rate of decay in volumes.
Thus, amortisation is estimated based on the useful life, which takes account of the decay curves physiologically observable over the historical time period deemed significant.
Intangible assets with a finite life are also subject to impairment when the presence of indicators of loss are present that deem it impossible to recover the value recorded in the financial statements.

That being said, the Client Relationships recognised in the financial statements of Banco BPM Group represent the assets attributable to customer relationships, for Assets under Management/Assets under Custody (AuM/AuC) and for Core Overdrafts/Core Deposits, recognised as part of the following business combinations:

- acquisition of Banca Popolare Italiana Group by Banca Popolare di Verona, effective on 1 July 2007, through which intangible assets were identified attributable to Core Overdrafts/Core Deposits and Assets under Management/Assets under Custody (AuM/AuC). As at 31 December 2023, the residual value of said assets amounted to 95.5 million, following the recognition of the amortisation for the year of 12.3 million;
- acquisition of Banca Popolare di Milano Group by Banco Popolare, effective on 1 January 2017, which gave rise to intangible assets exclusively referring to Assets under Management/Assets under Custody (AuM/AuC). As at 31 December 2023, the residual value of said assets amounted to 146.7 million, following the recognition of the amortisation for the year of 16.7 million.

The respective measurement and amortisation criteria for the types of Client Relationships arising following the aforementioned business combinations are illustrated below.

Core Deposits/Core Overdrafts

The recognition of an intangible asset related to Core Deposits and Core Overdrafts depends on the fact that core deposits generally have an economic duration that is longer than the contractual duration, thereby resulting more cost-effective for the Bank than alternative sources of financing or investments.
Those assets were measured based on the evolution of the estimated amounts, considering the probability of closing the accounts. That estimate, which is based on historic data, makes it possible to identify a physiological decay curve which will reflect on the amortisation process. This entails variable charges based on preset annual percentages.
In measuring the assets, in addition to the estimated evolution of the amounts, revenues (in terms of interest and net fee and commission income), certain operating expenses, costs relating to credit risk (only for core overdrafts) and a figurative tax effect, with a discount rate determined based on the risk profile of the assets measured were considered. Lastly, the valuation included the Tax Amortisation Benefit, which expresses the tax benefit for a potential third party buyer connected with the deductibility of amortisation of the asset in the event of a transaction settled in cash.

Assets under Management/Assets under Custody (AuM/AuC)

The assets linked to assets under management and assets under custody are linked to the relationship that the Bank establishes with customers, through contracts that envisage specific services, which are assigned an economic duration higher than the contractual duration, which is measured through net fee and commission income of the Bank from the products and services of asset management and assets under custody that are provided to customers.
The measurement of those assets is based on the discounting of future net cash flows referring to indirect funding, and takes account of the evolution of assets under administration and managed over the time horizon estimated, considering the probability of closing the accounts, based on a physiological decay curve which will reflect on the amortisation process. This entails variable charges based on preset annual percentages.
In measuring the assets, in addition to the estimated evolution of the amounts, revenues in terms of net fee and commission income, certain operating expenses and a figurative tax rate, with a discount rate determined based on the risk profile of the assets measured were considered. Lastly, the valuation included the Tax Amortisation Benefit, which expresses the tax benefit for a potential third party buyer connected with the deductibility of amortisation of the asset in the event of a transaction settled in cash.

Amortisation of the Client Relationship

With regard to the situation as at 31 December 2023, the Client Relationship recognised in the financial statements amounts to 242.2 million, of which 63.6 million in core deposits, fully referring to the PPA of Banca Popolare Italiana Group, and 178.5 million in AuM/AuC.
Those assets are recognised in the financial statements of Banco BPM for 211.7 million, of which 92.3 million attributable to the PPA of BPI Group and 119.4 million to the PPA of BPM Group. The remaining assets, amounting to 30.5 million, related to the subsidiary Banca Aletti, following the company reorganisation processes, and in particular they refer to 3.2 million for the PPA of BPI Group and 27.3 million to the PPA of BPM Group.

The amortisation charge for the year, recorded under the item “Amortisation and impairment losses on intangible assets”, amounts to 29.0 million, gross of tax effects.

The residual useful life of the Client Relationship of the PPA relating to Banca Popolare Italiana Group, estimated based on a curve of termination of relationships, amounts to 13 years (expiry 2036). Considering the decreasing trend of the curve of termination of relationships, it must be noted that more than half of the residual value recorded as at 31 December 2023 will be amortised by 2028.

The residual useful life of the Client Relationships attributable to the PPA of Banca Popolare di Milano Group, estimated based on the curve of termination of relationships, is 18 years (expiry 2041). Considering the decreasing trend of the curve of termination of relationships, it must be noted that more than half of the residual value recorded as at 31 December 2022 will be amortised by 2029.

(in millions of euro)	BPI PPA			BPM PPA AuM/AuC	Total
	Core Deposits	Core Overdrafts	AuM/AuC		
A. Opening balance	**343.4**	**30.6**	**154.5**	**298.6**	**827.1**
A.1 Total net impairment	(271.8)	(30.6)	(118.3)	(135.2)	(555.9)
A.2 Net opening balance	**71.6**	**-**	**36.2**	**163.4**	**271.2**
B. Increases	-	-	-	-	-
C. Decreases	(8.0)	-	(4.3)	(16.7)	(29.0)
of which: amortisation	(8.0)	-	(4.3)	(16.7)	(29.0)
D. Net closing balance	**63.6**	**-**	**31.8**	**146.7**	**242.2**
D.1 Total net adjustments	(279.8)	(30.6)	(122.6)	(151.9)	(584.9)
E. Closing balance	343.4	30.6	154.5	298.6	827.1

Sensitivity Analysis

For the Client Relationships (Core Deposit and AuM/AuC) of Banco BPM, a sensitivity analysis was conducted of the recoverable value with respect to the expected long-term growth rate of the terminal value (g) and the cost of equity (Ke).
For the methods to determine parameters "g" and "ke", please refer to that illustrated in the paragraph below "10.1.1 Intangible assets with an indefinite life: impairment testing".

The results of those analyses are summarised in the table below, which shows the differential between the recoverable value and the reference book value, in the case of an increase or decrease in the Ke and/or the growth rate (g) with respect to the data effectively used. In addition, the table shows that, even in a stress scenario (Ke +200 bps), the margins are positive.

Sensitivity analysis - results of test on Banco BPM Core Deposit Client Relationship					
		Ke			
		9.76%		11.76%	
		Differential		Differential	
		Absolute value	% impact on recoverable value	Absolute value	% impact on recoverable value
(g)	1.5%	5,365	96.5%	4,807	86.4%
	2.0%	5,498	98.9%	4,916	88.4%
	2.5%	5,637	101.4%	5,031	90.5%

Sensitivity analysis - results of test on Banco BPM AuM/AuC Client Relationship					
		Ke			
		9.76%		11.76%	
		Differential		Differential	
		Absolute value	% impact on recoverable value	Absolute value	% impact on recoverable value
(g)	1.5%	1,204	86.5%	1,049	75.4%
	2.0%	1,243	89.4%	1,081	77.7%
	2.5%	1,284	92.3%	1,115	80.1%

If the determination of the Ke parameter were to consider observations of the Risk Free interest rate more point in time, based on the average 3- and 6-month returns, instead of one year, the values would be 9.87% and 9.83% respectively, both lower than the rate that would eliminate the positive margin of recoverability of the value.

Intangible assets with a finite life - Value of Business Acquired

The assets in question, typical of the insurance sector, are recognised in the financial statements following the Purchase Price Allocation process of the insurance companies, on the basis of which the identifiable net assets acquired must be recognised at fair value, even if not recorded in the financial statements of the acquired entity.
More specifically, the Value of Business Acquired (VoBA) represents the ability of insurance contracts stipulated with customers, in place at the time of acquisition of the same, to generate revenues over the residual useful life of the acquired relationships. This intangible asset is therefore quantified by discounting the flows representing the profit margins over the residual duration - contractual or estimated - of the relationships in place on the date of the business combination. Therefore, this is an intangible asset strictly linked to the specific contractual relationship with the acquired customers (insurance policies) which, by its nature, has a fixed duration and is therefore subject to amortisation over the estimated residual life of the relationships acquired on the acquisition date.

As at 31 December 2023, the VoBA amounted to a total of 39.0 million, of which 20.1 million referred to the business combination of Banco BPM Vita and 18.9 million to the business combination of BBPM Life, as illustrated below.

In 2022, the business combination of Banco BPM Vita, which took place on 1 July 2022, resulted in the recognition of a VoBA of 61.1 million, which became 55.7 million as at 31 December 2022 due to the amortisation process. However, the first-time application of IFRS 17 entailed a restatement of the aforementioned values, because, for the insurance contracts acquired, their ability to generate revenues over the residual life is included in the determination of the Contractual Service Margin (CSM), with consequent cancellation of the relative VoBA. The value of the VoBA restated as at 31 December 2022, referring to Class III insurance contracts, therefore amounted to 24.1 million, corresponding to the restated value at the date of the business combination (26.4 million) net of the amortisation charge for the second half of 2022 (2.3 million). For more details on the derecognition of the VoBA, see "Section 5 - Other Aspects - Impacts of the transition to IFRS 17 Insurance contracts" in Part A.1 of these Notes.
As at 31 December 2023, the residual value of the VoBA relating to the business combination in question, after amortisation for the period of 4.0 million, recognised under item "220. Amortisation and impairment losses on intangible assets", amounted to 20.1 million.

In 2023, the business combination of BBPM Life, which took place on 31 December 2023, resulted in the recognition of a VoBA of 18.9 million, as described in "Part G - Business combinations regarding companies or divisions" of these Notes to the financial statements, to which reference is made.

Intangible assets with an indefinite life - summary

Intangible assets with an indefinite life recognised in the financial statements are comprised:
- by goodwill of 42.9 million resulting from the combination of Banca Popolare Italiana (Bancassurance CGU);
- by goodwill of 3.8 million resulting from the acquisition of control of Oaklins Italy S.r.l. by Banca Akros (Oaklins CGU);
- by goodwill of 10.0 million attributed to the Banco BPM CGU following the completion of the process of the Purchase Price Allocation (PPA) of the acquisition of control of the insurance companies Banco BPM Vita S.p.A. and Banco BPM Assicurazioni S.p.A. by the Parent Company;
- by business trademarks of 504.3 million recognised following the business combination transactions with the former Banca Popolare Italiana Group (222.2 million) and with the former BPM Group (282.1 million).

For the above-mentioned assets, there were no changes compared to the previous year.

Intangible assets with an indefinite life - Trademarks

A trademark defines a set of intangible assets that are complementary to each other, linked to marketing activities (in addition to the name and logo, the expertise, trust of consumers, quality of services, etc.).

The recognition of an intangible asset linked to the trademark derives from the fact that elements such as the ability to attract customers and maintain their loyalty or the commercial name may be assigned differentiated expected economic benefits (in terms of net cash flows) that can be reliably measured. A trademark is an identifiable intangible asset, as it can be separated from the company as a whole, and can be associated with a significant ability to attract customers and maintain their loyalty.
This is an intangible asset with an indefinite useful life, as it is deemed that that intangible component may contribute for an indefinite period to the formation of income flows. As such, it is subject to annual impairment testing, for which reference is made to that set out below.

That being said, in the consolidated financial statements as at 31 December 2023 of Banco BPM Group, trademarks are recorded for a total amount of 504.3 million (of which 485.6 million in the Parent Company's financial statements), recognised:

- for 222.2 million following the acquisition of Banca Popolare Italiana Group by Banca Popolare di Verona, effective on 1 July 2007;
- for 282.1 million following the acquisition of Banca Popolare di Milano Group by Banco Popolare, effective on 1 January 2017. This amount also includes the trademark relating to Banca Akros for 18.6 million.

The following paragraph illustrates the activities carried out in order to verify the recoverability of the value of the trademarks in question, as well as the intangible assets with an indefinite life represented by goodwill.

10.1.1 Intangible assets with an indefinite life: impairment testing

Pursuant to IAS 36, all intangible assets with an indefinite useful life must undergo impairment testing at least once a year to verify the recoverability of their value. The Group decided to conduct the impairment test with reference to 31 December of each year and, in any event, each time indicators of loss are present.
The impairment test as at 31 December 2023 took the following into account:

- the provisions of the reference international accounting standard IAS 36;
- the recommendations issued through the joint letter of the Bank of Italy, CONSOB and IVASS of 3 March 2010;
- the suggestions of the Italian Measurement Body (O.I.V.) contained in the documents "Goodwill impairment test under situations of real and financial crises" dated 14 June 2012, "Guidelines for impairment testing after the effects of the Covid-19 pandemic" dated 16 March 2021, "Impairment testing of non-financial assets (IAS 36) following the war in Ukraine" dated 28 July 2022;
- of the various statements published by the ESMA on the topic, most recently that dated 25 October 2023 "European common enforcement priorities for 2023 annual financial reports" (ESMA32-193237008-1793);
- the recommendations issued by CONSOB in communication no. 3907 of 19 January 2015, as well as drawing attention to several points of the disclosure, in line with the above-mentioned documents of the ESMA.

Also note that, as requested by the cited Supervisory Authorities, the procedure and parameters for assessing the impairment test for goodwill and other intangible assets with indefinite useful lives were approved by the Board of Directors, independently and in advance with respect to approval of the draft 2023 Financial Statements.

That said, for the purposes of impairment testing of the assets in question, IAS 36 requires that their recoverable value be determined as the higher of fair value and value in use. If it is not possible to directly determine the recoverable value of a specific intangible asset recognised in the financial statements, it is necessary to determine the recoverable value of the cash generating units to which the asset belongs (hereinafter "CGU - Cash Generating Unit"). In order to identify the CGUs to which the assets undergoing impairment tests are allocated, the potentially identified units must generate incoming cash flows in amounts that are clearly independent from those deriving from other identified units.

With specific reference to the verification of the recoverability of goodwill acquired in a business combination, paragraph 80 of the aforementioned accounting standard specifies that it must be allocated, from the acquisition date, to each cash generating unit or groups of cash generating units, which can benefit from the synergies created

by the business combination, regardless of whether other assets or liabilities of the business acquired are assigned to said units or groups of units.
Each unit or group of units to which goodwill is thus allocated must:

a) represent the minimum level within the entity for which the goodwill is monitored for the purposes of internal management control;
b) not be larger than an operating segment, as determined in accordance with IFRS 8.

Based on the regulatory references illustrated above, as at 31 December 2023, the CGUs identified for which intangible assets, with an indefinite life (trademarks and goodwill as specified below) to be tested for impairment, were allocated are as follows:

- Retail CGU, comprised of Private Customer and Retail Business segments, based on the revision of current customer portfolios in place at the end of 2023, consistent with 2023 Segment Reporting, to verify the trademarks recognised following the business combination with the former Banca Popolare Italiana Group in 2007 (222.2 million) and with the former Banca Popolare di Milano Group in 2017 (263.5 million);
- Banca Akros CGU, consisting of Banca Akros S.p.A., coinciding with the Investment Banking segment of Segment Reporting excluding the Oaklins impact, to test the corresponding trademark following the business combination with the former Banca Popolare di Milano Group in 2017 (18.6 million);
- Oaklins CGU, set up by Oaklins, wholly owned by Banca Akros S.p.A. acquired in 2021 (3.8 million);
- Bancassurance Protection CGU, consisting of the investee Vera Assicurazioni S.p.A. for the purposes of the goodwill impairment test relative to this operating segment, following the business combination with the former Banca Popolare Italiana Group in 2007, which amounted to 42.9 million as at 31 December 2023;
- Banco BPM Vita CGU: coinciding with Banco BPM Vita, for the purposes of impairment testing goodwill (10.0 million) referring to this operating segment, following the outcome of the PPA conducted on the investment following the acquisition of full control by Banco BPM in 2022.

Evidence is provided below of the method used to conduct the impairment test of the assets under review, the related results and sensitivity analysis.

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

The book value of the Retail CGU, in line with the 2022 financial statements, was determined according to management metrics based on regulatory capital absorption. In particular, the reference book value is obtained by considering the Common Equity Tier 1 (CET1) capital allocated to the CGU, i.e. the capital allocated on a management basis in relation to its risk-weighted assets. In detail, the allocated capital is obtained by multiplying the risk-weighted assets of the CGU by the "CET1 fully-phased" capital ratio, the target of long-term forecasts used to draw up the 2024-2026 Strategic Plan (13.94% for 2023, 14.70% for 2024, 13.40% for 2025 and 14.01% for 2026) and adding any shortfall component, defined in terms of "CET1 plan target", as it is considered to be the expressive measure of the actual capital used, under ordinary conditions. Goodwill, plant property and equipment and other intangible assets with an indefinite and finite useful life associated with the CGU are also added to the capital thus attributed.
For the Bancassurance Protection CGU, for the Banco BPM Vita CGU and for the Oaklins CGU, which correspond respectively to the legal entities Vera Assicurazioni, Banco BPM Vita and Oaklins, the relative reference value was specifically identified as the sum of the book values of the balance sheet assets and liabilities of the cited entities and of the goodwill allocated to the same.
In greater detail, the Banco BPM Vita CGU refers to the situation of the company before the acquisition of Vera Vita and without considering the components relating to Banco BPM Assicurazioni, in line with the income flows taken into consideration for the impairment testing of the CGU's goodwill.

With regard to the "Banca Akros" trademark, in line with previous years, the approach adopted is based on the royalties method. This method makes it possible to directly verify the recoverability of the book value of the trademark, without it being necessary to determine the recoverable value of the entire CGU to which this intangible asset is allocated.

The following table shows the reference book values of the CGUs, as determined above, including goodwill and trademarks to be tested for impairment (values prior to any impairment determined).

CGU	Reference book value	of which: goodwill	of which: VoBA	of which: trademarks
Retail	3,688	-	-	486
Banca Akros (*)	19	-	-	19
Oaklins	6	4	-	-
Bancassurance Protection	157	43	-	-
Banco BPM Vita	358	10	14	-
Total	**4,228**	**57**	**14**	**505**

(*) In line with the royalties valuation model, the values of the Banca Akros CGU shall be understood as referring only to the "Banca Akros" trademark.

These CGU reference values are in line with the methods used to determine the respective recoverable values, as illustrated below.

B. Criteria used to determine the recoverable value of the CGUs

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

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

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

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

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

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

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

where:
Dn+1 = Average sustainable dividend expected after the explicit planning period
g = Expected long-term growth rate of the dividend after the explicit planning period. This rate is placed in relation to the nominal growth rate of the economy over the long term. In fact, it is prudently assumed that over the long term

each sector and each company in the sector will converge toward a growth rate equal to that of the economy as a whole
Ke = Cost of equity.

For the Banca Akros CGU, the methodological approach used to measure the trademark involved valuing the intangible asset on the basis of the royalties, which the owner of the trademark would receive following its sale for use to third parties. The present value of the trademark is therefore expressed as the present value of future royalties, estimated with reference to specific parameters (royalty rate, percentage of revenues) after the relative tax effects.
The valuation also included the Tax Amortisation Benefit, i.e. the tax benefit for a potential third party buyer connected with the deductibility of amortisation of the asset in the event of a transaction settled in cash. In detail, the following formula has been used to enhance the trademark:

$$W = \left[\frac{\sum_{t=1}^{n} S_t \cdot r \cdot (1-T)}{(1+ke)^t} + TV \right] + \text{TAB}$$

where:
W = Value of the trademark
St = Operating income 2024-2026
R = Royalty rate
T = Tax rate
Ke = Discount rate
TV = Terminal Value obtained through capitalisation in perpetuity of the expected royalty flows during the period following the last forecast, considering a long-term growth rate
TAB = Tax Amortisation Benefit

For the Oaklins CGU, the impairment test was conducted using the Value in Use, obtained through the application of the income-based approach.
The income-based approach estimates the value of economic capital by considering the profitability that the company is capable of generating on a forward-looking basis, identifying the fundamental driver of value in the contrast between revenues and costs for the year. With the income-based approach, "over a defined time period and with terminal value", the expected income flows are discounted year by year, until the end of the time horizon of the explicit forecast period and estimating a TV.

The application of the income-based approach entails the use of the following formula:

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

where:
W = General value of economic capital
Ke = Discount rate
Rt = Expected income in the period
n = Number of years in the explicit period
TV = Terminal Value determined as the present value of the average income of the plan for the years following the explicit planning period

B.1 - Estimates of cash flows

The estimates of cash flows underlying the determination of the Value in Use is normally made using the latest publicly available plan or alternatively through the formulation of a forecast plan developed internally by management.

The Retail CGU encompasses the Retail activities (consisting of households and businesses with turnover of less than 75 million), in line with the segment reporting.

The projections for the purposes of the 2023 financial statements were prepared on the basis of the development of the 2023-26 Business Plan (approved by the Board of Directors on 11 December 2023), the multi-scenario calculations to support the capital and liquidity adequacy test (Board of Directors 11 December 2023) and consistent - for the first year of projection - with the figures of the 2024 budget, with the appropriate additions from a "segment reporting" approach.
With reference to the multi-scenario calculations, in accordance with that suggested by standard practices and in line with the other calculations carried out for the purposes of the financial statements and with the 2021-22 impairment, each projection was drawn up with reference to three distinct macroeconomic scenarios, each attributed with a different probability of occurrence. The macroeconomic scenarios are those defined by the Scenario Council and approved by the Board of Directors, also confirmed for the purposes of IFRS 9 to support the calculation of the ECL for the preparation of the Annual Financial Statements as at 31 December 2023. Alongside a scenario assumed as more likely ("baseline"), a more favourable scenario was developed ("benign") and a worse one ("adverse"), to which the following respective probabilities of occurrence were assigned: 50% baseline scenario, 30% adverse scenario and 20% benign scenario, in line with the IFRS 9 process.

In particular, in the baseline scenario, the projection is constructed by incorporating the evolution of volumes and spreads received from the business functions as part of the discussions held for the preparation of the 2023-26 Business Plan. For the alternative scenarios, the projections were constructed by parameterising the downside (adverse scenario) and the upside (benign scenario) of the volumes of the Network and of the Retail segment on the basis of the consolidated trend, which is modelled using a "scenario dependent" approach through the Modelling Platform projection tool.
Consistent with the development of the strategic plan, with reference to numerical growth, the baseline projection of the Retail macro-segment shows operating income for 2023-26 higher than that previously calculated for the 2022 impairment test, mainly due to a significantly higher interest rate scenario.
Long-term profitability was then estimated using a reference long-term business growth rate of 2%, taken as equal to the nominal growth rate of the economy, in line with the inflation objective in the context of the ECB's long-term monetary stability policy.
The distributable cash flows in the explicit period (Dt) were thus determined starting with 2024-26 projections, as illustrated above, taking into consideration a minimum estimated capital level based on a Common Equity Tier 1 (CET1), representing the minimum capital level that the ECB has asked Banco BPM Group to meet on an ongoing basis upon completion of the Supervisory Review and Evaluation Process (SREP), established as 9.07% for 2024. The choice of this value is considered to be consistent with the DDM, as it represents the minimum capital threshold below which dividends cannot be distributed.

The Banca Akros CGU - for the purposes of the impairment test - consists of the so-called "new perimeter" of Banca Akros, obtained by separating the Global Markets business line from the Legal Entity, which was merged into the Finance Department of the Parent Company (starting from 1 January 2024). Therefore, the flows tested fall within the Investment Banking segment of Segment Reporting, but represent a sub-perimeter with respect to the previous impairment test.
In addition, already starting from the 2022 impairment test, the investee in Oaklins - which was acquired by Banca Akros in 2021 - is tested separately.
The projections are an integral part of the targets approved - at consolidated level - by the Corporate Bodies for the 2023-26 Business Plan (BoD of 11 December 2023), and of the multi-scenario calculations to support the capital and liquidity adequacy test (BoD of the 11/12/2023). Furthermore, these projections are consistent - for the first year - with the figures of the 2024 budget.
As for the Retail CGU, the projections for the Banca Akros and Oaklins CGUs are based on three different scenarios, one more probable, one favourable and one adverse.

The Banco BPM Vita CGU coincides with the perimeter relating to Banco BPM Vita before the acquisition of Vera Vita and without considering the components relating to Banco BPM Assicurazioni. The CGU is part of the Insurance segment of Segment Reporting.
As at 31 December 2023, the failure to consider Vera Vita's cash flows derives from the fact that they are independent to those of Banco BPM Vita, taking into account that the product range has not yet been integrated between the two companies.

The projections were prepared as part of the 2023-26 Strategic Plan - at consolidated level (BoD of 11 December 2023) with calculations to support the capital and liquidity adequacy test (BoD of 11 December 2023). Furthermore, these projections are consistent - for the first year - with the evidence of the 2024 budget currently being prepared.
These projections used the "baseline" scenario as reference, as it was deemed that the formulation of alternative scenarios would not have reasonably led to worse results; a further reduction in interest rates would actually have a positive impact on the insurance business.
In particular, the income statement projections are prepared according to the so-called "reclassified view from a banking perspective" taking into account the impacts of the new accounting standard IFR17, while the solvency indicators are calculated on the basis of "local" accounting standards by factoring a level of target Solvency Capital Ratio (SCR) of 140%.

For the Bancassurance Protection CGU, the economic and capital forecasts to determine the Value in Use were drawn up based on the three-year economic/capital projections prepared on the basis of the development of the 2023-26 Business Plan. For the purposes of estimating distributable dividends, the maintenance of a target Solvency Capital Ratio (SCR) of 130% was considered as a constraint. Although for the CGU in question, the development of the projections was not carried out from a multi-scenario perspective, the sensitivity analyses provided below may enable an understanding of the changes in the recoverable value with respect to the main parameters (ke, g, profit, SCR).

B.2 - Cash flow discount rates

For the discounting of dividends distributable to shareholders, a cost of equity was used in line with the requested return for investments with characteristics equivalent to those being assessed. The cost of equity (Ke) was determined on the basis of the Capital Asset Pricing Model (CAPM), based on which the return of a risk asset is equal to the sum of a Risk-free rate (Rf) and a risk premium (MRP), determined taking account of the specific risk of the asset:

$$K_e = R_f + \beta \times (MRP)$$

In detail, the risk-free (Rf) component, which in any case encompasses the so-called "Country risk" is determined, using the same methodological approach followed for the Financial Report as at 31 December 2022, by using the 1-year average yield on 10-year Italian government BTPs (4.26% is the value as at 31 December 2023).
With reference to the beta coefficient (ß) - which measures the riskiness of the specific business or operating sector in terms of correlation between the effective return of a share and the overall return of the reference market - the following was used:

a) for the Retail CGU, an indicator relative to a sample of comparable companies (listed Italian banks) obtained from Bloomberg. As at 31 December 2023, the coefficient ß was 1.06;
b) for the Banca Akros and Oaklins CGUs, an average indicator relative to a sample of companies in the Investment Banking sector, obtained from Bloomberg. As at 31 December 2023, the coefficient ß was 1.06;
c) for the Bancassurance Protection CGU and the Banco BPM Vita CGU, an indicator relating to a comparable sample of companies active in the insurance sector surveyed by Bloomberg. As at 31 December 2023 the coefficient ß was 0.98.

The above coefficients have been measured, on a weekly basis, over a time horizon of 5 years.
Lastly, the risk premium requested from the market (MRP - Market Risk Premium) was determined to be 5.2%, based on the use of sources in line with measurement practices.

C. Summary of methodologies used and the main measurement parameters

In light of that illustrated above, the following table summarises the methodologies used to determine the recoverable value and the quantities of the main parameters represented by the cost of equity (Ke) and the income flows receivables factor (g) for each CGU:

CGU	Criteria used to determine the recoverable value	Discount rate "Ke"	Growth rate "g"
Retail	Value in use – Dividend Discount Model	9.76%	2.00%
Banca Akros	Fair Value – Royalty Rate	9.79%	2.00%
Oaklins	Value in use - Income	9.79%	2.00%
Bancassurance Protection	Value in use – Dividend Discount Model	9.34%	2.00%
Banco BPM Vita	Value in use – Dividend Discount Model	9.34%	2.00%

D. Summary of results

Based on the guidelines illustrated, the impairment test as at 31 December 2023 showed no need to recognise any impairment of intangible assets with an indefinite useful life. In this regard, it should be noted that the parameters and assumptions underlying the determination of the value in use are significantly influenced by the macroeconomic framework assumed.
As also specified in the paragraph "Most significant aspects for 2023 financial statement valuations" contained in "Section 5 - Other aspects" in Part A of these Notes, given the special and uncertain situation relative to the overall macroeconomic framework, it cannot be excluded that the assumptions adopted, however reasonable and prudential, might not be confirmed by future scenarios in which the Group may have to operate. In particular, any worsening of the macroeconomic scenario could adversely affect the projections of estimated cash flows, the cost of equity and the growth factor, resulting in different results from those estimated for the purposes of this Annual Financial Report.

E. Sensitivity Analysis

In compliance with the dictates of IAS 36, for each CGU a sensitivity analysis of the recoverable value was conducted, in order to calculate the variability of this value in relation to reasonable changes in the underlying parameters.

In particular, the figures shown in the tables below represent the differential between the recoverable value and the reference book value, in the hypothesis of an increase or decrease in the growth rate (g) and/or the cost of equity (Ke) with respect to the rates effectively used, keeping all the remaining assumptions unchanged. Specifically, the tables show the level that the "Ke" rate should take on in order to decrease to zero the positive delta between the recoverable value and the book value, if the growth rate "g" is kept constant at 2%.

In particular, for the Retail CGU, the table below shows that the application of a cost of equity of 36.56% combined with an expected long-term growth rate to estimate the terminal value of 1.5%, would result in a scenario of impairment.

Sensitivity analysis Ke/g - results of test on Retail CGU					
		(Ke)			
		9.76%		36.56%	
		Differential		Differential	
		Absolute value	% impact on recoverable value	Absolute value	% impact on recoverable value
(g)	1.50%	9,238	68.2%	-17	-0.1%
	2.00%	9,861	72.8%	0	0.0%
	2.50%	10,569	78.0%	18	0.1%

The cost of equity Ke of the Retail CGU, estimated using a 3-month and 6-month average Risk-Free rate, would be 9.87% and 9.83%, respectively, both lower than the rate that eliminates the margin.

In addition, for the Retail CGU, a sensitivity analysis was conducted with respect to cash flow projections and the cost of equity (Ke). The results of those analyses are summarised in the table below, which shows the differential between the recoverable value and the reference book value, in the case of an increase or decrease in the Ke and/or the net profit with respect to the data effectively used. Specifically, the table shows the percentage reduction that there should be in the profit, with the same Ke, to eliminate the positive delta between the recoverable value and the book value (-82.5%). The table also shows the existence of an impairment scenario that would bring the value of the Trademarks allocated to the CGU to zero in the event of an increase in the cost of equity (Ke) of 11.25%, combined with a decrease in forecast profits of -82.5%.

Sensitivity analysis Ke/profit - results of test on Retail CGU					
		Ke			
		9.76%		11.25%	
		Differential		Differential	
		Absolute value	% impact on recoverable value	Absolute value	% impact on recoverable value
PROFIT	5.00%	10,458	77.2%	8,308	57.0%
	0.00%	9,861	72.8%	7,806	53.4%
	-5.00%	9,263	68.4%	7,304	49.9%
	-82.5%	0	0.0%	-486	-4.6%

For the Banca Akros CGU, the table below shows that the application of a cost of equity of 23.16% combined with an expected long-term growth rate to estimate the terminal value of 1.5%, would result in a scenario of impairment.

Sensitivity analysis Ke/g - results of test on Banca Akros CGU:					
		(Ke)			
		9.79%		23.16%	
		Differential		Differential	
		Absolute value	% impact on recoverable value	Absolute value	% impact on recoverable value
(g)	1.50%	31	59.3%	-0.3	-0.6%
	2.00%	34	64.7%	0	0.0%
	2.50%	37	70.8%	0.3	0.6%

The cost of equity Ke of the Akros CGU, estimated using a 3-month and 6-month average Risk-Free rate, would be 9.90% and 9.86%, respectively, both lower than the rate that eliminates the margin.

For Oaklins, the table below shows that the application of a cost of equity of 21.40% combined with an expected long-term growth rate to estimate the terminal value of 1.5%, would result in a scenario of impairment.

Sensitivity analysis Ke/g- results of test on Oaklins					
		(Ke)			
		9.79%		21.40%	
		Differential		Differential	
		Absolute value	% impact on recoverable value	Absolute value	% impact on recoverable value
(g)	1.50%	8	54.8%	-0.1	-0.7%
	2.00%	9	60.0%	0	0.0%
	2.50%	10	65.9%	0.1	0.8%

The cost of equity Ke of Oaklins estimated using a 3-month and 6-month average Risk-Free rate would be 9.90% and 9.86% respectively, both lower than the rate that eliminates the margin.

For the Bancassurance Protection CGU, the table below shows that the application of a cost of equity of 10.46% combined with an expected long-term growth rate to estimate the terminal value of 1.5%, would result in a scenario of impairment.

Sensitivity analysis Ke/g - results of test on Bancassurance Protection CGU					
		(Ke)			
		9.34%		10.46%	
		Differential		Differential	
		Absolute value	% impact on recoverable value	Absolute value	% impact on recoverable value
(g)	1.50%	12	6.7%	-6	-3.6%
	2.00%	21	11.6%	0	0.0%
	2.50%	31	17.2%	7	4.1%

The cost of equity Ke of the Bancassurance Protection CGU, estimated using a 3-month and 6-month average Risk-Free rate, would be 9.45% and 9.41% respectively, both lower than the rate that eliminates the margin.

For the Bancassurance Protection CGU, a sensitivity analysis was also conducted with respect to cash flow projections and the cost of equity (Ke). The results of those analyses are summarised in the table below, which shows the differential between the recoverable value and the reference book value, in the case of an increase or decrease in the Ke and/or the net profit with respect to the data effectively used. Specifically, the table below shows the percentage reduction that there should be in the profit, with the same Ke, to eliminate the positive delta between the recoverable value and the book value (-12.9%). The table below also shows the existence of an impairment scenario in the event of an increase in the cost of equity (Ke) to 10.46%, combined with a decrease in forecast profits of -5%.

Sensitivity analysis Ke/profit - results of test on Bancassurance Protection CGU					
		(Ke)			
		9.34%		10.46%	
		Differential		Differential	
		Absolute value	% impact on recoverable value	Absolute value	% impact on recoverable value
Profit	10.00%	36	20.4%	14	7.6%
	0.00%	21	11.6%	0	0.0%
	-5.00%	13	7.1%	-7	-3.8%
	-12.90%	0	0.2%	-17	-9.8%

For the Banco BPM Vita CGU, the table below shows that, with the same cost of equity, the application of an expected long-term growth rate to estimate the terminal value of 1.5%, would result in a scenario of impairment.

Sensitivity analysis Ke/g - results of tests on Banco BPM Vita CGU					
		(Ke)			
		9.34%		9.55%	
		Differential		Differential	
		Absolute value	% impact on recoverable value	Absolute value	% impact on recoverable value
(g)	1.50%	-9	-2.4%	-15	-4.1%
	2.00%	7	2.0%	0	0.0%
	2.50%	26	7.0%	17	4.7%

The cost of equity Ke of the Banco BPM Vita CGU, estimated using a 3-month and 6-month average Risk-Free rate, would be 9.45% and 9.41% respectively, both lower than the rate that eliminates the margin.

In addition, for the Retail CGU, a sensitivity analysis was conducted with respect to the projected income flows and the CET 1 ratio constraint for dividend distribution, while for the Bancassurance Protection CGU and the Banco BPM Vita CGU, a sensitivity analysis was conducted with respect to the cost of equity and the constraint on dividend distribution equal to the Solvency Ratio target (Solvency Capital Requirement or, hereinafter, "SCR"). The results of those analyses are summarised in the tables below, which show the differential between the recoverable value and the reference book value, in the hypothesis of an increase or decrease in the CET 1 or the SCR and/or net profit with respect to the data effectively used. Specifically, the tables show the levels that the CET 1/% change of the profit or SCR would have to assume to decrease to zero the positive delta between the recoverable value and the book value.

In particular, for the Retail CGU, the table below shows that in the event of a need to increase the target CET 1 to 85.25% combined with a decrease in the forecast profits by over 5%, this would result in impairment scenarios.

Sensitivity analysis CET1/profit - results of test on Retail CGU

		CET 1			
		9.07%		85.25%	
		Differential		Differential	
		Absolute value	% impact on recoverable value	Absolute value	% impact on recoverable value
PROFIT	5.00%	10,458	77.2%	602	4.4%
	0.00%	9,861	72.8%	0	0.0%
	-5.00%	9,263	68.4%	-602	-4.4%

For the Bancassurance Protection CGU, the table below shows that the application of a target SCR of 227%, combined with a cost of equity of over 9.34%, would result in a scenario of impairment.

Sensitivity analysis SCR/Ke - results of test on Bancassurance Protection CGU

		SCR			
		130%		227%	
		Differential		Differential	
		Absolute value	% impact on recoverable value	Absolute value	% impact on recoverable value
Ke	9.09%	26	14.7%	6	3.3%
	9.34%	21	11.6%	0	0.0%
	10.46%	0	0.0%	-22	-12.4%

For the Banco BPM Vita CGU, the table below shows that the application of a target SCR of 147%, combined with a cost of equity of over 9.34%, would result in a scenario of impairment.

Sensitivity analysis SCR/Ke - results of tests on Banco BPM Vita CGU

		SCR			
		140%		147%	
		Differential		Differential	
		Absolute value	% impact on recoverable value	Absolute value	% impact on recoverable value
Ke	8.1%	63	17.2%	56	15.4%
	9.34%	7	2.0%	0	0.0%
	9.55%	0	0.0%	-7	-2.0%

In addition, again for the Banco BPM Vita CGU, a further table is proposed that shows how, against a net profit lower than that used to carry out the test, combined with a cost of equity higher than 9.55%, an impairment scenario would be determined.
Looking ahead, however, it should be noted that the aforementioned sensitivity analysis may be significantly changed, in a positive sense, from the inclusion in the CGU in question of the subsidiary Vera Vita, following the planned integration of the product catalogue with respect to the subsidiary Banco BPM Vita, which will mean that the cash flows generated by the aforementioned companies will no longer be independent.

Sensitivity analysis Ke/profit - results of tests on Banco BPM Vita CGU					
		(Ke)			
		9.34%		9.55%	
		Differential		Differential	
		Absolute value	% impact on recoverable value	Absolute value	% impact on recoverable value
Profit	10.00%	35	9.6%	27	7.3%
	0.00%	7	2.0%	0	0.0%
	-1.00%	5	1.3%	-3	-0.7%
	-3.00%	0	0.0%	-7	-2.0%

F. External signs of impairment

The measurements expressed for the purposes of preparing these financial statements are the result of an extrapolation of the economic value of the CGUs based on their specific profit capacities, not fully recognised by the financial markets. That measurement takes shape over a longer period than the one assumed by the financial community, and is not based on the particular characteristics of the current economic and financial context, though this has been duly considered.

As at 31 December 2023, Group consolidated shareholders' equity amounted to 12.6 billion (net of equity instruments), against stock capitalisation of 7.2 billion (based on the stock market prices recorded at the end of December 2023). This is by no means a new situation insofar as it also arose in previous years; in fact, even given the significant increase in the stock market capitalisation of over 40% in 2023, share prices indicate significant discounts for other Italian banks as well, even with respect to tangible shareholders' equity. The justifications are attributable to the structural misalignment between the valuations of the financial community (which, by their nature, are focused on short term objectives and estimates), as well as the methods usually used to perform impairment tests, which give a significant value to medium/long-term growth potential. In fact, the measurements expressed for the purposes of preparing these financial statements are the result of an extrapolation of the economic value of the CGUs based on their specific profit capacities, using a much longer time horizon than that used by the financial community.

10.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		FIN	INDEF	FIN	INDEF	
A. Opening balance (*)	**4,617,555**	**-**	**-**	**2,968,927**	**504,272**	**8,090,754**
A.1 Total net impairment (*)	(4,560,846)	-	-	(2,274,784)	-	(6,835,630)
A.2 Net opening balance (*)	**56,709**	**-**	**-**	**694,143**	**504,272**	**1,255,124**
B. Increases	**-**	**-**	**-**	**134,814**	**-**	**134,814**
B.1 Acquisitions	-	-	-	115,462	-	115,462
B.2 Increases in internal intangible assets	X	-	-	-	-	-
B.3 Recoveries	X	-	-	439	-	439
B.4 Positive changes in fair value	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
B.5 Exchange gains	-	-	-	4	-	4
B.6 Other changes	-	-	-	18,909	-	18,909
C. Decreases	**-**	**-**	**-**	**(132,513)**	**-**	**(132,513)**
C.1 Sales	-	-	-	-	-	-
C.2 Value adjustments	-	-	-	(132,156)	-	(132,156)
- Amortisation	X	-	-	(131,012)	-	(131,012)
- Write-downs	-	-	-	(1,144)	-	(1,144)
+ shareholders' equity	X	-	-	-	-	-
+ income statement	-	-	-	(1,144)	-	(1,144)
C.3 Negative changes in fair value:	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	(126)	-	(126)
C.5 Exchange losses	-	-	-	-	-	-
C.6 Other changes	-	-	-	(231)	-	(231)
D. Net closing balance	**56,709**	**-**	**-**	**696,444**	**504,272**	**1,257,425**
D.1 Total net adjustments	(4,560,846)	-	-	(2,369,505)	-	(6,930,351)
E. Gross closing balance	**4,617,555**	**-**	**-**	**3,065,949**	**504,272**	**8,187,776**
F. Measurement at cost	-	-	-	-	-	-

FIN: finite life
INDEF: indefinite life
(*) The figures relating to the previous year have been restated following the retrospective application of IFRS 17 by the insurance companies held by the Group.

With regard to the main changes recorded during 2023:
- sub-item "B.1 Acquisitions" of other intangible assets mainly refers to software;
- sub-item "C.2 Value adjustments – Amortisation", which mostly regards the amortisation of software, includes the amortisation charge relating to the Client Relationships acquired through business combinations, for an amount of 29.0 million and the amortisation charge of the Value of Business Acquired generated by the acquisition of the insurance companies for 4.0 million;
- sub-item "C.2 Value adjustments – Write-downs" includes impairment of software that is no longer used (1.1 million).

10.3 Other information

As at 31 December 2023, there were no commitments relative to intangible assets.

Section 11 - Tax assets and liabilities – Item 110 of the assets and Item 60 of the liabilities

Disclosure on Deferred Tax Assets (DTA), convertible DTAs and checks on recoverability

Below is an illustration of the main categories of DTAs recognised in the financial statements as at 31 December 2023 and the checks performed to support their recoverability.

A. Deferred tax assets – breakdown

As at 31 December 2023, total DTAs amounted to 3,849.8 million (4,319.9 million as at 31 December 2022), of which 3,505.1million had an impact on the income statement, while 344.7 million was recorded as a balancing entry in shareholders' equity, in accordance with the entries referred to. For a review of the breakdown of these DTAs, please see the table "11.1 Deferred tax assets: breakdown".

In greater detail, as at 31 December 2023, the deferred tax assets that meet the requirements of Italian Law no. 214 of 22 December 2011 ("Law 214/2011") for convertibility into tax credit amounted to 1,845.1 million (2,278.2 million as at 31 December 2022). The provisions under this law and, subsequently, under Italian Law 147/2013 (2014 Stability Law), provide for the conversion of DTAs into tax credits in the case of a "statutory loss", a "tax loss" for IRES purposes and a "net negative value of production" for IRAP purposes. For the purposes of these regulations, write-downs on loans not yet deducted based on temporal limits in effect at the time pursuant to Article 106, paragraph 3 of the Italian Consolidated Tax Law (TUIR) are included, as are negative components relative to goodwill and other intangible assets, not yet deducted according to the temporal limits in effect at the time (known as "qualified DTAs").
Specifically, as at 31 December 2023, the Group's eligible DTAs derive from:

- temporary deductible differences relative to write-downs on loans exceeding immediate deductibility limits envisaged in the tax regulations solely with reference to credit and financial entities for 1,275.0 million (1,613.4 million as at 31 December 2022);
- temporary deductible differences relative to goodwill and other intangible assets recognised in previous years for 570.1 million (664.8 million as at 31 December 2022).

It should be specified that, specifically with reference to these DTAs, their continued convertibility to tax credits is subordinate to the payment of the fee pursuant to Decree Law 59 of 3 May 2016, amended and converted into law with Law no. 119 of 30 June 2016. Italian Law no. 15 of 17 February 2017, converting the "Salva risparmio" Decree Law postponed the period for which the fee is due to 31 December 2030. In order to guarantee the convertibility of DTAs into tax credit and avoid the negative impacts that would otherwise result on Own Funds, Banco BPM Group availed of the option by paying said fee.
The fee for 2023 amounts to 24.1 million.

As at 31 December 2023, residual deferred tax assets (non-convertible DTAs) amounted to 2,004.6 million (2,041.7 million as at 31 December 2022), of which 886.2 million deriving from IRES tax losses, which can be carried forward (874.9 million as at 31 December 2022) and 1,118.4 million deriving from costs and value adjustments deductible in years subsequent to those of recognition in the financial statements (1,166.8 million as at 31 December 2022).
Note that not all ineligible DTAs were recognised in the financial statements by Banco BPM and its subsidiaries. The amount of DTAs not posted as at 31 December 2023 in relation to the absence of the relative assumptions came to 24.7 million, all of which refers to the Parent Company, of which 4.6 million of IRES DTAs and 20.1 million of IRAP DTAs.

B. Deferred tax assets - recoverability checks

In compliance with the provisions of IAS 12 and the ESMA communication of 15 July 2019, Banco BPM Group recognised Deferred Tax Assets (DTAs), after verifying that the values recognised were supported by judgements that it was probable they could be recovered. In order to make these judgements, the current tax provisions were taken into consideration, in particular with reference to rules regarding whether certain deferred tax assets can be converted into tax credits, and the Group's capacity to generate future taxable income, also taking the "tax consolidation" option into account.

As regards eligible DTAs that can be converted into tax credits, equal to 1,845.1 million - corresponding to 47.93% of the total DTAs posted in the financial statements as at 31 December 2023 - the tax regulations introduced by Italian Law 214/2011, along with the exercise of the option for the annual fee regime illustrated above make their recoverability certain. This treatment is in line with the indications contained in the Bank of Italy/CONSOB/ISVAP document no. 5 of 15 May 2012 "Accounting treatment of deferred tax assets deriving from Italian Law 214/2011".
The recognition and subsequent maintenance in the financial statements of the remaining tax assets (non-convertible DTAs), totalling 2,004.6 million, strictly depends on the ability of the Group and/or the single companies to generate future taxable income ("tax capability").

To that end non-convertible DTAs were subject to three separate recoverability tests, based on a model that predicts future taxable income, as illustrated below:

- IRES taxable income resulting from the consolidated financial statements for the ordinary IRES tax rate (24%);
- IRES taxable income at individual level for Banco BPM, for the purpose of the additional IRES tax rate applicable to banks (3.5%);
- IRAP value of production at individual level for Banco BPM, for the purposes of IRAP.

The recoverability test was conducted based on the following information and assumptions:

- Banco BPM and its subsidiaries that have recorded DTAs reflected in the consolidated financial statements operate in Italy and, as a result, reference was made to the tax regulations in force in that country;
- implementation of the recently introduced tax changes, and in particular the repeal of the ACE starting from 1 January 2024, and the partial deferral of the deduction of the portions of value adjustments on loans envisaged for 2024 and 2026 to 2027 and 2028;
- said tax regulations do not establish time limits on the recovery of the IRES tax loss (Art. 84, paragraph 1 of Presidential Decree 917 of 22 December 1986);
- IAS 12 does not set out a maximum time horizon for forecasting taxable income;
- the estimates of future taxable income have been made using a multi-scenario approach, by taking as a reference the most recent cash flow projections of Banco BPM Group or Banco BPM for the 2024 - 2026 period;
- the estimates referred to in the previous point have been adjusted to take account of the uncertainty that characterises the actual realisation of long-term forecasts, applying a discount factor defined on the basis of a risk premium (so-called Risk-adjusted profit approach), in line with the recommendations set out by ESMA in the aforementioned Communication of 15 July 2019;
- Deferred Tax Liabilities (DTLs) were offset by DTAs in the event that their reversal over time is expected to occur in the same year.

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

B.1 Estimated future taxable income

The estimate of future taxable income took place starting from the most recent income projections of Banco BPM and the Group for the years 2024-2026 prepared for the ICLAAP, approved by the Board of Directors on 11 December 2023.

Considering the current context of uncertainty, these projections have been made with reference to three separate macroeconomic scenarios at the date on which the above-mentioned scenarios were developed, to which a different probability of occurrence has been attributed. In detail, alongside a baseline scenario, an adverse scenario and a favourable scenario were drawn up, to which probabilities of occurrence of 50%, 30% and 20% respectively were assigned, consistent with the other valuation processes.
As at 31 December 2022, the above-mentioned probabilities were the same.
For long-term profitability, starting from 2027, we took as reference the expected income in 2026, determined by weighting the three scenarios indicated, appropriately normalised to take account of a number of components considered non-recurring. This income has been projected, starting from 2028, with an annual growth rate (g) of 2%, equal to the nominal growth forecasts of the national economy.

B.2 Adjustment of future taxable income

In order to take into account the uncertainty that characterises the actual realisation of long-term forecasts, a discount factor of 5.50% has been introduced. This factor has been defined as a function of the risk premium required by the market (MRP - Market Risk Premium), equal to 5.2%, multiplied by the Beta coefficient (ß), equal to 1.057%, i.e. the coefficient that expresses the specific riskiness of the Group's business.
In more detail, the adjustment of taxable income is obtained by discounting each year's forecasts for the discount factor of 5.50%, applied according to the compound capitalisation formula, from 2027 onwards. This formula therefore makes it possible to adjust future forecasts according to an increasing abatement factor depending on the time horizon of the estimated taxable flows.

The growth rate (g), and the parameters to factor in the uncertainty of forecasts (MRP and ß) are consistent with those considered for the impairment test of intangible assets with an indefinite life; related to the Retail CGU, as illustrated in more detail in the previous "Section 10 - Intangible assets - item 100".

B.3 Outcomes of the probability test and sensitivity analysis

Based on the valuation exercise conducted using the model described in points B.1 and B.2 above, the results are illustrated below, distinguishing between the consolidated IRES DTAs at an ordinary tax rate of 24%, IRES DTAs with an additional tax rate of 3.5% at the individual level of Banco BPM and IRAP DTAs at the individual level of Banco BPM, which represent almost all of the DTAs recognised in the consolidated financial statements.
The IRES DTAs recognised based on the ordinary tax rate of 24% as at 31 December 2023, which can be recovered through the income generated by all the companies belonging to the Group, amount to 1,617.8 million. Full recovery of those DTAs is expected by the end of 2033 (10 years), in line with the results as at 31 December 2022.
The IRES DTAs recognised based on the additional tax rate of 3.5% as at 31 December 2023, which can be recovered through the income generated in the separate financial statements of Banco BPM, amount to 249.1 million. The full recovery of the DTAs in question is expected to take place by the end of 2033 (10 years), two years prior to what emerged from the test as at 31 December 2022.

Lastly, referring to the IRAP DTAs of Banco BPM in place as at 31 December 2023, which can be recovered through income generated individually by Banco BPM, of 114.9 million, the projections of taxable income show, for each year, full recovery of the DTAs from temporary differences which shall reverse in that year.

Sensitivity analysis of the consolidated IRES DTAs based on the tax rate of 24%

The model used includes assumptions and hypotheses that could significantly affect the assessments of the recoverability of the DTAs, for the IRES DTAs recognised based on the rate of 24% (1,617.8 million, equal to 86.4% of the total non-convertible IRES DTAs).
To this end, a sensitivity analysis was conducted on the main hypotheses and assumptions relating to the recovery time horizon; in particular, the sensitivity analyses were developed on the basis of the following factors:

- discount rate of forecasts of future taxable income: any 1.5% increase/decrease in the adjusting factor (7.0% and 4.0% respectively) would result in the confirmation of recovery by the end of 2033;
- long-term income growth rate (g): a reduction of 0.5% (from 2% to 1.5%) would not have significant impacts on the horizon for recovery, which would be confirmed as by the end of 2033;
- a "normalised" taxable income expected from 2028 onwards: a 15% reduction in that income would not lengthen the expected return of the DTAs.

Furthermore, as previously discussed in the event that the projections of taxable income developed based on income flows not adjusted using the adjusting factor were confirmed by the results that the Group will generate in the future, the full recovery of the DTAs, including those relating to previous years' tax losses, would be unchanged in the year 2033 (10 years).

For the DTAs in question, the following table summarises the different time horizons for the return of DTAs in the various alternative scenarios illustrated above, compared with the recovery forecasts as at 31 December 2023 drawn up on the basis of the assumptions and hypotheses described in points B.1 and B.2 above.

Expected time horizon of return of the IRES DTAs based on the tax rate of 24%	Risk-adjusted profit approach					Income projections (without discount factor)
	Forecasts as at 31/12/2023	Sensitivity				
		Discount factor	Discount factor	Growth factor g	Expected taxable income at the end of the explicit period	
		(+1.5%)	(-1.5%)	(-0.5%)	(-15%)	
31/12/2026 (3 years)	29.5%	29.5%	29.5%	29.5%	29.5%	29.5%
31/12/2028 (5 years)	65.3%	64.5%	66.2%	65.2%	61.9%	68.7%
31/12/2030 (7 years)	90.3%	90.3%	90.3%	90.3%	90.3%	90.3%
31/12/2033 (10 years)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The sensitivity analyses show that, even in the event of negative changes in the underlying parameters, the recovery period does not change significantly, as the taxable income in the different scenarios assumed does not generate new DTAs on tax losses, in addition to those already recognised, whose recovery period is envisaged in a time horizon not exceeding the expected repayment plan of the other DTAs (equal to 10 years).

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

Note that as at 31 December 2023, the DTAs deriving from IRES tax losses that can be carried forward amount to 886.2 million, compared to the figure of 874.9 million as at 31 December 2022.
With specific reference to said DTAs posted in previous years, they were recorded following the exact identification of the causes that generated the tax losses and the assessment that they would not repeat in the future on a recurring basis, in line with the provisions of IAS 12. The origin of the tax losses recorded up until 2019 is specifically attributable to the significant loan losses deemed extraordinary, recognised as part of the process of reducing the amount of non-performing loans and, to a lesser extent, to the other extraordinary charges attributable to the business combination that gave rise to Banco BPM Group (e.g. charges relating to the reduction of redundant personnel, the integration of IT systems, the rationalisation of the territorial network) or deriving from the need to favour the rescue of other banks external to the Group in order to protect the stability of the banking system. Also the loss recognised in 2020, which originated from the circumstances of the Covid-19 pandemic, was deemed to be extraordinary, as also confirmed by the extraordinary measures set in place as a reaction to said circumstance.

11.1 Deferred tax assets: breakdown

	IRES	IRAP	Other taxes	31/12/2023	31/12/2022 (*)
A) As balancing entry in the Income Statement					
A.1) Convertible DTAs pursuant to Italian Law 214/2011	**1,648,884**	**196,258**	**-**	**1,845,142**	**2,278,228**
Write-downs of loans deductible in subsequent years	1,181,975	93,056	-	1,275,031	1,613,410
Costs deductible in subsequent years deriving from the tax relief on goodwill and other intangible assets	466,909	103,202	-	570,111	664,818
A.2) DTAs - Other types	**1,587,310**	**72,632**	**-**	**1,659,942**	**1,636,974**
Tax losses that can be carried forward	886,173	-	-	886,173	874,920
ECL adjustments of FTAs pursuant to IFRS 9 on loans to customers deductible in the subsequent years	182,921	36,983	-	219,904	263,884
Provisions and value adjustments deductible in subsequent years	91,955	-	-	91,955	102,136
Personnel expenses and provisions for employee severance pay deductible in subsequent years	88,068	1,146	-	89,214	96,377
Value adjustments to real estate deductible in subsequent years	270,005	19,767	-	289,772	264,908
Book values lower than the recognised tax values resulting from value adjustments to goodwill and other intangible assets	17,369	3,531	-	20,900	22,821
Book values lower than the recognised tax values resulting from fair value measurement of financial assets	816	48	-	864	1,164
Other cases of misalignment between book and tax values	50,003	11,157	-	61,160	10,764
Total A	**3,236,194**	**268,890**	**-**	**3,505,084**	**3,915,202**
B) As a balancing entry in Shareholders' Equity					
Book values lower than the recognised tax values deriving from fair value measurement of financial assets measured as a balancing entry in shareholders' equity	234,292	50,939	-	285,231	343,915
Other cases of misalignment between book and tax values	49,847	9,618	-	59,465	60,815
Total B	**284,139**	**60,557**	**-**	**344,696**	**404,730**
Total (A+B)	**3,520,333**	**329,447**	**-**	**3,849,780**	**4,319,932**

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

11.2 Deferred tax liabilities: breakdown

	IRES	IRAP	Other taxes	31/12/2023	31/12/2022 (*)
A) As balancing entry in the Income Statement:					
Book values exceeding the recognised tax values following the process of tax amortisation or value adjustments to goodwill and other intangible assets	98,700	19,957	-	118,657	120,952
Recoveries in fair value of real estate taxable in coming years	39,960	878	-	40,838	48,973
Book values exceeding the recognised tax values resulting from fair value measurement of financial instruments	8,394	3,458	-	11,852	12,778
Book values exceeding the recognised tax values resulting from fair value measurement of loans to customers	6,895	1,318	-	8,213	11,494
Book values exceeding the recognised tax values following the Purchase Price Allocation at the time of business combinations	4,819	1,369	-	6,188	7,414
Other cases of misalignment between book and tax values	78,413	19,775	-	98,188	8,982
Total A	**237,181**	**46,755**	**-**	**283,936**	**210,593**
B) As a balancing entry in Shareholders' Equity					
Book values exceeding the recognised tax values resulting from fair value measurement of owned properties and works of art	62,566	11,288	-	73,854	42,893
Book values exceeding the recognised tax values resulting from fair value measurement of financial assets measured as a balancing entry in shareholders' equity	21,118	5,709	-	26,827	12,415
Other cases of misalignment between book and tax values	4,988	982	-	5,970	362
Total B	**88,672**	**17,979**	**-**	**106,651**	**55,670**
-	**325,853**	**64,734**	**-**	**390,587**	**266,263**

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

11.3 Changes in deferred tax assets (balancing entry in the income statement)

	31/12/2023	31/12/2022 (*)
1. Opening balance	**3,915,202**	**4,205,138**
2. Increases	**188,975**	**122,902**
2.1 Deferred tax assets recognised during the year	100,631	65,429
a) relative to previous years	12,566	14,426
b) due to changes in accounting criteria	-	-
c) recoveries	-	-
d) other	88,065	51,003
2.2 New taxes or increases in tax rates	-	12,015
2.3 Other increases	88,344	45,458
3. Decreases	**(599,093)**	**(412,838)**
3.1 Deferred tax assets cancelled during the year	(576,511)	(368,260)
a) reclassifications	(574,897)	(352,337)
b) write-downs due to unrecoverability	-	(4,609)
c) due to changes in accounting criteria	-	-
d) other	(1,614)	(11,314)
3.2 Decreases in tax rates	-	(1)
3.3 Other decreases:	(22,582)	(44,577)
a) conversion into tax credits pursuant to Law 214/2011	-	(8,175)
b) other	(22,582)	(36,402)
4. Closing balance	**3,505,084**	**3,915,202**

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

11.4 Changes in deferred tax assets pursuant to Law 214/2011

	Total 31/12/2023	Total 31/12/2022
1. Opening balance	**2,278,228**	**2,472,820**
2. Increases	**-**	**-**
3. Decreases	**(433,086)**	**(194,592)**
3.1 Reclassifications	(433,086)	(186,417)
3.2 Conversion into tax credits	-	(8,175)
a) deriving from losses for the year	-	(8,175)
b) deriving from tax losses	-	-
3.3 Other decreases	-	-
4. Closing balance	**1,845,142**	**2,278,228**

11.5 Changes in deferred tax liabilities (balancing entry in the income statement)

	Total 31/12/2023	Total 31/12/2022
1. Opening balance (*)	**210,593**	**205,363**
2. Increases	**102,070**	**42,694**
2.1 Deferred tax liabilities recognised during the year	1,966	7,766
a) relative to previous years	159	-
b) due to changes in accounting criteria	-	-
c) other	1,807	7,766
2.2 New taxes or increases in tax rates	-	4,690
2.3 Other increases	100,104	30,238
3. Decreases	**(28,727)**	**(37,464)**
3.1 Deferred tax liabilities cancelled during the year	(28,452)	(37,462)
a) reclassifications	(15,079)	(32,796)
b) due to changes in accounting criteria	-	-
c) other	(13,373)	(4,666)
3.2 Decreases in tax rates	-	-
3.3 Other decreases	(275)	(2)
4. Closing balance	**283,936**	**210,593**

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

11.6 Changes in deferred tax assets (balancing entry in shareholders' equity)

	Total 31/12/2023	Total 31/12/2022 (*)
1. Opening balance	**404,730**	**88,490**
2. Increases	**592,147**	**396,957**
2.1 Deferred tax assets recognised during the year	289,405	349,408
a) relative to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	289,405	349,408
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	302,742	47,549
3. Decreases	**(652,181)**	**(80,717)**
3.1 Deferred tax assets cancelled during the year	(319,186)	(16,815)
a) reclassifications	(315,558)	(16,559)
b) write-downs due to unrecoverability	-	-
c) due to changes in accounting criteria	-	-
d) other	(3,628)	(256)
3.2 Decreases in tax rates	-	-
3.3 Other decreases	(332,995)	(63,902)
4. Closing balance	**344,696**	**404,730**

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

11.7 Changes in deferred tax liabilities (balancing entry in shareholders' equity)

	Total 31/12/2023	Total 31/12/2022
1. Opening balance	**55,670**	**88,559**
2. Increases	**70,738**	**10,618**
2.1 Deferred tax liabilities recognised during the year	65,471	10,472
a) relative to previous years	41,746	-
b) due to changes in accounting criteria	-	-
c) other	23,725	10,472
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	5,267	146
3. Decreases	**(19,757)**	**(43,507)**
3.1 Deferred tax liabilities derecognised during the year	(19,071)	(43,241)
a) reclassifications	(19,071)	(43,241)
b) due to changes in accounting criteria	-	-
c) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	(686)	(266)
4. Closing balance	**106,651**	**55,670**

11.8 Other information

Group tax situation

For an examination of the risks associated with existing disputes with the Tax Authorities and the relative developments during 2023 (new disputes arising or disputes concluded and/or settled), please see that found in "Section 10 - Provisions for risks and charges - Item 100" of Liabilities, which provide details of provisions carried out against liabilities judged to be probable, pursuant to that required under the reference accounting standard IAS 37.

Global minimum tax

The OECD "Tax Challenges Arising from the Digitalisation of the Economy - Global Anti-Base Erosion Model Rules (Pillar Two)" and Council Directive (EU) 2022/2523 of 14 December 2022 introduced legislation aimed at ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups (global minimum tax).
The functioning of the global minimum tax is divided into 3 phases:

- top-up taxation by the country in which the companies of the multinational group pay a low tax if that country has chosen to introduce a Qualified Domestic Minimum Top-Up Tax (QDMTT);
- minimum top-up taxation by the country of location of the direct or indirect participant, taking into account any amount withdrawn through a minimum domestic tax (IIR - Income Inclusion Rule);
- minimum top-up taxation (UTPR - Under-Taxed Payments Rule) by countries that adopt the GloBE, in which the multinational group is present with other companies, in the cases in which the top-up taxation due in relation to the companies of the group subject to low taxation was not withdrawn or only partially.

Taking into account the requirements of Commission Regulation (EU) 2023/2468 of 8 November 2023 regarding the qualitative and quantitative information about the exposure to Pillar II income taxes, note that Banco BPM Group's roots are in Italy, and its main foreign entities are in the jurisdictions of Switzerland (through the subsidiary Banca Aletti Suisse) and Ireland (through BBPM Life, held by Vera Vita, in turn controlled by Banco BPM Vita).
Pillar II legislation has been enacted or substantially enacted in some jurisdictions in which Banco BPM Group operates. The legislation will enter into force for the Group's financial year starting on 1 January 2024. The Group falls within the scope of legislation enacted or substantially enacted. More specifically, in Italy the legislation was implemented through Legislative Decree no. 209 of 27 December 2023 (Official Gazette no. 301 of 28 December 2023), which also introduced the Qualified Domestic Minimum Top-Up Tax (QDMTT). The QDMTT was also implemented in Switzerland with effect from 1 January 2024. In Ireland, in December 2023, the Finance (No. 2) Bill 2023 was adopted, which includes the legislation relating to the implementation of Pillar II: the income inclusion rule (IIR) and the provisions on the Qualified Domestic Minimum Top-Up Tax (QDMTT) will apply for tax years starting from 31 December 2023.
Pending the definition of the simplifications envisaged by transitional regimes still subject to domestic implementation (typically, the Transitional CbCR safe harbour, whose rules are found in the OECD Report of 15 December 2022), the main impact on Banco BPM Group is expected in the Irish jurisdiction, where the tax rate applicable to the company's profits in Ireland is 12.5%.
The assessment of potential exposure to Pillar II income taxes is based on tax returns, country-by-country reporting, and the most recent financial statements available for the Group's constituent entities, therefore on the basis of data referring to 2023.
The percentage of the Group's pre-tax profit for the year ending 31 December 2023 that would have been subject to Pillar II income taxes is approximately 0.42%. The average effective tax rate according to IFRS applicable to the gross profit realised in Ireland by BBPM Life in 2023 (approximately 8 million euro) is 12.6%. If Pillar II had entered into force in 2023, the average effective tax rate applicable to these profits would have increased to 15%, with an estimate of the top-up tax of approximately 193 thousand euro.

Consolidated tax regime on a national basis

Banco BPM and the subsidiaries listed below exercised the right to make use of the Group taxation regime (pursuant to Art. 117 et seq. of Presidential Decree 917/1986 - TUIR - Italian Consolidated Tax Law). This option refers to all Group companies that meet the requirements established under the cited law, specifically:

1. Aletti Fiduciaria S.p.A.
2. Banca Aletti S.p.A.
3. Banca Akros S.p.A.
4. BRF Property S.r.l.
5. Ge.Se.So. S.r.l.
6. Lido dei Coralli S.r.l.
7. P.M.G. S.r.l.
8. Sirio Immobiliare S.r.l.
9. Tecmarket Servizi S.p.A.
10. Terme Ioniche S.r.l.
11. Terme Ioniche Società Agricola S.r.l.
12. Oaklins Italy S.r.l.

There are no associated companies which opted for the tax transparency regime pursuant to Art. 115 et seq. of Presidential Decree 917/86.

Banco BPM VAT Group

By resolution of the Board of Directors on 25 September 2018, Banco BPM decided to establish the Banco BMP VAT Group, pursuant to Articles 70-bis to 70-duodecies of Presidential Decree 633 of 26 October 1972 ("VAT Law") and the related Implementing Ministerial Decree of 6 April 2018, effective from 1 January 2019.
In 2023 the participating companies were as follows:

1. Banco BPM S.p.A.
2. Banca Aletti S.p.A.
3. Aletti Fiduciaria S.p.A.
4. Banca Akros S.p.A.
5. BP Covered Bond S.r.l.
6. BPM Covered Bond 2 S.r.l.
7. BPM Covered Bond S.r.l.
8. BRF Property S.p.A.
9. GE.SE.SO Gestione Servizi Sociali S.r.l.
10. Lido dei Coralli S.r.l.
11. Sirio Immobiliare S.r.l.
12. Tecmarket Servizi S.p.A.
13. Oaklins Italy S.r.l.

Section 12 - Non-current assets and disposal groups held for sale and associated liabilities – Item 120 in the assets and item 70 in the liabilities

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

	Total 31/12/2023	Total 31/12/2022 (*)
A. Assets held for sale		
A.1 Financial assets	299,072	51,860
A.2 Interests in associates and joint ventures	-	-
A.3 Property, plant and equipment	158,911	132,993
of which: obtained through the enforcement of guarantees received	104,744	78,272
A.4 Intangible assets	126	1,053
A.5 Other non-current assets	10,576	9,886
Total A	**468,685**	**195,792**
of which at cost	309,988	11,102
of which at fair value level 1	-	51,860
of which at fair value level 2	-	-
of which at fair value level 3	158,697	132,830
B. Discontinued operations		
B.1 Financial assets at fair value through profit and loss	-	-
- Financial assets held for trading	-	-
- Financial assets designated at fair value	-	-
- Other financial assets mandatorily measured at fair value	-	-
B.2 Financial assets measured at fair value through other comprehensive income	-	-
B.3 Financial assets at amortised cost	-	-
B.4 Interests in associates and joint ventures	-	-
B.5 Property, plant and equipment	-	-
of which: obtained through the enforcement of guarantees received	-	-
B.6 Intangible assets	-	-
B.7 Other assets	-	-
Total B	**-**	**-**
of which at cost	-	-
of which at fair value level 1	-	-
of which at fair value level 2	-	-
of which at fair value level 3	-	-
C. Liabilities associated with assets classified as held for sale		
C.1 Payables	(204,055)	(19,655)
C.2 Securities	-	-
C.3 Other liabilities	(7,956)	(6,166)
Total C	**(212,011)**	**(25,821)**
of which at cost	(212,011)	(25,821)
of which at fair value level 1	-	-
of which at fair value level 2	-	-
of which at fair value level 3	-	-
D. Liabilities associated with discontinued operations		
D.1 Financial liabilities at amortised cost	-	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities designated at fair value	-	-
D.4 Provisions	-	-
D.5 Other liabilities	-	-
Total D	**-**	**-**
of which at cost	-	-
of which at fair value level 1	-	-
of which at fair value level 2	-	-
of which at fair value level 3	-	-

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

As at 31 December 2023, assets held for sale included the following types:

- owned properties for which sales negotiations in progress as at 31 December 2023 render probable the completion of the sales during the next year (indicated under item A.3 "Property, plant and equipment");
- assets for 215.2 million and liabilities for 212.0 million relating to the e-money business and the investee Tecmarket, following the negotiations aimed at establishing a strategic partnership for the development of a new Italian and independent company in the digital payments sector. In greater detail, the equalised e-money business, represented by prepaid cards, is shown for 204.3 million under item A.1 "Financial assets" and for the same amount in item C.1 "Payables";
- financial assets attributable to loans classified as bad and unlikely to pay for which assignment has been approved, amounting to 94.8 million, shown in item A.1 "Financial assets".

For further details on the accounting treatment of the transaction relating to the e-money unit, refer to the paragraph entitled "Other significant aspects relating to Group accounting policies" contained in "Section 5 - Other aspects" in Part A.1 these Notes to the consolidated financial statements.

As at 31 December 2022, assets held for sale included the following types:

- owned properties for which sales negotiations in progress as at 31 December 2022 rendered probable the completion of the sales during 2023 (indicated under item A.3 "Property, plant and equipment" of 132.8 million);
- net assets attributable to the investee Banco BPM Assicurazioni S.p.A., for which a term-sheet had been signed with Crédit Agricole Assurances S.A. for the sale of 65% of the interest, represented by assets of 63.0 million and liabilities of 25.8 million (figures restated following the retrospective application of IFRS 17 by the Company). The sale of the aforementioned assets was completed on 14 December 2023. For details on the transaction, please refer to the section dedicated to significant events during the year in the Report on operations and to "Section 5 - Other aspects" of Part A.1 of these Notes to the consolidated financial statements.

For assets and liabilities indicated in correspondence with the sub-items "of which at fair value level 1/level 2/level 3", please see that set out in "Part A.4 - Fair value disclosure".

12.2 Other information

There is no other information worthy of note.

Section 13 - Other assets – Item 130

13.1 Other assets: breakdown

	Total 31/12/2023	Total 31/12/2022 (*)
Receivables due from tax authorities (not classifiable among tax assets)	4,020,947	3,027,302
Receivables for sales of goods and provision of services	7,770	18,066
Other income to be received	108,143	1,942
Cash and other values on hand	5,098	7,103
Items being processed	633,575	586,449
Items in transit between branches	13,880	6,241
Illiquid items for portfolio transactions	11,154	683
Securities and coupons to be settled	118,513	65,922
Other transactions to be settled	2,261	3,440
Accrued income and prepayments not included under their own item	23,392	30,559
Other items	62,370	68,023
Total	**5,007,103**	**3,815,730**

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

Item 130 "Other assets" as at 31 December 2023 includes receivables due from tax authorities of 4,020.9 million (3,027.3 million as at 31 December 2022), mainly represented by:

- receivables resulting from claims for the refund of direct taxes totalling 312.7 million concerning:
  - receivables of 214.3 million relating to 2018, the refund of which was requested in 2019;
  - IRPEG/ILOR receivables of 95.6 million relating to 1995 of the former Banca Popolare di Novara, the refund of which was denied by the Tax Authorities - Novara Provincial Office. With regard to the dispute initiated by the former Banco Popolare, both the Provincial Tax Commission and the Regional Tax Commission accepted the appeals presented, ordering the Tax Authority to also pay legal expenses. On the other hand, the Court of Cassation upheld the two grounds of the appeal of the Tax Authority aimed at asserting, from a procedural perspective, the nullity of the ruling on appeal as it did not have the necessary support, ordering the referral of the case to the appeal judge. At that time, the Bank's arguments, already successfully asserted in the first and second instance proceedings, regarding the receivables requested for reimbursement will be reiterated;
  - IRES and IRAP receivables of 2.8 million attributed following the liquidation of Group companies;
- IRES receivables due to non-deduction of IRAP of 0.8 million, of which 0.6 million relating to Banco BPM and 0.2 million relating to Banco BPM Vita. The receivable of Banco BPM relates to the residual amount not repaid, equal to 1.3 million of the receivable due to the former Banco Popolare. An appeal was filed with the Provincial Tax Commission for this receivable and a specific bad debt provision of 0.7 million was recognised in 2021. The Provincial Tax Commission of Venice partially accepted the Bank's appeal and declared the discontinuance of the matter in issue concerning the repayment of the sum of 0.25 million. The Bank filed a cross appeal before the Veneto Tax Court of Justice of second instance;
- receivables resulting from claims for the refund of VAT and indirect taxes totalling 17.6 million concerning:
  - 7.4 million relating to tax years 1998, 1999 and 2000 of the former Banca Italease S.p.A.. The dispute, initiated for a total receivable of 179.9 million, was repaid during the year 2022 in the amount of 161.9 million, following the ruling during the resumption of the proceedings of the Regional Tax Commission of 9 November 2020, filed on 17 September 2021. With the aforementioned judgement, the Commission accepted the Bank's appeal with the exception of:
    - the amount of 1.7 million, relating to the VAT credit for the year 2000, for which the objection raised by the Office according to which there is no proof of the reimbursement due was considered valid;
    - the interest accrued on the VAT credit for the year 1999, for which the Commission denied the reimbursement of 7.7 million, considering that it concerned late payment interest. In the present case, according to the Commission, the Office should not be considered in default having requested additional documentation from the counterparty (documents relating to pending proceedings). The Bank's defence based on the irrelevance of this documentation for the purpose of proving the existence of the VAT credit was not accepted.

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

    The residual amount of 7.4 million (after the write-off of interest of 1.2 million in 2022) consists of interest accrued and not yet repaid. A further appeal was filed with the Court of Cassation;
  - 7.6 million referring to the dispute of the former Mercantile Leasing S.p.A. relating to the partial refusal of the VAT refund for the first and second quarters of 2007. Of this amount, 4.5 million was requested as a refund in the declaration and is not disputed. For the amount of 6.8 million, against the refusal of the reimbursement by the Tax Authority for the amount of 3.7 million, the Bank prudentially had recognised a specific bad debt provision of the same amount in the financial statements of the year 2021, although filing the dispute in any event;
  - 2.6 million refers to the compliance proceedings against the Municipality of Rome regarding the challenge to a payment injunction for INVIM (tax on increases in value of real estate) purposes relating to a real estate purchase made in 1976; awaiting refund;
- receivables recorded as balancing entries to the provisional payments made pending the final judgement of the pending tax disputes, for a total of 209.6 million, of which 201.9 million relating to the dispute concerning the claimed non-deductibility of the costs incurred in 2005 by the former Banca Popolare Italiana attributable to the attempted takeover of Banca Antonveneta. For details on the dispute, please refer to paragraph 10.6.1 below "Other provisions - legal and tax disputes" in Part B - liabilities of these Notes to the financial statements;
- receivables deriving from excess advance stamp duty payments and substitute taxes applied to customers which will be recovered through offsetting in the total amount of 250.7 million;

- various receivables due from the Tax Authorities of 54.1 million mainly relating to the payment of the advance of substitute tax on capital gains;
- tax credits connected with the interest accrued on loans disbursed to customers resident in areas hit by earthquakes for 37.6 million;
- tax credits connected with the VAT payment for 6.4 million;
- credits for Ecobonus of 2,981.8 million, the difference in these receivables compared to 31 December 2022 (1,966.9 million) can almost entirely explain the change in receivables due from Tax Authorities classified under "Other assets". For the accounting treatment relating to this case, refer to paragraph "Other significant aspects relating to Group accounting policies" contained in Part A - Accounting policies in these Notes to the financial statements;
- municipal tax (IMU) credits of 0.2 million relating to the merged company Release S.p.A.;
- other receivables for withholdings incurred in a higher amount than that established by the Conventions on the avoidance of double taxation on share dividends, for which refunds are expected from foreign governments of 1.1 million, net of the bad debt provision of 0.4 million that had been prudently made by Banca Aletti;
- tax credits due from Foreign tax authorities on dividends paid of 2.3 million;
- tax credits on mathematical reserves (Law 265/02) of 145.9 million, 113.1 million of which relating to Banco BPM Vita, and 32.8 million to BBPM Life;
- tax credits on insurance (Law 282/04) of 0.2 million relating to Banco BPM Vita.

In light of the above, the gross value of the tax credits is 4,035.1 million and the write-downs made amount to 14.2 million. Therefore, the net value of receivables due from the Tax Authority recognised in the financial statements is 4,020.9 million.

The item "Items being processed" essentially contains sums awaiting definitive assignment and various suspended items, the amounts to be settled in clearing houses, as well as charges received from external companies relative to the payment of utilities to be settled using customer current accounts.

LIABILITIES

Section 1 – Financial liabilities at amortised cost – Item 10

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

Transaction type/Amounts	Total 31/12/2023				Total 31/12/2022			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**17,042,573**	X	X	X	**26,332,411**	X	X	X
2. Due to banks	**4,723,177**	X	X	X	**6,304,095**	X	X	X
2.1 Current accounts and demand deposits	219,038	X	X	X	250,742	X	X	X
2.2 Fixed-term deposits	155,836	X	X	X	279,818	X	X	X
2.3 Loans	3,891,523	X	X	X	4,714,191	X	X	X
2.3.1 Repurchase agreements	3,767,949	X	X	X	4,526,453	X	X	X
2.3.2 Other	123,574	X	X	X	187,738	X	X	X
2.4 Payables for commitment to repurchase own capital instruments	-	X	X	X	-	X	X	X
2.5 Lease payables	5,334	X	X	X	683	X	X	X
2.6 Other payables	451,446	X	X	X	1,058,661	X	X	X
Total	**21,765,750**	**-**	**-**	**21,765,750**	**32,636,506**	**-**	**-**	**32,636,506**

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

"Due to central banks" is essentially represented by refinancing operations with the European Central Bank. More specifically, the amount outstanding as at 31 December 2023 refers mainly to long-term refinancing operations called "TLTRO III" (16,070.8 million), the nominal value of which is 15.7 billion. As at 31 December 2022, the entire balance of this item was represented by the book value of the TLTRO III transactions, for a nominal value of 26.7 billion.

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

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

Transaction type/Amounts	Total 31/12/2023				Total 31/12/2022			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	98,587,817	X	X	X	103,410,941	X	X	X
2. Fixed-term deposits	245,531	X	X	X	288,335	X	X	X
3. Loans	1,788,431	X	X	X	1,984,183	X	X	X
3.1 Repurchase agreements	1,290,049	X	X	X	1,460,568	X	X	X
3.2 Other	498,382	X	X	X	523,615	X	X	X
4. Payables for commitment to repurchase own capital instruments	-	X	X	X	-	X	X	X
5. Lease payables	668,180	X	X	X	627,238	X	X	X
6. Other payables	1,240,362	X	X	X	1,996,370	X	X	X
Total	**102,530,321**	**-**	**-**	**102,530,321**	**108,307,067**	**-**	**-**	**108,307,067**

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

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

Type of securities/Amounts	Total 31/12/2023				Total 31/12/2022			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	18,886,862	10,997,896	7,875,385	-	12,922,521	8,866,975	3,697,759	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	18,886,862	10,997,896	7,875,385	-	12,922,521	8,866,975	3,697,759	-
2. other securities	2,943	-	-	2,943	8,000	-	-	8,000
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	2,943	-	-	2,943	8,000	-	-	8,000
Total	**18,889,805**	**10,997,896**	**7,875,385**	**2,943**	**12,930,521**	**8,866,975**	**3,697,759**	**8,000**

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

Debt securities in issue include the Covered Bonds issued by Banco BPM Group with a book value totalling 10,527.2 million (6,809.4 million as at 31 December 2022).

1.4 Breakdown of subordinated debt/securities

At the reporting date, the only subordinated liabilities calculable for supervisory purposes, issued by the Group, classified under debt securities in issue at amortised cost, refer to 5 issues of securities for a book value of 1,899.6 million. The amount of these subordinated securities, which can be included in the Group Tier 2 capital, corresponds to 1,894.5 million (unchanged compared to the previous year).

Trading of own subordinated instruments was eliminated, as a consequence of the rules introduced under Delegated Regulation no. 241/2014 of the European Commission and the latest authorisation granted by the ECB to Banco BPM Group.

The features of subordinated liabilities used in calculations for regulatory purposes are indicated in the document Disclosure to the Public by Entities - Pillar III, to which reference should be made.

1.5 Breakdown of structured debt

As at 31 December 2023, as in the previous year, there were no payables which required the separation of incorporated derivatives ("structured debt").

1.6 Lease payables

Breakdown of flows from lease contracts based on contractual duration	31/12/2023		31/12/2022	
	Due to banks	Due to customers	Due to banks	Due to customers
Up to 3 months	214	28,172	162	27,607
From 3 months to 1 year	960	82,808	458	83,100
From 1 year to 5 years	2,576	335,850	198	468,739
Over 5 years	1,894	261,178	-	95,811
Total	**5,644**	**708,008**	**818**	**675,257**
Time effect	**(310)**	**(39,828)**	**(135)**	**(48,019)**
Present value of lease payables	**5,334**	**668,180**	**683**	**627,238**

Section 2 - Financial liabilities held for trading – Item 20

2.1 Financial liabilities held for trading: breakdown by product

Transaction type/Amounts	Total 31/12/2023					Total 31/12/2022				
	NV	Fair Value			Fair Value *	NV	Fair Value			Fair Value *
		L1	L2	L3			L1	L2	L3	
A. On-balance sheet liabilities										
1. Due to banks	11,586,525	82,228	10,549,385	-	10,631,613	5,314,482	43,544	4,492,767	-	4,536,311
2. Due to customers	7,540,190	9,183	6,974,325	-	6,983,508	1,280,733	33,248	1,034,244	-	1,067,492
3. Debt securities	1,552,862	-	1,512,194	-	1,486,726	1,918,962	-	1,803,459	-	1,780,321
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	1,552,862	-	1,512,194	-	1,486,726	1,918,962	-	1,803,459	-	1,780,321
3.2.1 Structured	1,552,862	-	1,512,194	-	X	1,918,962	-	1,803,459	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total (A)	**20,679,577**	**91,411**	**19,035,904**	**-**	**19,101,847**	**8,514,177**	**76,792**	**7,330,470**	**-**	**7,384,124**
B. Derivative instruments										
1. Financial derivatives	-	121,975	1,641,821	-	-	-	104,146	2,670,142	-	-
1.1 Held for trading	X	121,975	1,149,286	-	X	X	104,146	2,349,902	-	X
1.2 Connected with the fair value option	X	-	492,519	-	X	X	-	320,148	-	X
1.3 Other	X	-	16	-	X	X	-	92	-	X
2. Credit derivatives	-	-	3,045	-	-	-	-	142	-	-
2.1 Held for trading	X	-	3,045	-	X	X	-	142	-	X
2.2 Connected with the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total (B)	**X**	**121,975**	**1,644,866**	**-**	**X**	**X**	**104,146**	**2,670,284**	**-**	**X**
Total (A+B)	**X**	**213,386**	**20,680,770**	**-**	**X**	**X**	**180,938**	**10,000,754**	**-**	**X**

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

The items "1. Due to banks" and "2. Due to customers" refer to technical overdrafts on securities listed on active markets, classified as level 1, and repurchase agreements classified as level 2.
Item 3.2.1 "Other securities - structured", which as at 31 December 2023 totalled 1,512.2 million, is represented by certificates issued by Banca Akros, which include protection for the premium paid by the customer or a portion of the same, unconditional with respect to the trend in the financial parameters to which they are indexed. As at 31 December 2022, the balance of these issues was 1,803.5 million.
For those issues, the change in the Group's credit risk compared to the issue date resulted in the recognition of cumulative capital losses of 25.5 million (corresponding to the difference between the fair value in the financial statements and that on the date indicated in the column "Fair value*"). As at 31 December 2022, the recognition of cumulative capital losses came to 23.1 million.
In addition, for certificates classified under financial derivatives (131.3 million as at 31 December 2023 and 143.0 million as at 31 December 2022), the cumulative effect of the change in the Group's credit risk, like in December 2022, was negative for around 0.1 million. Specifically, these are conditionally protected certificates or certificates with a portion of protection of less than 50% of the premium paid.

2.2 Breakdown of "Financial liabilities held for trading": subordinated liabilities

As at 31 December 2023, technical overdrafts on securities included subordinated securities for 1.9 million.

2.3 Breakdown of "Financial liabilities held for trading": structured debt

As at 31 December 2023, as well as in the previous year, there were no payables which required the separation of incorporated derivatives.

Section 3 - Financial liabilities designated at fair value – Item 30

3.1 Financial liabilities designated at fair value: breakdown by product

Transaction type/Amounts	Total 31/12/2023					Total 31/12/2022 (*)				
	NV	Fair value			Fair value *	NV	Fair value			Fair value *
		L1	L2	L3			L1	L2	L3	
1. Due to banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	-	-	-	-	X	-	-	-	-	X
of which:										
- commitments to disburse funds	-	X	X	X	X	-	X	X	X	X
- financial guarantees given	-	X	X	X	X	-	X	X	X	X
2. Due to customers	**2,812,363**	**-**	**2,794,068**	**18,295**	**2,812,363**	**1,460,125**	**-**	**1,459,075**	**18,295**	**1,460,125**
2.1 Structured	-	-	-	-	X	-	-	-	-	X
2.2 Other	2,812,363	-	2,794,068	18,295	X	1,460,125	-	1,459,075	18,295	X
of which:										
- commitments to disburse funds	-	X	X	X	X	-	X	X	X	X
- financial guarantees given	-	X	X	X	X	-	X	X	X	X
3. Debt securities	**3,750,884**	**5,966**	**3,761,836**	**-**	**3,704,471**	**2,645,465**	**-**	**2,478,393**	**-**	**2,457,650**
3.1 Structured	3,744,831	-	3,761,749	-	X	2,635,465	-	2,467,534	-	X
3.2 Other	6,053	5,966	87	-	X	10,000	-	10,859	-	X
Total	**6,563,247**	**5,966**	**6,555,904**	**18,295**	**6,516,834**	**4,105,590**	**-**	**3,937,468**	**18,295**	**3,917,775**

FV = Fair Value
FV = FV calculated excluding changes in value due to changes in the issuer's credit risk with respect to the issue date*
NV = nominal value
L1 = Level 1
L2 = Level 2
L3 = Level 3
(*) The figures relating to the previous year have been restated following the retrospective application of IFRS 17 by the insurance companies held by the Group.

Item "2. Due to customers" refers, for 2,794.1 million (1,459.1 million as at 31 December 2022) to the liabilities of the insurance companies for the issue of Unit-linked policies, as illustrated in the following section "Other information"; the increase compared to the previous year is attributable to the business combination represented by the acquisition of the insurance companies Vera Vita and BBPM Life (1,391.1 million is the relative contribution as at 31 December 2023).
For a more thorough analysis of the changes in balance sheet balances during 2023, following the above-cited business combination, please refer to the "Consolidated balance sheet: contribution of insurance companies" provided as an attachment to these financial statements.

The remaining 18.3 million refer to liabilities for assets sold and not derecognised as described in paragraph "C. Securitisation transactions" in Part E of these Notes.

Item "3. Debt securities" refers to several bond issues and protected capital certificates, the latter recognised under sub-item 3.1 "Debt securities: structured", as illustrated in paragraph 16 "Other information – Financial liabilities designated at fair value" of Part A.2 of these Notes to the consolidated financial statements. For those issues, the change in the Group's credit risk compared to the issue date resulted in the recognition of cumulative capital losses of 63.3 million (equal to the difference between the fair value in the financial statements and the figure indicated in the column "Fair value*"), mainly referring to certificates. Cumulative capital losses as at 31 December 2022 were equal to 20.7 million.

3.2 Breakdown of item 30 "Financial liabilities designated at fair value": subordinated liabilities

As at 31 December 2023, as well as in the previous year, there were no subordinated liabilities.

Section 4 - Hedging derivatives – Item 40

4.1 Hedging derivatives: breakdown by hedge type and by level

	Fair value 31/12/2023			NV	Fair value 31/12/2022			NV
	L1	L2	L3	31/12/2023	L1	L2	L3	31/12/2022
A. Financial derivatives	**-**	**1,041,678**	**-**	**27,235,691**	**-**	**948,424**	**-**	**15,803,637**
1) Fair value	-	967,962	-	27,031,452	-	872,305	-	15,599,657
2) Cash flows	-	71,848	-	175,000	-	74,664	-	175,000
3) Foreign investments	-	1,868	-	29,239	-	1,455	-	28,980
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**1,041,678**	**-**	**27,235,691**	**-**	**948,424**	**-**	**15,803,637**

NV = notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

4.2 Hedging derivatives: breakdown by portfolio hedged and type of hedge

Operations/Hedge type	Fair Value							Cash flows		Foreign investments
	Micro hedging									
	Debt securities and interest rates	Equity instruments and share indices	Currencies and gold	Credit	Commodities	Other	Macro hedging	Micro hedging	Macro hedging	
1. Financial assets measured at fair value through other comprehensive income	90,017	-	-	-	X	X	X	-	X	X
2. Financial assets at amortised cost	35,830	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	247,996	X	71,848	X
4. Other transactions	-	-	-	-	-	-	X	-	X	1,868
Total assets	**125,847**	**-**	**-**	**-**	**-**	**-**	**247,996**	**-**	**71,848**	**1,868**
1. Financial liabilities	102,202	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	491,917	X	-	X
Total liabilities	**102,202**	**-**	**-**	**-**	**-**	**-**	**491,917**	**-**	**-**	**-**
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

Section 5 Fair value change of financial liabilities in macro fair value hedge portfolios - Item 50

5.1 Fair value change of hedged financial liabilities

Fair value change of hedged liabilities/Group components	31/12/2023	31/12/2022
1. Positive fair value change of financial liabilities	43,238	6,292
2. Negative fair value change of financial liabilities	(754,176)	(1,179,370)
Total	**(710,938)**	**(1,173,078)**

Section 6 - Tax liabilities – Item 60

This section is commented in Section 11 of the balance sheet assets, in Part B - Information on the Balance sheet in these Notes.

Section 7 - Liabilities associated with assets classified as held for sale - Item 70

The information in this section is commented in Section 12 of the balance sheet assets, in Part B - Information on the Balance sheet, in these Notes.

Section 8 - Other liabilities – Item 80

8.1 Other liabilities: breakdown

	31/12/2023	31/12/2022 (*)
Due to tax authorities (not classifiable under tax liabilities)	304,571	170,054
Due to personnel	5,947	6,443
Due to social security institutions	67,815	55,513
Due to suppliers	226,279	197,182
Items in transit between branches not attributable to specific accounts	15,080	32,807
Sums on hand to be paid to third parties	250,396	284,399
Bank transfers for clearance	1,150,758	1,069,297
Items related to securities transactions	141,945	462,152
Other items being processed	792,673	888,538
Adjustments for illiquid items in portfolio	507	24,829
Accrued expenses and deferred income not included under their own item	72,860	46,353
Other items	273,623	201,104
Total	**3,302,454**	**3,438,671**

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

“Due to tax authorities (not classifiable under tax liabilities)” includes net tax liabilities such as VAT payable, substitute tax on loans, withholdings on interest expense and income from employed work and similar, withholdings and other tax items not recognised under item 60 “Tax liabilities”.

“Due to social security institutions” is mainly composed of charges relating to mandatory social security contributions.

“Bank transfers for clearance” mainly regard bank transfers to be credited.

“Items related to securities transactions” is comprised of securities cash purchase and sale transactions made between the end of one year and the beginning of the next, and amounts awaiting final allocation.
“Other items being processed” relate to transactions pending clearing or settlement.
“Adjustments for illiquid items in portfolio” includes mismatches of bills in the portfolio (“Portfolio of non-controlling interests” and “Own portfolio”).

“Other items” is mainly comprised of liabilities relating to collections of F24 tax form mandates and other residual items linked to normal banking operations.

Section 9 - Provisions for employee severance pay - Item 90

9.1 Provisions for employee severance pay: annual changes

	Total 31/12/2023	Total 31/12/2022
A. Opening balance	**258,457**	**320,303**
B. Increases	**20,246**	**36,396**
B.1 Allocations for the year	10,300	6,168
B.2 Other changes	9,946	30,228
- of which business combinations	11	1,562
C. Decreases	**(32,511)**	**(98,242)**
C.1 Settlements	(18,265)	(23,722)
C.2 Other changes	(14,246)	(74,520)
- of which business combinations	(12)	(317)
D. Closing balance	**246,192**	**258,457**
Total	**246,192**	**258,457**

The sub-item B.1 "Allocations for the year" refers to charges recognised in item 190 a) administrative expenses - personnel expenses, sub-item 1.e) provisions for employee severance pay" in the income statement.

The increases, sub-item B.2 "Other changes" include the actuarial losses of 9.9 million (28.7 million as at 31 December 2022), while decreases, sub-item C.2 "Other changes" include actuarial gains of 13.0 million (70.0 million as at 31 December 2022). Actuarial gains and losses are recognised as a balancing entry to the related valuation reserve of shareholders' equity "Actuarial gains (losses) on defined benefit plans" and are reported in the statement of comprehensive income.

9.2 Other information

As described in part "A.2 - Key financial statement items - 16 Other information – Provisions for employee severance pay and other employee benefits", following the reform of supplementary pension plans, the provisions for employee severance pay recognised in the present item refer only to the portion accruing since 31 December 2006, for companies with an average of at least 50 employees in 2006, which refers to almost all Group companies.
For said companies, the provision does not include benefits that, as a result of said reform, have been paid into supplementary pension plans or the INPS Treasury Fund. The employee severance pay accruing from 1 January 2007 is considered a "defined benefit plan" and is recognised in personnel costs, based on the contributions owed, without actuarial calculations, as a balancing entry to the balance sheet item "Other liabilities" or for the outflow of cash:

- under the sub-item "severance indemnities" if paid to the INPS Treasury fund;
- under the sub-item "payments to external supplementary pension funds - defined contribution" if paid to supplementary pension funds.

Main actuarial assumptions

Actuarial measurement of provisions for employee severance pay is performed by independent external actuaries, on the basis of "accrued benefit" methodology, using the Projected Unit Credit criteria, as established in IAS 19. The table below indicates the main demographic and economic/financial assumptions used as the basis for the measurement as at 31 December 2023, compared to that as at 31 December 2022.

Main actuarial assumptions for measuring provisions for employee severance pay	
Demographic assumptions (2023-2022):	
Employee mortality rate	IPS55 with Age-Shifting
Frequency and amount of advances on employee severance pay	0.50%
Frequency of turnover	1.50%
Probability of retirement	According to the latest legislative provisions
Financial assumptions (2023-2022):	
Yearly discount rate	weighted average of the rates in the Eur Composite AA curve (*) 31.12.2023: from 3.14% to 3.45% 31.12.2022: from 3.71% to 3.98%
Yearly inflation rate	weighted average of the rates in the European Zero-Coupon Inflation-Indexed Swap curve (**) 31.12.2023: 2.00% 31.12.2022: 2.80%

(*) weighted average of the rates of the Eur Composite AA curve on the reporting date, using as weights the ratios of the amount paid and advanced for each maturity to the total amount to be paid and advanced up to the discharge of the population considered;
(**) weighted average rate taken as the weighted average of the rates of the European Zero-Coupon-Inflation-Indexed Swap curve on the reporting date, using as weights the ratios of the amount paid and advanced for each maturity to the total amount to be paid and advanced up to the discharge of the population considered (with reference to all the Companies in Banco BPM Group)

Actuarial gains/losses recognised in the statement of comprehensive income

As illustrated in paragraph 9.1 above, the changes to certain actuarial assumptions for the valuation of employee severance pay as at 31 December 2023, with respect to the previous year, led to an overall decrease in the provisions of 3.1 million, equal to the combined effect of the following elements:

- changes in the financial assumptions, which overall show an actuarial loss, with a related increase in the liability, of 1.3 million. In detail, these entail losses relating to the change in the discount rate of 10.1 million and gains relating to the change in the inflation rate of 8.8 million;
- changes in other actuarial assumptions, which overall show an actuarial profit with a relative decrease in liabilities of 4.4 million, almost entirely attributable to differences between the previous demographic actuarial assumptions used and that which actually emerged.

With regards to the discount rate, which is one of the most important assumptions used in measuring obligations associated with defined benefit plans, reference was made to the returns for companies with an "AA" rating, considered to be the best expression of returns for high quality companies. In fact, the reference accounting standard IAS 19 specifies that this rate must reflect the time value of money, but not the specific credit risk of the entity, nor the actuarial or investment risk, nor the risk that, in the future, the actual figures may differ with respect to the actuarial assumptions used. Additionally, the standard states that this rate must be calculated in reference to market yields of the securities of primary companies in the country in which the entity operates (or, the High Quality Corporate Bond yield), as at the annual reporting date, and alternatively, if there is no market for such securities, with reference to market yields on government securities. Banco BPM Group uses as the discount rate the Eur Composite AA curve, using as weights the ratios of the amount paid and advanced for each maturity to the total amount to be paid and advanced up to the discharge of the population considered. In detail, only securities issued by corporate issuers included in the "AA" rating class, issued by companies in various sectors, including Utilities, Telephony, Financial, Banking and Industrial companies, were considered. As regards geographical area, reference was made to the Eurozone. The curve was taken from the information provider Bloomberg.

The decrease of the discount rates is therefore attributable solely to changes in the market, since the reference parameter as at 31 December 2023, for equal plans, was the same as that seen the previous year and reflected the overall interest rate trend.

Sensitivity Analysis

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

	Change in employee severance pay in absolute terms (*)	Change in employee severance pay in percentage terms
Change in actuarial assumption:		
- Discount rate:		
+0.5%	(7,851)	(3.19%)
-0.5%	8,260	3.35%
- Inflation rate:		
+0.5%	5,102	2.07%
-0.5%	(4,972)	(2.02%)

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

Section 10 - Provisions for risks and charges – Item 100

10.1 Provisions for risks and charges: breakdown

Items/Components	Total 31/12/2023	Total 31/12/2022
1. Provisions for credit risk relating to commitments and financial guarantees given	41,676	55,933
2. Provisions for other commitments and guarantees given	92,122	88,231
3. Company pension funds	91,743	99,330
4. Other provisions	423,108	486,901
4.1 legal and tax disputes	68,629	83,695
4.2 personnel expenses	230,635	263,535
4.3 other	123,844	139,671
Total	**648,649**	**730,395**

10.2 Provisions for risks and charges: annual changes

	Provisions for other commitments and guarantees given	Pension funds	Other provisions	Total
A. Opening balance	**88,231**	**99,330**	**486,901**	**674,462**
B. Increases	**6,533**	**7,644**	**205,053**	**219,230**
B.1 Allocation for the year	6,533	128	188,159	194,820
B.2 Changes due to the passage of time	-	3,378	3,090	6,468
B.3 Changes due to discount rate variations	-	2,539	285	2,824
B.4 Other changes	-	1,599	13,519	15,118
C. Decreases	**(2,642)**	**(15,231)**	**(268,846)**	**(286,719)**
C.1 Use during the year	-	(11,627)	(185,142)	(196,769)
C.2 Changes due to discount rate variations	-	-	(83)	(83)
C.3 Other changes	(2,642)	(3,604)	(83,621)	(89,867)
D. Closing balance	**92,122**	**91,743**	**423,108**	**606,973**

Item C.1 "Use during the year" includes uses executed as a balancing entry to payments for personnel expenses and amounts deriving from the settlement of clawbacks and other disputes for which specific provisions were allocated.
Item C.3 "Other changes" in other provisions is mainly attributable to recoveries relating to personnel expenses (recognised in item 190 a) "Personnel expenses") and other provisions (included in item 200 b) "Net provisions for risks and charges – other net provisions").

10.3 Provisions for credit risk relating to commitments and financial guarantees given

	Provisions for credit risk relating to commitments and financial guarantees given				
	Stage 1	**Stage 2**	**Stage 3**	**Acquired or originated impaired**	**Total**
Commitments to disburse funds	12,351	6,822	11,599	258	31,030
Financial guarantees given	856	3,359	6,431	-	10,646
Total	**13,207**	**10,181**	**18,030**	**258**	**41,676**

10.4 Provisions for other commitments and guarantees given

Provisions for other commitments and guarantees given amounted to 92.1 million (88.2 million at the end of the previous year) and mainly refer to commercial sureties issued for customers.

10.5 Defined benefit company pension funds

Pension funds identified in the financial statements represent the liabilities relative to defined benefit plans for a value of 91.7 million and all relate to external funds.

1. Illustration of fund characteristics and associated risks

For defined benefit supplementary pension funds, determination of actuarial values, as required in application of IAS 19 "Employee Benefits", is done by independent actuaries, as illustrated in part "A.2 - Key financial statement items - 16 Other Information - Provisions for employee severance pay and other employee benefits".

As at the reporting date, the funds in question amounted to 91.7 million (99.3 million as at 31 December 2022). Charges for the year were allocated for 3.5 million to item 190 a) - "Personnel expenses" in the income statement and for 0.5 million as increase of the shareholders' equity valuation reserve "Actuarial gains (losses) on defined benefit plans".

Below are pension funds, identifying those of the former Banco Popolare Group and former Banca Popolare di Milano Group.

Internal funds refer to:

a) Funds included under "Banco Popolare Group defined benefit pension fund", which as of 1 April 2017 was identified as the "container" of the defined benefit pension funds relative to the former Banco Popolare Group, with guarantees from the Bank. The rules governing the amounts transferred are, nonetheless, specific details of each form:
   - commitments pursuant to the former Banca Popolare Italiana (BPI) Fund, now the Banco Popolare Group's defined benefit pension fund: this represents the value of commitments relative to 96 beneficiaries of the former Banca Popolare di Lodi, consisting of pension payments in addition to those required by law for their personnel. This fund is governed by the Regulation of 17 June 1992. As a result of the provisions of Italian Legislative Decree 124/1993, the Bank transformed the Fund with an agreement on 6 October 2000, in order to allow adhesion by personnel hired after 27 April 1993, and from 1 April 2017 the Fund was identified as the "container" for the defined benefit pension funds relative to the former Banco Popolare Group with guarantees from the Bank;
   - commitments pursuant to the former Cassa di Risparmio di Lucca Fund: this represents a fund for additional payments relative to INPS and is governed by the regulation of 2 October 1986, subsequently amended on 16 December 1988. As at the reporting date, there were 40 beneficiaries;

- commitments pursuant to the former Banca Popolare Cremona pension fund: this represents social security payments in addition to those required under the law for employees of the former Banca Popolare di Cremona, as established under the regulations of 17 June 1972. As at the reporting date, there were 4 beneficiaries;
- commitments pursuant to the former Bipielle Adriatico Fund: this is a fund integrating INPS payments for obligatory payments for invalidity, old age and heirs relative to employees of Bipielle Adriatico (former Cassa di Risparmio di Imola), established with Regulation of 29 December 1954, later amended on 29 July 1997. As at the reporting date, there were 4 beneficiaries of the treatment;
- commitments pursuant to the former Banca Industriale Gallaratese (BIG) Fund: this represents commitments to the personnel of the former Banca Industriale Gallaratese. It was established on 25 February 1986 and guarantees additional payments with respect to those required under the law in favour of those who were working for the former B.I.G. as of the stated date and is governed by the Regulations issued at the time the fund was established. On 21 August 1992, the former B.I.G. was merged by incorporation with Banca Popolare di Lodi and subsequently, those registered with the fund were given the option to transfer their position to the Banca Lodi pension fund or keep it with the original fund. As at the reporting date, there were 48 beneficiaries of the treatment;
- commitments pursuant to the former Chiavari Fund: the fund was established through an agreement with the trade union on 11 December 1986, and ensures its participants and their heirs a payment in addition to pensions provided by INPS. As at the reporting date this fund had 2 beneficiaries;
- commitments pursuant to the former Cassa di Risparmio di Livorno Fund: this represents a fund for additional payments relative to INPS and is governed by the regulation of 3 April 1991. As at the reporting date, there were 53 beneficiaries;
- commitments pursuant to the Cassa di Risparmio di Pisa Fund: this involves the commitments associated with the fund providing additional social security payments, governed with regulations of 20 April 1959. As at the reporting date, there were 18 beneficiaries;
- commitments relative to 31 former employees of the former ICCRI-BFE, the Bank guarantees additional INPS payments for general obligatory invalidity, old age and heir insurance pursuant to the Agreement of 19 April 1994;
- commitments to 17 former employees relative to the additional fund for INPS payments for obligatory invalidity, old age and heir insurance for retired personnel of the former Banca S. Geminiano e S. Prospero, established with an agreement of 30 July 1976, with the aim of granting an additional pension to Bank employees;
- commitments to 12 former employees relative to the defined benefit fund for retired personnel of the former Banca Popolare di Verona – Banco S. Geminiano e S. Prospero, governed by the Articles of Association - Regulation pursuant to the collective understandings in effect from 1 January 1999, with the aim of providing an additional pension over that of the general obligatory insurance for Bank personnel;
- commitments to 98 beneficiaries of the former Credito Bergamasco for the provision of pension payments defined under company agreements previously stipulated with the company union representatives (additional company payment - TIA);
- commitments pursuant to the former BPL Fund Regulation 1961 and 1973: this represents the additional social security payment for personnel of the former Banca Popolare di Lodi, as established under the regulations of 18 April 1961 and 12 December 1973. As at the reporting date, the beneficiaries respectively totalled 4 and 10;
- commitments to 28 beneficiaries of the additional fund for INPS payments for obligatory invalidity, old age and heir insurance for the former Banca Italease.

b) Other funds for the former Banco Popolare Group
- commitments to 137 pensioners retiring prior to 1 January 1988, relative to adjustment cheques in favour of retired personnel of the former Banca Popolare di Verona e Novara and a former executive;
- commitments to 4 former executives relative to the additional fund for INPS payments for obligatory invalidity, old age and heir insurance for retired executives of the former Banca S. Geminiano e S. Prospero, established with a company agreement of 10 October 1996, with the aim of granting an additional pension over that of the general obligatory insurance to its employees;
- commitments to 3 former executives relative to the additional fund for INPS payments for obligatory invalidity, old age and heir insurance for retired executives of the former Banca Popolare di Verona,

established with an agreement of 30 July 1976, with the aim of granting an additional pension to Bank employees;
- commitments to employees and pensioners of the former Credito Bergamasco: this represents the value of commitments relative to 2 former employees, who receive a social security payment established under a company agreement of 10 October 1996 and company largesse approved by the Board of Directors on 29 April 1985.

c) Former Banca Popolare di Milano Group funds
- Additional social security payment for the former Banca Popolare di Milano
In application of the additional social security payment regulations, the commitment consists of: the recognition of an additional pension to former retired employees whose INPS pension is lower than a pre-established percentage of their salary at the same level of service (referred to as employees with integrated pensions); or, in the case the INPS pension exceeds this percentage, a monthly payment to all pensioners of 50% of a scale frozen at the values of 31 December 1991. These benefits are not paid to employees who began service after 28 April 1993 and those hired in the context of mergers. As at the reporting date, there were 4,883 beneficiaries;
- Former Cassa di Risparmio di Alessandria pension fund
This is a defined benefit fund without legal personality and capital independence, additional (substitute only for certain special situations) to the INPS pension payment. Those enrolled with the Fund consist solely of former employees who are now retired or their heirs. As at the reporting date, there were 193 beneficiaries;
- Former Banca Popolare di Bologna e Ferrara pension funds
This is a defined benefit fund associated with the commitment made by the incorporated former Banca Popolare di Bologna e Ferrara to pay a defined benefit to employees retiring as of 31 December 1995, in line with their level of service. As at the reporting date, there were 78 beneficiaries;
- Former Banca Agricola Milanese pension funds
This represents the commitment made by the incorporated former Banca Agricola Milanese to provide an additional pension to employees retiring as of 31 December 1972. As at the reporting date, there was only one beneficiary.

Internal funds also include the liability relating to S.I.PRE. for 0.1 million.

Statements for Banco BPM's internal funds are annexed to the Parent Company's separate financial statements.

2. Changes during the year in net defined benefit liabilities (assets) and in repayment rights

	31/12/2023
A. Opening balance	**99,330**
B. Increases	**7,644**
B.1 Social security costs relative to past work provided (CSC)	126
B.2 Financial charges due to the passage of time	3,378
B.3 Other actuarial losses	1,599
B.4 Losses due to discount rate variations	2,539
B.5 Other increases	2
C. Decreases	**(15,231)**
C.1 Use during the year	(11,627)
C.2 Gains due to discount rate variations	-
C.3 Other actuarial gains	(3,596)
C.4 Other decreases	(8)
D. Closing balance	**91,743**

Net actuarial losses totalled 0.5 million and were attributable to the following:
- the change in the discount rate, as illustrated in "Section 9 Provisions for employee severance pay - Item 90", above, which led to an actuarial loss of 2.5 million, corresponding to sub-item B.4 "Gains due to discount rate variations";

- the change in the inflation rate, which led to an actuarial gain of 2.9 million, included under item C.3 "Other actuarial losses";
- other actuarial assumptions that led to a net loss of 0.9 million recognised for 1.5 million under sub-item B.3 "Other actuarial losses", and for 0.7 million under sub-item C.3 "Other actuarial gains".

3. Fair value disclosure on plan assets

Based on IAS 19, plan assets are those held by an entity (a fund) that is legally separate from the entity which prepares the financial statements (external fund) and which can be used solely to pay or fund employee benefits and which are therefore not available to the creditors of the entity which prepares the financial statements. On the basis of this definition, as at 31 December 2023, as well as at 31 December 2022, there were no plan assets.
For the sake of completeness, we note that certain insurance policies exist, classified under item "20 c) Financial assets at fair value through profit and loss - Other financial assets mandatorily measured at fair value", with the objective of providing the funding needed to pay the indemnities of the plans entered into with certain executives (known as the "S.I.PRE. Plan"), for which the fair value as at 31 December 2023 totalled 0.3 million.

4. Description of main actuarial assumptions

Below are the demographic, financial and economic actuarial assumptions used for the main funds.

Main demographic and actuarial assumptions used to measure pension funds	
Demographic assumptions (2023-2022):	
Probability of death of retired or active employees	IPS55 with Age-Shifting demographic basis for annuity insurance
Financial assumptions (2023-2022):	
Yearly discount rate	weighted average of the rates in the Eur Composite AA curve (*): 2023: from 3.14% to 3.24% depending on the plan 2022: from 3.49% to 3.69% depending on the plan
Yearly inflation rate	weighted average of the rates in the European Zero-Coupon Inflation-Indexed Swap curve (**): **2022**: 2.00% **2022**: 2.90%

(*) Weighted average of the rates of the Eur Composite AA curve on the reporting date, using as weights the ratios of the amount paid and advanced for each maturity to the total amount to be paid and advanced up to the discharge of the population considered;
(**) Weighted average rate taken as the weighted average of the rates of the European Zero-Coupon-Inflation-Indexed Swap curve on the reporting date, using as weights the ratios of the amount paid and advanced for each maturity to the total amount to be paid and advanced up to the discharge of the population considered (with reference to all the Companies in Banco BPM Group).

5. Information on amounts, timing and uncertainties of cash flows

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

	Changes in defined benefit funds in absolute terms (*)	**Changes in defined benefit funds in percentage terms**
discount rate +0.5%	(2,712)	(2.96%)
discount rate -0.5%	2,881	3.14%
inflation rate +0.50%	1,586	1.73%
inflation rate -0.50%	(1,518)	(1.65%)

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

6. Multi-employer plans

There are no plans of this type.

7. Defined benefit plans that share risks between entities under common control

There are no plans of this type.

10.6 Provisions for risks and charges - other provisions

10.6.1 Other provisions - legal and tax disputes

The Group operates in a legal and regulatory context that exposes it to a wide range of legal disputes, connected, for example, with the terms and conditions applied to its customers, to the nature and characteristics of the financial products and services provided, administrative errors, bankruptcy clawback actions and labour law disputes.

Banco BPM, the companies whose merger gave rise to the Group, the incorporated subsidiaries and the subsidiaries also underwent various audits by the Tax Authorities. Those activities regarded the determination of the taxable income reported for the purposes of income taxes, VAT, registration tax and, more generally, the methods of applying tax regulations in force at the specific time. As a result of those audits, Banco BPM Group is involved in several disputes.

Legal and tax disputes are specifically analysed by the Group, in order to distinguish those whose settlement is expected to require the use of resources embodying economic benefits and, as a result, will require the recognition of provisions, from the rest of the "contingent liabilities". "Contingent liabilities" are those disputes which correspond to the following, for which no provisions are recognised:

i) possible obligations, meaning that it has not been confirmed whether the entity has a current obligation that may result in the use of resources embodying economic benefits;
ii) actual obligations which, however, do not meet all the conditions for recognition set out in IAS 37 (because it is not likely that resources embodying economic benefits will be required to settle the obligation, or because no sufficiently reliable estimate may be made of the amount of the obligation).

It is noted that the information provided below regarding the claims connected with the main disputes represent the maximum risk exposure, irrespective of the opinion expressed by the Group regarding the relative degree of adverse outcome. For several of these disputes, the Group deems that there are limited risk profiles and, thus, as these are contingent liabilities, it has not allocated any provisions.

For disputes for which the entity is retained to have a current obligation that may lead to the use of resources embodying economic benefits, the disclosure on the amount of the allocation to provisions for risks and charges is not provided for single dispute in order not to cause harm to the Group in the evolution of the dispute with the counterparty, either in court or by way of settlement. In any event, the total amount of the allocations broken down by type of dispute is provided where the disputes can be grouped into categories of similar nature.

Furthermore, as permitted by paragraph 92 of the reference international accounting standard (IAS 37), the disclosure shown below does not include the information that could harm the position of the Group banks involved in the actions to protect their position in the case and in the pending disputes.
As indicated in the paragraph "Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated financial statements", to which reference is made, the complexity of the situations and corporate transactions that form the basis of the disputes entail significant elements of judgement which may involve the existence and the amount, and the related timing for the liabilities to arise. In that regard, to the extent that the estimates made by the Group are deemed reliable and compliant with the reference accounting standards, it cannot be ruled out that the charges which may arise from the settlement of disputes may differ, also by significant amounts, from the amount of the provisions allocated.

The provisions allocated against all existing legal and tax disputes, including cases associated with clawback actions, total 68.6 million.

<u>Legal disputes with customers</u>

The high number of disputes prevents us from providing a detailed list, while their diverse nature makes it extremely difficult, if not impossible, to group them into categories of similar nature.
It should be noted that the dispute initiated in 2018 by La Redenta Società Agricola, against its former Directors and Statutory Auditors, of Banco BPM and six other banks for alleged participation in the worsening of the company's liabilities, ended with a final ruling in favour of the Bank on 14 March 2023; the I.F.I.T./S.I.R.O. dispute, initiated in 2022, was concluded in June 2023 with a settlement agreement without any economic impact.

Below, a brief description is provided of the main legal disputes pending as at 31 December 2023, whose settlement is deemed could entail a probable or possible use of financial resources.

- Presidency of the Council of Ministers/Left-wing Democrats: following the appeal by means of an injunction requested against Left-wing Democrats (bad loans) and the Presidency of the Council of Ministers (guarantors of the Left-wing Democrats by virtue of sureties) for 3 pooled loans (of which one with leading bank Efibanca and a further two investees) for a total of 26.5 million, opposition to the injunction was submitted in 2015; the courts of the first and second instance rules were in favour of the banks, at the same time rejecting the challenges of the injunction. The ruling of the appeal was not challenged in the Supreme Court by the parties, but for the Barletta section of the Left-wing Democrats, the decision is still pending, with the hearing set for 19 February 2024. Following the filing of written briefs, at the date of this report, the issue of the ruling is pending;
- Compagnia Finanza e Servizi S.r.l. (Co.Fi.Se.) and Paolo Tabellini, as shareholders of Società Italiana Calzature S.r.l. (now bankrupt), summoned the Bank before the court on 8 November 2016, together with a leasing company, to obtain compensation for damages totalling 15 million. The first two instances ended with the rejection of the plaintiff's claims. The appeal ruling was challenged before the Court of Cassation by Tabellini alone, reducing the claim for compensation to 10 million;
- On 10 July 2019 a customer, along with several of his family members, summoned Banco BPM before the court to obtain total compensation for damages of around 21 million for having allowed a proxy/delegate of the customer to carry out a series of unauthorised transactions on various current accounts and securities portfolios. With its ruling of 11 January 2023, the Milan Court of Appeal, where the counterparty reduced its claim to around 11.8 million, confirmed the decision in favour of the Bank handed down in 2020 by the Court of Milan. The case is pending in the Court of Cassation;
- On 18 July 2019, the heirs of a customer summoned Banco BPM before the court to request the cancellation of several transactions, mainly financial in nature, which were allegedly carried out on accounts held by the customer without authorisation and in violation of the MiFID regulations. The counterparties requested that the Bank be ordered to return a total amount of around 37 million. The lawsuit is pending before the Court of Milan;
- On 20 December 2019, Banco BPM was summoned before the court, together with a pool of banks, by the receivership of the company Privilege Yard for allegedly abusive lending. The receivership requested that the liability of the banks be verified for collusion in the mala gestio (poor management) by the directors of Privilege Yard, ordering them to jointly pay compensation for the damages of around 97 million (Banco BPM share 27 million). With a ruling dated 11 October 2022, the Court of Rome ordered the banks, jointly and severally, to pay 57.1 million. Banco BPM enforced the ruling for the portion due and, together with the other institutions involved, challenged the measure before the Court of Appeal;
- On 4 February 2020, Malenco S.r.l. summoned Banco BPM before the court, together with another bank that led the pooled operations, in relation to the granting of loans for the construction and completion of a property complex. The company requested that the invalidity of the loans be ascertained for allegedly exceeding the usury threshold rate and the invalidity of the derivative contracts taken out to hedge the loans granted, with a request to order Banco BPM to pay the sum of 31 million, 10 million of which together with the other bank. The Court of Rome, with ruling of 21 November 2022, fully rejected the claims of Malenco. The appeal proceedings are pending;
- CE.DI.SISA Centro Nord S.p.A. (in liquidation) – On 5 August 2020, the Bank was summoned for a liability action against Directors, Statutory Auditors, the Independent Auditors and consultants of the bankrupt company and the banks that colluded with the management body in aggravating liabilities. The Bank, which never granted loans but operated through advances on invoices, lodged a preliminary objection to the statute of limitations of the claim formulated. The total remedy sought against all the banks is 120 million. The hearing for the examination of the court-appointed expert was held on 24 January 2024; the case was postponed to 13 March 2024 for its continuance;
- On 23 December 2022, the extraordinary receivers of Società Italiana per Condotte d'Acqua S.p.A. summoned the members of its Management and Supervisory Boards, the auditing firm and the banking class, including Banco BPM, and some insurance companies to court, to obtain a joint and several sentence of all defendants to pay the sum of over 389 million. The amount is requested by way of compensation for the alleged damages also caused by the abusive granting of credit by the banking class, which would have allowed the company to continue to operate despite the crisis situation, also causing the serious impoverishment of the company's net assets;
- In 2020 Atlantia S.p.A. and Autostrade per l'Italia S.p.A. initiated a compensation claim against Astaldi S.p.A. on their own behalf and with a mandate to represent a grouping of companies, of the former

subsidiary Bipielle Real Estate and of S.C.C. S.r.l. as assignees of the original contractors in the construction of some motorway sections in the province of Genoa by virtue of a contract signed in 1991. The case originates from the sentence of the above plaintiffs in a parallel and still pending dispute before the Court of Appeal of Rome, brought by the defendants in 1993 for the partial non-fulfilment of the contract. The compensation claim, quantified at 33.2 million during the proceedings, was made jointly and severally against only the three defendant companies convened with the exclusion of the other participants in the consortium;

- On 5 March 2019, Barberini Hotel S.r.l. filed proceedings in order to obtain an order for Banco BPM to pay the amount of 19.5 million, as a result of the termination of some lease agreements on the initiative of the defendant and the obligation to proceed with the repayment of the instalments received and, secondly, the reduction of the contractual penalty. The Milan Court of Appeal confirmed the ruling in favour of the Bank made by the Court of Milan. The appeal to the Court of Cassation is pending;
- On 19 June 2023, AD Casa S.r.l. challenged Banco BPM for its failure to finalise the sale, in its favour, of a real estate complex in Florence, with a consequent request for an order to contract at the lower price of 21.9 million, compared to the 35.1 million agreed, in addition to compensation for damages quantified at 3.8 million. The initial agreement was questioned by the prospective purchaser in light of the new operational plan approved by the Municipality of Florence. The case is pending in the initial stage before the Court of Milan;
- The subsidiary Partecipazioni Italiane in liquidation, as the former owner of land located in Pavia that was the industrial site of the former Necchi S.p.A., (which ceased business operations many years ago), was the subject of an order of the Province of Pavia which requested that the subsidiary, as the party "historically" responsible, along with another party, carry out the reclamation and containment of that area, which for many years now has been owned by third parties outside Banco BPM Group.
  The Lombardy Regional Administrative Court rejected the appeal of the subsidiary against the order of the Province; the ruling on the appeal before the Council of State is pending, for which the public hearing on the merits has not yet been scheduled.
  Within the parallel environmental proceedings, both some of the current owners of the various portions of the former Necchi site and Partecipazioni Italiane submitted autonomous area characterisation plans. Considering the various positions of the parties, new administrative proceedings arose which are currently pending before the Lombardy Regional Administrative Court, with the involvement of the Municipality of Pavia, the Province of Pavia and the Lombardy Regional Environmental Protection Agency as well, and for which the public hearing on the merits has not yet been scheduled.
  With regard to one of the portions of the site, on 7 March 2022, a settlement agreement was finalised with one of the current owners, regarding the reclamation of the portion of the former Necchi area it owns. The agreement envisages, inter alia, the contribution of Partecipazioni Italiane to bearing the reclamation costs for an amount of 1.4 million plus VAT (half of which already paid at the time of finalisation of the agreement and half to be paid to the counterparty on announcement of the start of the reclamation activities), already accounted for in the financial statements as at 31 December 2021. In February 2023, the counterparty informed Partecipazioni Italiane of the need to postpone the deadline set forth in the above-mentioned settlement agreement to 7 March 2024 for the submission to the Authorities of the Operational Reclamation Project. This postponement is due to the need, shared with the Authorities, to also consider the fill materials in the Characterisation Plan, following a legislative amendment.
  For the portion of the former Necchi area owned by INAIL and currently occupied by the Pavia Police Headquarters, through the technical consultant WSP Italia S.r.l. (formerly Golder Associates S.r.l.), the subsidiary completed the characterisation activities of the portion of the area, as per Characterisation Plan approved by decision of the Municipality of Pavia on 21 March 2022. Following the integration of investigations made necessary to limit possible reclamation interventions and any future measures to make groundwater safe, WSP Italia updated the estimate of costs for future activities to 290 thousand euro, plus VAT, allocated in the company's financial statements as at 31 December 2023.
  For the other two areas into which the site is divided, given the uncertainty of the interventions to be carried out, it is not possible to reliably estimate any expenses borne by the investee, even within a certain range.

In light of the successful outcomes in the courts of first instance and/or the existence of valid grounds on which to challenge the claims made by the claimants with regard to proceedings underway, the claims classified as possible but unlikely amount to a total of 1,063.4 million.

Claims classified as probable amount to a total of 222.8 million, against which 65.7 million has been allocated under the item Provisions for risks and charges.

<u>Tax disputes</u>

The total claims made by the Tax Authorities as part of the tax disputes initiated involving Banco BPM and its subsidiaries amounted to 224.0 million[1] as at 31 December 2023 (as at 31 December 2022, claims totalled 225.0 million).

Below, a description is provided of the main legal disputes (claims over or equal to 1 million) pending as at 31 December 2023, whose settlement is deemed could entail a probable or possible use of financial resources.

- Banco BPM (former Banca Popolare di Verona e Novara Soc. Coop.) - tax demand regarding IRAP tax paid to the Regional Headquarters for Veneto for 2006. The claim refers to the application of the ordinary rate of 4.25% to the net value of production resulting from business activities performed in Veneto and in Tuscany, instead of the higher rate of 5.25% and originally amounted to 7.1 million. The tax demand has been challenged. The Provincial Tax Commission partially accepted the appeal, declaring that the fines imposed are not due. The Regional Tax Commission confirmed the first instance judgement, also cancelling the tax demand relating to the additional IRAP referring to the Tuscany Region. On 18 January 2023, the ruling of the Court of Cassation was published, which recognised the validity of the appeal filed by the Bank for the effective lack of a specific provision of regional law that exempts, for tax year 2006, the system suspending the application of the increase in the IRAP rate set forth by state law. However, the Court pointed out that following the suspension of the effectiveness of the increase in the IRAP rate for 2002 for banks and insurance companies, it believes that the rate of 4.75%, already envisaged at national level for 2002 by Art. 45, paragraph 2 of Italian Legislative Decree no. 446 of 1997, should be applied instead of the ordinary rate of 4.25%. The Court therefore overturned the decision of the Regional Tax Commission, referring to the second instance Tax Court of Veneto, which will have to redetermine the Bank's tax liability by applying the rate of 4.75%. The dispute therefore remains pending due to its referral to the second instance Tax Court. However, the latter will no doubt reduce the amount of the original claim (of 7.1 million, as indicated above) and order the consequent reimbursement of the taxes and relative interest already paid as a consequence of the ruling now overturned;
- Banca Akros - formal notification received in December 2021 relating to the alleged infringement of the transmission obligations to the Tax Authority envisaged by Article 1, of Italian Decree Law 167 of 1990 with the application of the minimum sanction envisaged by Art. 5, paragraph 1, for the amount of 2.3 million. On 30 November 2022, the Office served a decision to impose penalties with which it rejected the defensive arguments made by the Bank and imposed a penalty of 2.3 million against it. Considering the reasons contained in the decision contradictory and unfounded, on 30 January 2023, the Bank filed an appeal to the Milan Tax Court of first instance. On 16 January 2024, the ruling of the Milan Tax Court was filed, confirming the imposition of sanctions. The Bank, fully convinced that its reasons have not been adequately taken into consideration by the judges of first instance, will lodge an appeal with the competent Tax Court of Lombardy requesting the annulment of the ruling;
- Banco BPM (former Banca Popolare Italiana Soc. Coop.) - notices of assessment relating to tax year 2005 regarding the claimed non-deductibility for IRES and IRAP purposes of costs and value adjustments to receivables relating to facts or actions classified as offences (regarding offences of false corporate reporting, obstacles to supervision and market turbulence alleged to have been committed by Banca Popolare Italiana with relation to the attempted takeover of Banca Antonveneta). The claims amount to 199.8 million (including interest and tax collection fees, of which 182.0 million relating to IRES and 17.8 million relating to IRAP. It should also be noted that the overall claim includes penalties applied up to a maximum of 200%). With separate judgements filed on 15 October 2014, no. 8562 (IRES) and no. 8561 (IRAP), the Section 22 of the Provincial Tax Commission of Milan fully rejected the appeals submitted by the Bank, though not justifying in any way the rationale underlying the confirmation of the tax demand. Said judgement was appealed against before the Lombardy Regional Tax Commission. The discussion of the appeals filed on 3 February 2015 was held before Section 2 of the Milan Regional Tax Commission

[1] Note that said amount does not include the disputes with an immaterial unit amount, mainly comprised of local taxes. It is also noted that, with the exception of the assessments relating to 2005 of the former Banca Popolare Italiana and the liabilities classified as probable, the estimate of contingent liabilities relating to the notices of assessment does not include any interest to be paid in the event of losing the lawsuit. The estimate of contingent liabilities relating to formal reports on findings served or being served other than those classified as probable does not include interest or fines.

on 6 May 2015. With judgement no. 670 filed on 19 May 2015, also lacking adequate justification, the Commission rejected the joint appeals submitted and confirmed the challenged judgements. On 18 December 2015, an appeal was submitted to the Supreme Court, which is still pending.
The notices illustrated were followed by additional notices of assessment served on 22 December 2014 relating to the formal report on findings dated 30 June 2011 for tax years 2006-2009. The claims contained in these notices also regard the claimed non-deductibility for IRES and IRAP purposes of the costs deemed attributable to facts or actions classified as offences. More specifically, they regard value adjustments on loans already disputed with reference to tax year 2005. Said value adjustments, although recognised by Banca Popolare Italiana in its financial statements for 2005, were deductible on a straight-line basis over the following 18 financial years pursuant to the version in effect at the time of Art. 106, paragraph 3 of Italian Presidential Decree no. 917 of 22 December 1986. The notices of assessment served therefore dispute the alleged non-deductibility of the portions of the aforementioned adjustments on loans deducted in the years 2006, 2007, 2008 and 2009. Total claims amount to 15.8 million. An appeal has been presented to the Provincial Tax Commission. The Commission suspended the proceedings until the final judgement of the Supreme Court is passed on the notices of assessment relating to 2005, pursuant to the previous point.
The claims illustrated, which amount to a total of 215.6 million, were carefully assessed by the Bank in light of the negative rulings made in the courts of the first two instances. In that regard, it must firstly be noted that, in the parallel criminal proceedings initiated against the parties that signed the tax returns for the offence of inaccurate tax return (offence founded on the same charges contained in the notices of assessment in question), the judge issued a judgement of acquittal of the defendants "because there is no case to answer". Even though the criminal proceedings are independent from the administrative disputes, which, thus, may conclude with a different result, it is noted that, in the operative part of the ruling, the criminal judge justified his decision using the arguments analogous to those formulated by the Bank in its defence in the appeals submitted in the administrative proceedings illustrated. Furthermore, an analysis of the order and the content of the ruling of the Regional Tax Commission shows that the Commission's decision on the merits of the case contains no specific justification and is based on a mere reference to the Authority's claims, with no express indication of the reasons for its decision not to accept the precise arguments laid out by Banco Popolare in support of its appeal.
In the light of these analyses and considerations, it being believed that there are grounds to challenge the ruling as, in fact, all the defensive arguments regarding aspects of legitimacy not considered by the judges in the first and second instances can be submitted again to the court, on 18 December 2015, the aforementioned appeal was lodged with the Supreme Court.
The appeal will be assessed by the Court at a public hearing on 22 March 2024. In this regard, the Attorney General filed their own brief within the terms of the law, pursuant to Art. 378, first paragraph, of the Italian Civil Procedure Code, in which it recognises the validity of the grounds for the appeal relating to the nullity of the notice of assessment issued for IRAP purposes, as it was notified late, proposing to set aside the contested judgement, while proposing the rejection of the other grounds for the appeal relating to IRES.
In light of the new elements, an in-depth analysis of the aforementioned brief was carried out, also with the support of tax experts and legal experts who are assisting the bank in these proceedings; said analysis sought to verify whether the new information contained in the same is sufficient to change the assessments made with regard to the risk of losing and the conclusions reached in this regard.
The analysis conducted confirmed the assessment of the risk of losing as possible, but not probable, meaning that there is therefore no need to recognise provisions in the financial statements as at 31 December 2023 to cover the potential liability related to the outcome of the dispute in question. In greater detail, it should be first be highlighted that the assessment of the observations of the Attorney General is left exclusively to the Court, which is in no way bound by the position expressed by the same. In addition, the reasons given by the Attorney General were deemed unacceptable from various perspectives, also as they were contrary to the orientation expressed by the Court of Cassation on relevant legal issues.
In light of the evaluations carried out, no provision has been recognised for the above contingent liabilities in the financial statements as at 31 December 2023.

Auditing activities

On 21 September 2022, the economic and financial police unit of the Italian Tax Police initiated an audit of IRES and IRAP against Banca Akros and in order to verify the application of substitute tax pursuant to Presidential Decree

600/1973 for the 2016 tax period. The audit ended on 19 January 2023 without any dispute with respect to the Bank's actions.

On 24 January 2023, the Italian Tax Authority, Lombardy Regional Department, Large Taxpayers Office initiated a tax audit of the Parent Company Banco BPM for IRES, IRAP, VAT and withholding tax obligations for the 2017 and 2018 tax periods. The audit ended on 21 September 2023 with the delivery of the report on findings which contained a single finding of an insignificant amount against which the Office will directly adjust the Bank's tax loss for 2018 without applying any sanctions.

On 21 June 2023, the Italian Tax Authority - Lombardy Regional Department - Large Taxpayers Office announced the initiation of a tax audit relating to the 2018 tax period for direct taxes, IRAP, VAT and withholding tax obligations with respect to the subsidiary Banca Akros.
The audit was concluded on 14 December 2023 without any dispute with respect to the bank's actions.

On 11 July 2023, the Italian Tax Authority - Verona Provincial Office initiated a tax audit of the subsidiary Tecmarket Servizi with regard to IRES, IRAP, VAT and withholdings relating to the 2020 tax period.
The audit ended on 14 September 2023 without any dispute with respect to the company's operations.

Lastly, note that, on 23 January 2024, the Italian Tax Authority - Lombardy Regional Department, Large Taxpayers Office - initiated a tax audit of the subsidiary company Banca Aletti S.p.A. for IRES, IRAP, VAT and withholding tax obligations for tax year 2018.

10.6.2 Other provisions - personnel expenses

These amounted to 230.6 million and include the amount (net of the payments made) of 86.6 million allocated for the charges expected for the use of the extraordinary benefits of the Solidarity Fund and for early retirement incentives following the agreements reached with the trade unions on 30 December 2020 and subsequent integrations on 3 May 2021 and 17 February 2023. In particular, during the year, following the aforementioned agreements of 17 February 2023, the Fund was extended to a further 250 workers with an additional allocation of 10.2 million, bringing the total cost to 267.2 million for early retirement on a voluntary basis of approximately 1,850 resources in total.
This item also includes: i) the estimated expense deriving from the expected payment of variable remuneration in compliance with the provisions of the Group's incentive systems; and ii) the estimate relating to other disbursements planned in favour of the staff (e.g., welfare, company bonus, loyalty bonuses, non-competition agreements, etc.).

10.6.3 Other provisions - other

This residual category of provisions amounts to a total of 123.8 million and mainly includes allocations against the following liabilities:

a) risks associated with disputes and claims, both pending and expected, associated with operations with customers and possible developments in the interpretation of certain regulations governing banking activities (25.6 million);
b) estimate of probable reimbursements of fees consequent to the possible early termination of insurance policies by customers (22.8 million);
c) risks associated with commitments undertaken as part of partnership agreements and guarantees granted against the disposal of interests or other assets or groups of assets (37.8 million);
d) risks associated with guarantees given for sales of non-performing loans already finalised as at 31 December 2022 (19.8 million).

Category a) includes the provision made against residual risks associated with reporting activities carried out of customers interested in purchasing diamonds to the specialised company Intermarket Diamond Business S.p.A. ("IDB"). Almost all of those reporting activities were carried out from 2003 to 2016 and, thus, prior to the merger that gave rise to Banco BPM. That activity was suspended in the initial months of 2017 and then definitively stopped. In relation to these transactions, criminal proceedings were initiated before the Milan Public Prosecutor's Office, as part of which, on 19 February 2019, the Milan Public Prosecutor's Office served the Bank with a pre-judgement attachment order for a total amount of 84.6 million, which was later reduced to 83.8 million following a first partial

release from the seizure and confiscation ordered by the Judge at the preliminary hearing in Milan, as part of the ruling to apply the penalty in the request of 8 April 2022.
In 2023, the Verona and Rome Public Prosecutors, having acknowledged the remediation activity carried out by the Bank, also sharing the Bank's legal arguments, ordered the release of the entire sum still subject to restriction equal to 83.8 million.
These situations resulted in the receipt of a high number of complaints from the Group customers involved and the launch of disputes in civil court. In this regard, also with a view to standing by to its customers, the Group has implemented a large-scale customer care initiative over the last few years, aimed, if necessary, at finalising transactions by providing a free service for assistance to customers in submitting requests to the bankruptcy receiver for the return of stones and, lastly, for the return of diamonds in custody at the vaults managed by the IDB bankruptcy. As at 31 December 2023, around 24,500 claims had been received, and over 1,400 disputes notified (partly preceded by a claim) for total relief sought of around 721.1 million.
At the same date, due to the previously illustrated management and customer care activities, claims and disputes were resolved, through a settlement or the issue of a final ruling, for total relief sought of 663.1 million.
Against the claims and disputes, both those not yet defined and those potentially estimated, the sub-item in question includes the specific provision recognised against the above disputes with customers amounting to 25.6 million as at 31 December 2023.
The total provision made over the years, from 2017, was 391.9 million, against which drawdowns for refunds to customers of 366.3 million were made.
As at 31 December 2022, the provision amounted to 41.5 million; during 2023, drawdowns for refunds of 17.8 million were made, and a further provision of 1.9 million was added, to take into account the updated estimates relating to the total expected remedy and the percentages of compensation.

Item b) represents the provision allocated in application of that established under accounting standard IFRS 15 against the risk of having to return a portion of commissions received for the placement of insurance policies with customers, in the case that these customers decide to close the insurance coverage in advance.
Item c) represents the provision allocated against risks associated with certain guarantees granted to the buyer at the time of disposals of interests, assets and groups of assets which have already been completed and as part of partnership agreements signed, as better specified below.

To this end, we can note that, in the context of the contracts signed at the time of the disposal of interests or business segments finalised in previous years, as well as any correlated partnership agreements, there are investment protection and guarantee mechanisms for the buyer. In detail, those mechanisms provide for the possible payment of indemnities to the buyer/partner in the event that specific business targets are not reached, setting out limits, deductibles, grace periods and exceptions in favour of Banco BPM Group. Certain protection and guarantee mechanisms shall remain in force until the end of the partnership.
A list is provided below of the main operations finalised for which the sale agreements and/or related partnership agreements envisage obligations for Banco BPM Group to pay potential indemnities:

- sale finalised in 2017 of the controlling interest in Aletti Gestielle SGR to Anima Holding;
- the sale finalised in 2018 of the contracts relating to delegated insurance asset management mandates placed through Banco BPM Group network to Anima SGR;
- the sale of a business unit relative to custodian bank business segment to BNP Paribas Securities Services in 2018 and the consequent revision of the obligations established at the time of the sale of the custodian bank business segment of the former Banca Popolare di Milano to the same buyer in 2010;
- sale completed on 14 December 2023 of a 65% stake in the insurance companies Vera Assicurazioni and Banco BPM Assicurazioni to Crédit Agricole Assurances.

Where, based on the objectives reached and reported and the future projections of their evolution, it is deemed probable that indemnity will be paid to the buyer counterparty, the amount of the estimated liability has been allocated to the provisions for risks and charges in question.

The agreements relating to the sale to Cattolica Assicurazioni of a 65% stake in Vera Vita and Vera Assicurazioni finalised in 2018, significantly revised in 2021, envisaged mechanisms to protect and guarantee the investment made by the purchaser through the payment of indemnities in the event of failure to achieve certain commercial objectives. On 14 December 2023, following the exercise of the call option, the Group acquired 65% of the share capital of Vera Vita and Vera Assicurazioni from Generali. At that time, it was specified that, with reference to the agreement relating to penalties and additional fees revised in 2021, nothing is due between the parties.

Therefore, the allocation of 12.5 million outstanding as at 31 December 2022 was released to the income statement.

With reference to the agreements with Anima Holding, revised in 2020, a system of penalties is envisaged in the event of failure to achieve the Net Funding targets set for the period January 2020 - February 2025, totalling 4.8 billion. Taking into account the trend of net funding as at 31 December 2023 and that expected in February 2025, estimated on the basis of a multi-scenario calculation, which is below the set target, a provision was made to cover the funding gap totalling 37.8 million.

Item d) refers to the amount allocated to cover probable future financial disbursements for guarantees granted as part of sales of non-performing loans finalised in 2022 and previous years.

Section 11 - Insurance liabilities - Item 110

This section illustrates the insurance contracts issued that are assets and those that are liabilities, whose net balance, equal to 12,210.4 million, is recorded under the items:

- Liabilities 110 a) - insurance contracts issued - liabilities for 12,239.6 million (4,283.5 million as at 31 December 2022);
- Assets 80 a) - insurance contracts issued - assets for 29.2 million (zero balance as at 31 December 2022).

The increase in the aforementioned items compared to the previous year, amounting to 7,926.9 million, is attributable to the business combination completed in December 2023 with the acquisition of Vera Vita and Banco BPM Life.
For a more thorough analysis of the changes in balance sheet balances during 2023, following the above-cited business combination, please refer to the “Consolidated balance sheet: contribution of insurance companies” provided as an attachment to these financial statements.

11.1 Trends in the book value of insurance contracts issued - GMM or VFA - liabilities for remaining coverage and for claims

The book value of the insurance contracts recognised using the GMM or VFA methods totals 12,208.1 million and refers to:

- insurance contracts issued with direct participation features - Life business segment for 12,201.1 million;
- insurance contracts issued without direct participation features - Life business segment for 7.0 million.

The following table shows the changes in the book value relating to contracts issued with direct participation features (basis of aggregation 1) relating to the life business segment.

Due to their insignificance, the table relating to changes in the book value of contracts issued without direct participation features (basis of aggregation 2) is omitted.

There are also no investment contracts issued with discretionary participation features (basis of aggregation 5).

11.1 a) Basis of aggregation 1 = Insurance contracts issued with direct participation features - Life business segment

Items/Liabilities	Liabilities for remaining coverage 31/12/2023		Liabilities for claims 31/12/2023	Total 31/12/2023	Liabilities for remaining coverage 31/12/2022		Liabilities for claims 31/12/2022	Total 31/12/2022
	Net of loss	Loss			Net of loss	Loss		
A. Opening book value								
1. Insurance contracts issued - liabilities	-	-	-	-	-	-	-	-
2. Insurance contracts issued - assets	-	-	-	-	-	-	-	-
3. Net book value as at 1 January	**4,252,534**	**-**	**28,569**	**4,281,103**	**-**	**-**	**-**	**-**
B. Insurance revenues	**(58,224)**	**-**	**-**	**(58,224)**	**(26,578)**	**-**	**-**	**(26,578)**
C. Costs for insurance services								
1. Claims and other directly attributable costs	-	-	35,522	35,522	-	-	16,081	16,081
2. Changes in liabilities for claims	-	-	66	66	-	-	869	869
3. Losses and related recoveries on onerous contracts	-	1,750	-	1,750	-	-	-	-
4. Amortisation of contract acquisition costs	988	-	-	988	367	-	-	367
5. Total	**988**	**1,750**	**35,588**	**38,326**	**367**	**-**	**16,950**	**17,316**
D. Profit (loss) on insurance services (B+C)	**(57,236)**	**1,750**	**35,588**	**(19,898)**	(26,211)	**-**	**16,950**	**(9,261)**
E. Net costs/revenues of a financial nature								
1. Relating to insurance contracts issued	320,099	-	-	320,099	(174,741)	-	-	(174,741)
1.1 Recorded in the income statement	145,527	-	-	145,527	51,634	-	-	51,634
1.2 Recorded in the statement of comprehensive income	174,572	-	-	174,572	(226,375)	-	-	(226,375)
2. Effects associated with changes in exchange rates	-	-	-	-	-	-	-	-
3. Total	**320,099**	**-**	**-**	**320,099**	(174,741)	**-**	**-**	**(174,741)**
F. Investment components	**(880,734)**	**-**	**880,734**	**-**	(281,876)	**-**	**281,876**	-
G. Total amount recorded in the income statement and the statement of comprehensive income (D+E+F)	**(617,871)**	**1,750**	**916,322**	**300,201**	(482,828)	**-**	**298,826**	**(184,002)**
H. Other changes	**7,630,219**	**-**	**123,659**	**7,753,878**	**4,383,624**	**-**	**34,574**	**4,418,198**
I. Cash movements								
1. Premiums received	793,696	-	-	793,696	357,436	-	-	357,436
2. Payments associated with contract acquisition costs	(6,211)	-	-	(6,211)	(5,698)	-	-	(5,698)
3. Claims paid and other cash outflows	-	-	(921,563)	(921,563)	-	-	(304,831)	(304,831)
4. Total	**787,485**	**-**	**(921,563)**	**(134,078)**	**351,738**	**-**	**(304,831)**	**46,907**
L. Net book value as at 31 December (A.3+G+H+I.4)	**12,052,367**	**1,750**	**146,987**	**12,201,104**	**4,252,534**		**28,569**	**4,281,103**
M. Closing book value								
1. Insurance contracts issued - liabilities	12,081,576	1,750	146,987	12,230,313	4,252,534	-	28,569	4,281,103
2. Insurance contracts issued - assets	(29,209)	-	-	(29,209)	-	-	-	-
3. Net book value as at 31 December	**12,052,367**	**1,750**	**146,987**	**12,201,104**	**4,252,534**	**-**	**28,569**	**4,281,103**

11.2 Technical reserves: Trends in the book value of insurance contracts issued - PAA - liabilities for remaining coverage and for claims

The contracts issued, valued using the PAA method, are considered insignificant as regards the non-motor non-life segment, the amount of which was 2.3 million as at 31 December 2023.
Due to their insignificance, the table relating to the dynamics of these contracts is omitted.

11.3 Trends in the book value of insurance contracts issued broken down by elements underlying the measurement

The book value of the insurance contracts relating to the life segment totalled 12,208.1 million and refers to:

- insurance contracts issued with direct participation features - Life business segment for 12,201.1 million;
- insurance contracts issued without direct participation features - Life business segment for 7.0 million.

The following table shows the changes in the book value relating to contracts issued with direct participation features (basis of aggregation 1) relating to the life business segment.
Due to their insignificance, the table relating to changes in the book value of contracts issued without direct participation features (basis of aggregation 2) is omitted.
There are also no investment contracts issued with discretionary participation features (basis of aggregation 5).

11.3 a) Basis of aggregation 1 = Insurance contracts issued with direct participation features - Life business segment

Items/Elements underlying measurement	Elements underlying the measurement of the book value of insurance contracts issued				Elements underlying the measurement of the book value of insurance contracts issued			
	Present value of cash flows 31/12/2023	Adjustment for non-financial risks 31/12/2023	Contractual service margin 31/12/2023	Total 31/12/2023	Present value of cash flows 31/12/2022	Adjustment for non-financial risks 31/12/2022	Contractual service margin 31/12/2022	Total 31/12/2022
A. Opening book value								
1. Insurance contracts issued - liabilities	4,162,755	58,194	60,154	4,281,103	-	-	-	-
2. Insurance contracts issued - assets	-	-	-	-	-	-	-	-
3. Net book value as at 1 January	**4,162,755**	**58,194**	**60,154**	4,281,103	**-**	**-**	-	**-**
B. Changes relating to current services								
1. Contractual service margin recorded in the income statement	-	-	(21,042)	(21,042)	-	-	(6,256)	(6,256)
2. Change for past due non-financial risks	-	(5,997)	-	(5,997)	-	(611)	-	(611)
3. Changes related to experience	5,292	-	-	5,292	(3,264)	-	-	(3,264)
4. Total	**5,292**	**(5,997)**	**(21,042)**	**(21,747)**	(3,264)	(611)	(6,256)	(10,131)
C. Changes relating to future services								
1. Changes in the contractual service margin	154,550	(24,534)	(130,016)	-	(200,161)	28,526	171,635	-
2. Losses on groups of onerous contracts and related recoveries	-	-	1,750	1,750	-	-	-	-
3. Effects of contracts initially recognised in the reference year	(25,707)	2,844	22,863	-	(11,558)	3,047	8,511	-
4. Total	**128,843**	**(21,690)**	**(105,403)**	**1,750**	(211,719)	31,573	180,146	-
D. Changes relating to past services								
1. Adjustments to liabilities for claims	99	-	-	99	868	-	-	868
2. Changes related to experience	-	-	-	-	-	-	-	-
3. Total	**99**	**-**	**-**	**99**	868	**-**	-	868
E. Profit (loss) on insurance services (B+C+D)	**134,234**	**(27,687)**	**(126,445)**	**(19,898)**	(214,114)	30,963	173,889	(9,262)
F. Costs/revenues of a financial nature								
1. Relating to insurance contracts issued	147,857	-	172,242	320,099	10,873	-	(185,614)	(174,741)
1.1 Recorded in the income statement	148,200	-	(2,673)	145,527	10,873	-	40,761	51,634
1.2 Recorded in the statement of comprehensive income	(343)	-	174,915	174,572	-	-	(226,375)	(226,375)
2. Effects associated with changes in exchange rates	-	-	-	-	-	-	-	-
3. Total	**147,857**	**-**	**172,242**	**320,099**	10,873		(185,614)	(174,741)
G. Total amount of changes recorded in the income statement and the statement of comprehensive income (E+F)	**282,091**	**(27,687)**	**45,797**	**300,201**	(203,241)	30,963	(11,725)	(184,003)
H. Other changes	**7,538,528**	**28,950**	**186,400**	**7,753,878**	4,319,088	27,231	71,878	4,418,198
I. Cash movements								
1. Premiums received	793,696	-	-	793,696	357,436	-	-	357,436
2. Payments associated with contract acquisition costs	(6,211)	-	-	(6,211)	(5,698)	-	-	(5,698)
3. Claims paid and other cash outflows	(921,563)	-	-	(921,563)	(304,830)	-	-	(304,830)
4. Total	**(134,078)**	**-**	**-**	**(134,078)**	**46,908**	**-**	**-**	**46,908**
L. Net book value as at 31 December (A.3+G+H+I.4)	**11,849,296**	**59,457**	**292,351**	**12,201,104**	**4,162,755**	**58,194**	**60,154**	**4,281,103**
M. Closing book value								
1. Insurance contracts issued - liabilities	11,878,505	59,457	292,351	12,230,313	**4,162,755**	**58,194**	**60,154**	**4,281,103**
2. Insurance contracts issued - assets	(29,209)	-	-	(29,209)	-	-	-	-
3. Net book value as at 31 December	**11,849,296**	**59,457**	**292,351**	**12,201,104**	**4,162,755**	**58,194**	**60,154**	**4,281,103**

11.4 Trends in insurance revenues and the contractual service margin of insurance contracts issued broken down on the basis of existing contracts at the time of transition to IFRS 17

Please refer to the table in Part A of these Notes to the financial statements in the Section "Impacts of the transition to IFRS 17 Insurance contracts".

11.5 Elements underlying the measurement of insurance contracts issued recognised in financial year

11.5 a) Basis of aggregation 1 = Insurance contracts issued with direct participation features - Life business segment

Items/Groups of contracts	Originated contracts 31/12/2023			Contracts acquired in business combinations 31/12/2023			Contracts transferred from third parties 31/12/2023			Originated contracts 31/12/2022			Contracts acquired in business combinations 31/12/2022			Contracts transferred from third parties 31/12/2022		
	Onerous contracts	Non-onerous contracts	Total	Onerous contracts	Non-onerous contracts	Total	Onerous contracts	Non-onerous contracts	Total	Onerous contracts	Non-onerous contracts	Total	Onerous contracts	Non-onerous contracts	Total	Onerous contracts	Non-onerous contracts	Total
A. Estimate of the present value of future cash flows in																		
1. Contract acquisition costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Amount of claims and other directly attributable costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Total	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Estimate of the present value of future cash inflows	-	21,716	21,716	-	-	-	-	-	-	-	11,558	11,558	-	-	-	-	-	-
C. Estimate of the net present value of future cash flows (A-B)	**-**	**(21,716)**	**(21,716)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(11,558)**	**(11,558)**	**-**	**-**	**-**	**-**	**-**	**-**
D. Estimated adjustment for non-financial risks	-	2,576	2,576	-	-	-	-	-	-	-	3,047	3,047	-	-	-	-	-	-
E. Derecognition of assets already recognised against cash flows associated with insurance contracts issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
F. Contractual service margin	-	19,140	19,140	-	-	-	-	-	-	-	8,511	8,511	-	-	-	-	-	-
G. Increase included in liability for insurance contracts issued during the year (C+D+E+F)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Insurance contracts issued - Contractual Service Margin broken down by expected timing of recognition in income statement

As highlighted in Part G of these Notes to the financial statements, the Purchase Price Allocation (PPA) relating to the acquisition of control of Vera Vita and its subsidiary BBPM Life Dac was determined provisionally. Therefore, it cannot be ruled out that the final results of the PPA process, which is expected to be completed by the end of 2024, may entail a more accurate estimate of the amount of the contractual service margin (CSM) and the relative timing for release to the Income Statement.

Given the above, as at 31 December 2023, the CSM amounted to a total of approximately 290 million (of which approximately 185 million relating to the companies acquired in December 2023 (Vera Vita and BBPM Life)).
With regard to the information required by IFRS 17 (paragraphs 98 and 109), it should be noted that the estimated release times are approximately 30% in the next three years (2024-2026) and a further 36% in the following ten years (2027-2037); the remaining 34% will be released from the year 2038 until the expiry date of the contracts.

11.6 Insurance contracts issued - Development of claims gross of reinsurance (Non-Life business segment)

This case is not relevant to the Group, therefore the relative table has been omitted.

11.7 Insurance contracts issued - Development of claims net of reinsurance (Non-Life business segment)

This case is not relevant to the Group, therefore the relative table has been omitted.

11.8 Insurance contracts issued - Assets connected with the acquisition of insurance contracts - Trends in the book value

This case is not relevant to the Group, therefore the relative table has been omitted.

11.9 Insurance contracts issued - Assets connected with the acquisition of insurance contracts - Expected timing of derecognition

This case is not relevant to the Group, therefore the relative table has been omitted.

Section 12 - Redeemable shares – Item 130

12.1 Redeemable shares: breakdown

The Group has no redeemable shares as at the reporting date, nor did it as at 31 December 2022.

Section 13 - Group equity Items 120, 130, 140, 150, 160, 170 and 180

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

The share capital as at 31 December 2023 was 7,100 million and consisted of 1,515,182,126 ordinary shares, fully subscribed and paid up.

The “own shares” item is represented by 6,958,684 shares of the Parent Company, fully held by the same, for a book value of 22.9 million.

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

Items/Types	Ordinary	Other
A. Outstanding shares at the beginning of the year	**1,515,182,126**	**-**
- fully paid-up	1,515,182,126	-
- not fully paid-up	-	-
A.1 Own shares (-)	(6,159,480)	-
A.2 Shares in issue: opening balances	**1,509,022,646**	**-**
B. Increases	**1,623,651**	**-**
B.1 New issues	-	-
- against payment:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- free of charge:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sale of own shares	1,623,651	-
B.3 Other changes	-	-
C. Decreases	**(2,422,855)**	**-**
C.1 Cancellation	-	-
C.2 Purchase of own shares	(2,422,855)	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares in issue: closing balances	**1,508,223,442**	**-**
D.1 Own shares (+)	6,958,684	-
D.2 Outstanding shares at the end of the year	1,515,182,126	-
- fully paid-up	1,515,182,126	-
- not fully paid-up	-	-

Item B.2 includes shares assigned during the year to employees, implementing remuneration and incentive policies.
Item C.2 refers to the shares purchased by the Parent Company in March 2023, in execution of the resolution of the Ordinary Shareholders' Meeting of Banco BPM S.p.A. of 7 April 2022, in connection with the share-based compensation plans implemented by the Parent Company.
For further details, please refer to Part I of these Notes to the consolidated financial statements.
Both items also include 4,000 shares purchased and sold with reference to transactions with customers of the so-called "error account".

13.3 Share capital: other information

There is no other information worthy of note with respect to that already provided in the previous points of this section.

13.4 Profit reserves: other information

Group Reserves recognised under item 150 of the Balance Sheet liabilities amount to a total of 4,507.1 million, classified as follows:

- Profit reserves of 4,157.0 million;
- Other reserves of 350.1 million.

Please see the "Statement of changes in consolidated shareholders' equity" for evidence of changes in the Reserves during 2023, as well as the schedule included in the Notes to Banco BPM separate financial statements for the information required under Art. 2427 of the Italian Civil Code.

Lastly, note that the Parent Company has a "Legal Reserve" within its own capital reserves, established in accordance with the provisions of Art. 2430 of the Italian Civil Code, that corresponds to one fifth of share capital, and amounts to 1,420.0 million.

13.5 Equity instruments: breakdown and annual changes

Equity instruments outstanding as at 31 December 2023 amounted to 1,465.8 million (1,389.8 million at the end of the previous year) and were represented by five issues of Additional Tier 1 securities for a nominal total of around 1.5 billion: the first in April 2019, for 300 million (and partially repurchased in November 2023 for 223.3 million), the second completed in January 2020, for 400 million, the third in January 2021, for 400 million, the fourth in April 2022, for 300 million, and the last one concluded in November 2023, for 300 million.
These were, in particular, subordinated instruments classified in Additional Tier 1 capital, under the terms of Regulation no. 575 of 2013 (CRR).
Such issues are classifiable as equity instruments under the terms of the accounting standard IAS 32. The price received from the issue, after deducting the directly-attributable transaction costs net of the tax effect was recognised in the item "140. Equity instruments".
In line with the nature of the instrument, during the year, they were recognised as a decrease of shareholders' equity (item "150. Reserves"):

- the coupons paid for an amount of 70.1 million (96.7 million, net of the relative tax effect of 26.6 million);
- the difference between the amount paid for the aforementioned partial repurchase of the perpetual bond loan (233.2 million, which includes the higher repayment price with respect to the nominal price and the coupon recognised from 18 June to 29 November 2023), and the relative book value (221.9 million).

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

13.6 Other information

There is no other information worthy of note with respect to that already provided in previous sections.

Section 14 - Non-controlling interests - Item 190

14.1 Breakdown of item 190 "Non-controlling interests"

Company names	31/12/2023	31/12/2022
Interests in consolidated companies with significant non-controlling interests	-	-
Other interests	68	720
Total	**68**	**720**

14.2 Equity instruments: breakdown and annual changes

There are no financial instruments issued by companies of the Group not subject to full control.

Other information

1. Commitments and financial guarantees given

	Nominal value of commitments and financial guarantees given				Total 31/12/2023	Total 31/12/2022
	Stage 1	Stage 2	Stage 3	Acquired or originated impaired		
1. Commitments to disburse funds	**47,084,466**	**2,013,549**	**324,742**	**21,135**	**49,443,892**	**45,810,302**
a) Central Banks	-	-	-	-	-	-
b) Public Administrations	2,129,810	3,666	1,775	-	2,135,251	1,453,441
c) Banks	1,760,604	111,668	-	-	1,872,272	1,925,949
d) Other financial companies	3,011,071	167,052	3,364	-	3,181,487	2,923,508
e) Non-financial companies	37,944,440	1,645,915	315,522	21,029	39,926,906	36,962,879
f) Households	2,238,541	85,248	4,081	106	2,327,976	2,544,525
2. Financial guarantees given	**432,108**	**33,692**	**24,360**	**-**	**490,160**	**510,161**
a) Central Banks	-	-	-	-	-	-
b) Public Administrations	6,534	-	-	-	6,534	10,217
c) Banks	13,598	-	-	-	13,598	33,739
d) Other financial companies	24,528	1,491	16	-	26,035	35,779
e) Non-financial companies	339,674	27,052	22,764	-	389,490	370,942
f) Households	47,774	5,149	1,580	-	54,503	59,484

2. Other commitments and guarantees given

	Nominal value	
	Total 31/12/2023	Total 31/12/2022
1. Other guarantees given	**8,135,560**	**7,934,797**
of which: non-performing credit exposures	342,056	321,959
a) Central Banks	-	-
b) Public Administrations	9,074	9,043
c) Banks	290,979	460,782
d) Other financial companies	228,203	238,336
e) Non-financial companies	7,482,908	7,093,296
f) Households	124,396	133,340
2. Other commitments	**4,194,865**	**2,919,352**
of which: non-performing credit exposures	3,979	3,946
a) Central Banks	-	-
b) Public Administrations	12,718	9,643
c) Banks	129,315	145,594
d) Other financial companies	1,540,346	315,737
e) Non-financial companies	703,733	719,296
f) Households	1,808,753	1,729,082

3. Assets pledged to secure own liabilities and commitments

Portfolios	Amount 31/12/2023	Amount 31/12/2022
1. Financial assets at fair value through profit and loss	879,104	511,237
2. Financial assets measured at fair value through other comprehensive income	5,057,899	4,155,277
3. Financial assets at amortised cost	57,732,164	49,505,541
4. Property, plant and equipment	-	-
of which: property, plant and equipment classified as inventories	-	-

Assets pledged to secure own liabilities and commitments recognised under balance sheet assets totalled 63,669.2 million, mostly attributable to the Parent Company. These refer to:

- 17,270.7 million (15,811.5 million in 2022) in financial assets relating to mortgage loans transferred by the Parent Company to the SPEs, to guarantee the holders of covered bonds issued as described in detail in the section D.4 Prudential consolidation - Covered bond transactions, contained in Part E - Section 1.1 of these Notes;
- 23,856.3 million (24,527.6 million in 2022) in loans serving to guarantee financing operations with central banks (Abaco);
- 21,551.4 million (9,678.0 million in 2022) in securities underlying repurchase agreements and securities lending;
- 178.2 million (3,296.4 million in 2022) in securities pledged as security for other transactions;
- 219 million (364.7 million in 2022) in financial assets, referring to mortgages sold to the special purpose entities of the securitisation transactions;
- 47.8 million (108.9 million in 2022) in assets serving to guarantee financing operations received from Cassa Depositi e Prestiti;
- 545.7 million (385.0 million in 2022) in guarantee deposits for the securitisation of Master Agreements signed by Group companies and to the deposits for variation margins with central counterparties relating to transactions in OTC derivatives. These deposits are shown in the financial statements under item "40. Financial assets at amortised cost".

In addition, attention is drawn to the following assets, which are not represented from an accounting perspective in balance sheet assets, used as part of the collateral for the loans received from the ECB, which, as at 31 December 2023 were mainly comprised by long-term refinancing operations called "TLTRO III", for a nominal value of 15.7 billion (nominal value of 26.7 billion in 2022):

- securities deriving from own asset securitisation transactions for 639 million (2,380.2 million in 2022);
- covered bond issues repurchased for a nominal value of 0.8 million (3,001.8 million in 2022).

Lastly, we note that at the reporting date there were covered funding operations represented by repurchase agreements payable with underlying securities acquired in the context of reverse repurchase agreements. The book value of these reverse repurchase agreements, recognised among loans to banks and customers, based on the counterparty, amounted to 1,219.7 million (555.2 million in 2022), with nominal value of 1,239.5 million (565.2 million in 2022).

4. Breakdown of investments against unit-linked and index-linked policies

Items	Services relating to investment funds and market indices
Breakdown of financial assets underlying unit-linked policies:	
- UCIT units	4,510,298
- Equity instruments	55,749
- Loans and debt securities	665,164
Total	**5,231,211**
of which: intercompany loans	(379,469)
Other financial assets mandatorily measured at fair value	**4,851,743**
Financial liabilities designated at fair value	**2,794,068**

The table above provides the breakdown of the investments underlying unit-linked policies (5,231.2 million), in the consolidated financial statements, the above-mentioned investments are represented in the accounting portfolio of financial assets measured at fair value as described in "Part A - Accounting policies". The book value net of intercompany investments amounts to 4,851.7 million.

With reference to financial liabilities, it should be noted that the significant difference with respect to the balance of assets is attributable to a different approach in terms of classification of the underlying contracts. Specifically, approximately 2 billion of assets are not immediately represented in Financial liabilities designated at fair value, but in item "110 a) Insurance contracts issued - liabilities", which are mainly attributable to the liabilities underlying the Unit Linked products of Vera Vita in line with what is allowed by IFRS 17.

5. Management and brokering for third parties

Type of services	Amount
1. Execution of customer orders	
a) purchases	110,202,305
1. settled	109,632,931
2. not settled	569,374
b) sales	110,412,019
1. settled	109,882,530
2. not settled	529,489
2. Portfolio management	**3,344,143**
a) individual	3,344,143
b) collective	-
3. Securities custody and administration	
a) third party securities under custody: associated with custodian bank services (excluding portfolio management)	-
1. securities issued by companies included in the scope of consolidation	-
2. other securities	-
b) third party securities under custody (excluding portfolio management): other	67,699,767
1. securities issued by companies included in the scope of consolidation	5,966,583
2. other securities	61,733,184
c) third party securities under custody with third parties	67,086,267
d) own securities under custody with third parties	48,349,633
4. Other transactions	**53,093**

Financial assets and liabilities subject to offsetting in financial statements, or subject to master netting arrangements or similar arrangements

This section provides the information required under standard IFRS 7 relative to "offsetting of financial assets and liabilities" for financial instruments which:

- were offset in the balance sheet pursuant to IAS 32;
- could potentially be offset, given certain conditions, but presented in the balance sheet as open balances, as they are governed by "master netting arrangements or similar arrangements", which do not meet the criteria established in IAS 32 for offsetting.

In providing disclosure on these agreements, the standard also requires that the effects of real financial collateral (including guarantees in cash equivalents) received or granted be taken into effect.

More specifically, instruments offset in the balance sheet pursuant to IAS 32 refer to certain repurchase agreements entered into by the Parent Company with Banks and some over-the-counter (OTC) financial derivatives entered into by individual Group companies with the counterparty London Clearing House (LCH).

In particular, the amounts offset shown in tables 6 and 7 below, corresponding to the columns "Amount of financial liabilities offset in the financial statements (b)" and "Amount of financial assets offset in the financial statements (b)", amounted to 959.9 million, of which 95.8 million relative to repurchase agreements the effect of which decreases the following balance sheet items:

- 40. Financial assets at amortised cost
  a) loans to banks - offset for 95.8 million;
- 10. Financial liabilities at amortised cost - offset for 95.8 million;
  b) debt securities in issue - offset for 95.8 million.

The effect of the offset decreasing "debt securities in issue" is due to the representation used for funding repurchase agreements with the use of repurchased own issues.

The remaining 864.1 million relating to derivative instruments offset at the level of individual Group company are represented as a decrease of the following balance sheet items:

- 20. Financial assets at fair value through profit and loss
  a) Financial assets held for trading – offset for 505.4 million;
- 50. Hedging derivatives – offset for 358.7 million;
- 20. Financial liabilities held for trading – offset for 505.4 million;
- 40. Hedging derivatives – offset for 358.7 million.

For instruments that could potentially be offset, should certain events occur and that would be presented in tables 6 and 7 below in the column "Related amounts not subject to offsetting in the financial statements", note that the Group has the following agreements in place:

- for derivative instruments: "ISDA Master Agreement" and netting arrangements with clearing houses;
- for repurchase agreements and reverse repurchase agreements: "Global Master Repurchase Agreements (GMRA)" and netting arrangements with "Cassa di Compensazione e Garanzia (CC&G)";
- for securities lending transactions: "Global Master Securities Lending Agreements (GMSLA)".

With regards to derivatives, whether for trading or hedging, note that:

- those with a positive fair value amount to 2,872.8 million (recognised under items 20 and 50 of the balance sheet assets) of which, net of offsetting, 2,791.6 million (3,655.7 million gross) is supported by netting agreements (97.2% in percentage terms), as indicated in table 6 (columns c) and a));
- those with a negative fair value amount to 2,808.5 million (recognised under items 20 and 40 of balance sheet liabilities) of which, net of offsetting, 2,237.4 million (3,101.5 million gross) is supported by netting agreements (79.7% in percentage terms), as indicated in table 7 (columns c) and a)). Positions not covered by netting arrangements for the most part refer to interest rate swap contracts signed by Banco BPM customers, which as at 31 December 2023 had a negative fair value of 388.6 million.

With reference to securities lending transactions, it should be noted that tables 6 and 7 below include operations which involve the payment of cash guarantees which are fully available to the lender, as these are single operations recognised in the balance sheet. For the purposes of reconciliation with the balance sheet figures for securities lending transactions and repurchase agreements falling under netting or similar arrangements, note that these operations are represented under the items "Reverse repurchase agreements/repurchase agreements" indicated in the tables showing the breakdown of loans to/due to banks and customers and financial assets and liabilities held for trading, based on the type of counterparty and the purpose of the transactions, found in Part B - Information on the consolidated balance sheet. Note that table 7 shows 7,087.2 million (gross amount) in funding repurchase agreements with the use of its own issues repurchased which, net of the 95.8 million offset as reported above, are recognised in the financial statements and in the relative tables of Part B. "Item 10. Financial liabilities at amortised cost – c) Debt securities in issue" for 6,991.4 million (net amount), while some securities lending transactions to customers guaranteed in cash without netting arrangements are not reported for 1.7 million, which represent the differences with respect to that shown in the tables in Part B.

For the purposes of creating tables 6 and 7 below, in line with standard IFRS 7 and the instructions contained in Circular 262, note that:

- the effects of potential offsetting of financial statement values for financial assets and liabilities are indicated in column (d) "Financial instruments", together with the fair value of the real financial guarantees represented by securities;
- the effects of potential offsetting for the exposure with the relative cash guarantees are shown under column (e) "Cash deposits received/given as guarantee".

These effects are calculated for each individual counterparty supported by a master netting arrangement within the limits of the net exposure indicated under column (c).

Based on the methods identified above, netting arrangements between financial instruments and the relative financial guarantees make it possible to significantly decrease the creditor/debtor exposure relative to the counterparty, as indicated in column (f) "Net amount" in tables 6 and 7 below.

6. Financial assets subject to offsetting in financial statements, or subject to master netting arrangements or similar arrangements

Technical forms	Gross amount of financial assets (a)	Amount of financial liabilities offset in the financial statements (b)	Net amount of financial assets presented in the financial statements (c=a-b)	Related amounts not subject to offsetting in the financial statements		Net amount (f=c-d-e) 31/12/2023	Net amount 31/12/2022
				Financial instruments (d)	Cash deposits received as guarantee (e)		
1. Derivatives	3,655,724	864,086	2,791,638	1,854,196	851,345	86,097	118,510
2. Repurchase agreements	5,767,199	95,843	5,671,356	5,664,875	6,481	-	2,136
3. Securities lending	30,430	-	30,430	29,306	-	1,124	83,310
4. Other	-	-	-	-	-	-	-
Total 31/12/2023	**9,453,353**	**959,929**	**8,493,424**	**7,548,377**	**857,826**	**87,221**	**X**
Total 31/12/2022	**8,658,499**	**1,398,989**	**7,259,510**	**5,008,496**	**2,047,058**	**X**	**203,956**

7. Financial liabilities subject to offsetting in the financial statements, or subject to master netting arrangements or similar arrangements

Technical forms	Gross amount of financial liabilities (a)	Amount of financial assets offset in the financial statements (b)	Net amount of financial liabilities presented in the financial statements (c=a-b)	Related amounts not subject to offsetting in the financial statements		Net amount (f=c-d-e) 31/12/2023	Net amount 31/12/2022
				Financial instruments (d)	Cash deposits pledged as collateral (e)		
1. Derivatives	3,101,518	864,086	2,237,432	1,854,196	270,935	112,301	204,217
2. Repurchase agreements	28,984,147	95,843	28,888,304	28,850,116	22,133	16,055	13,050
3. Securities lending	683,042	-	683,042	679,283	-	3,759	57,616
4. Other transactions	-	-	-	-	-	-	-
Total 31/12/2023	**32,768,707**	**959,929**	**31,808,778**	**31,383,595**	**293,068**	**132,115**	**X**
Total 31/12/2022	**18,229,800**	**1,398,989**	**16,830,811**	**16,211,857**	**344,071**	**X**	**274,883**

8. Securities lending transactions

The table below provides information about Group securities lending transactions (receivable and payable), broken down by the type of securities (government, bank, other), market counterparty (bank, financial brokers, customers) and the relative technical forms (loan guaranteed by cash or by other securities).
These are mainly carried out by the Parent Company Banco BPM and the subsidiary Banca Akros. Securities obtained as a loan are, as a rule, used for mirrored securities lending transactions (where the Group is the lender) or as underlying assets for repurchase agreements for funding.
Note that securities lending transactions that involve the payment of cash guarantees that are fully available to the lender are represented in the balance sheet in the loans to/due to banks or customers, in the technical form of "repurchase agreements". Securities lending transactions with guarantees consisting of other securities or cash, which are not fully available to the lender, are not indicated in the balance sheet, but are included among off-balance sheet exposures with regards to the relative counterparty risk.

The table below provides information about receivables and payables recognised in the financial statements as at 31 December 2023 against securities received and given in cash-backed loans. Transactions not included in the balance sheet, as noted in the previous paragraph, are exposed on the basis of the fair value of the securities loaned, whether received or given.

Type of securities lending transaction	Type of securities		
	Government securities	Bank securities	Other securities
Cash-backed loaned securities received - Loans to:			
a) Banks	-	1,836	24,446
b) Financial intermediaries	-	-	4,147
c) Customers	-	-	-
Total receivables for securities lending	**-**	**1,836**	**28,593**
Security or cash-backed loaned securities received not available to the lender from:			
b) Financial intermediaries	-	-	459,523
c) Customers	-	224	610,323
Total (fair value)	**-**	**224**	**1,069,846**
Cash-backed loaned securities given - Due to:			
a) Banks	-	35,922	608,002
b) Financial intermediaries	-	1,485	37,634
c) Customers	-	-	1,718
Total payables for securities lending	**-**	**37,407**	**647,354**
Security-backed or non-guaranteed loaned securities given:			
a) Banks	-	210	686,879
b) Financial intermediaries	-	-	-
c) Customers	-	-	718,593
Total (fair value)	**-**	**210**	**1,405,472**

9. Information on joint operations

As at the reporting date, as in the previous year, there were no joint control agreements classifiable as "joint operations" pursuant to accounting standard IFRS 11, on the basis of which the parties holding joint control have rights over the assets and obligations regarding the liabilities relative to the agreement.

PART C – INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

Section 1 - Interest – Items 10 and 20

1.1 Interest and similar income: breakdown

Items/Technical forms	Debt securities	Loans	Other transactions	Total 2023	Total 2022
1. Financial assets at fair value through profit and loss:	17,519	9,429	-	26,948	23,318
1.1 Financial assets held for trading	11,299	2,911	-	14,210	14,625
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	6,220	6,518	-	12,738	8,693
2. Financial assets measured at fair value through other comprehensive income	250,086	-	X	250,086	139,830
3. Financial assets at amortised cost:	607,106	5,159,676	-	5,766,782	2,517,038
3.1 Loans to banks	42,831	948,407	X	991,238	179,867
3.2 Loans to customers	564,275	4,211,269	X	4,775,544	2,337,171
4. Hedging derivatives	X	X	434,293	434,293	(11,399)
5. Other assets	X	X	80,567	80,567	37,434
6. Financial liabilities	X	X	X	473	230,832
Total	**874,711**	**5,169,105**	**514,860**	**6,559,149**	**2,937,053**
of which: interest income on impaired financial assets	104	112,408	-	112,512	83,991
of which: interest income on finance leases	X	31,073	X	31,073	20,418

Item 1.1 “Financial assets held for trading – Other transactions” includes the spreads of the derivative contracts operationally connected with the financial liabilities issued by the Bank measured at fair value (FVO).

Item 4 “Hedging derivatives - Other transactions” includes the spreads accrued of the financial hedging derivative contracts for transactions on balance sheet assets

Item 5 “Other assets - Other transactions” totalling 80.6 million includes 5.3 million in interest income on tax credits and 70.1 million for interest income relating to transactions linked to “Ecobonus” credits.

Interest income on impaired assets is recorded according to the methods set out in IFRS 9. In particular, they include the effect attributable to the “time reversal” due to the recoveries from discounting non-performing loans.

1.2 Interest and similar income: other information

1.2.1 Interest income on financial assets in foreign currency

Items	2023	2022
Interest income on financial assets in foreign currency	246,716	130,219

1.3 Interest and similar expense: breakdown

Items/Technical forms	Payables	Securities	Other transactions	Total 2023	Total 2022
1. Financial liabilities at amortised cost	(1,812,201)	(426,490)		(2,238,691)	(493,998)
1.1 Due to central banks	(703,543)	X	X	(703,543)	-
1.2 Due to banks	(244,694)	X	X	(244,694)	(105,752)
1.3 Due to customers	(863,964)	X	X	(863,964)	(134,625)
1.4 Debt securities in issue	X	(426,490)	X	(426,490)	(253,621)
2. Financial liabilities held for trading	(583,068)	-	(32)	(583,100)	(21,246)
3. Financial liabilities designated at fair value	-	(62)	-	(62)	(138)
4. Other liabilities and provisions	X	X	(1,026)	(1,026)	(791)
5. Hedging derivatives	X	X	(365,312)	(365,312)	13,114
6. Financial assets	X	X	X	(156)	(92,528)
Total	**(2,395,269)**	**(426,552)**	**(366,370)**	**(3,188,347)**	**(595,587)**
of which: interest expense relating to lease payables	(8,991)	X	X	(8,991)	(7,011)

Item 1.1 "Due to central banks" refers entirely to interest expense on funding from ECB TLTRO III operations and compares with a positive balance in 2022 (+181.4 million). The different contribution depends on the joint effect of the increase in interest rates starting from the second half of 2022, the elimination of the favourable remuneration mechanisms, as well as on the different nominal value of calculation attributable to repayments made during the year (11 billion).
For the accounting treatment and for further details on the recognition of the interest related to TLTRO III loans, please refer to "Part A – Accounting Policies – Other significant aspects relating to Group accounting policies" contained in these Notes.

Item 5 "Hedging derivatives - Other transactions" include the spreads accrued of the financial hedging derivative contracts for transactions on balance sheet liabilities.

1.4 Interest and similar expense: other information

1.4.1 Interest expense on financial liabilities in foreign currency

Items	2023	2022
Interest expense on financial liabilities in foreign currency	(34,773)	(11,175)

1.5 Hedging spreads

Items	2023	2022
A. Positive hedging spreads:	1,133,937	195,193
B. Negative hedging spreads:	(1,064,956)	(193,478)
C. Balance (A-B)	**68,981**	**1,715**

Section 2 - Fees and commissions – Items 40 and 50

2.1 Fee and commission income: breakdown

Service type/Amounts	Total 2023	Total 2022
a) Financial instruments	131,056	113,953
1. Placement of securities	11,389	19,801
1.1 With underwriting commitments and/or on the basis of an irrevocable commitment	929	3,373
1.2 Without irrevocable commitment	10,460	16,428
2. Receipt and transmission of orders and execution of orders for customers	85,029	60,727
2.1 Receipt and transmission of orders for one or more financial instruments	58,729	38,941
2.2 Execution of orders for customers	26,300	21,786
3. Other fees and commissions relating to activities associated with financial instruments	34,638	33,425
of which: own account trading	-	-
of which: individual portfolio management	27,695	26,213
b) Corporate Finance	6,767	13,763
1. Merger and acquisition advisory services	5,748	8,725
2. Treasury services	1,019	5,038
3. Other fees and commissions with corporate finance services	-	-
c) Investment advisory activities	2,541	1,075
d) Offsetting and settlement	-	-
e) Collective portfolio management	-	-
f) Custody and administration	12,628	11,067
1. Custodian bank	-	-
2. Other fees and commissions related to custody and administration activities	12,628	11,067
g) Central administrative services for collective portfolio management	-	-
h) Trust activities	1,903	2,013
i) Payment services	619,591	563,267
1. Current accounts	241,859	255,409
2. Credit cards	25,867	25,805
3. Debit cards and other payment cards	92,661	80,677
4. Bank transfers and other payment orders	253,021	193,889
5. Other fees and commissions relating to payment services	6,183	7,487
j) Distribution of third party services	650,310	737,854
1. Collective portfolio management	446,583	499,750
2. Insurance products	95,255	116,836
3. Other products	108,472	121,268
of which: individual portfolio management	1,141	1,315
k) Structured finance	587	225
l) Servicing for securitisation transactions	-	-
m) Commitments to disburse funds	-	-
n) Financial guarantees given	88,522	82,210
of which: credit derivatives	-	-
o) Financing operations	165,676	159,317
of which: for factoring transactions	-	-
p) Foreign currency trading	3,078	3,573
q) Commodities	-	-
r) Other fee and commission income	309,679	310,072
of which: for management of multilateral trading facilities	-	-
of which: for management of organised trading facilities	-	-
Total	**1,992,338**	**1,998,389**

Sub-item r) "Other fee and commission income" includes fees for making funds available (Credit Availability Fee) of 246.1 million (241.4 million the previous year) and fee and commission income from securities lending of 2.4 million (10.5 million the previous year).

It should be specified that, in relation to Group operations, cash flows associated with fees recognised in the income statement for 2023 involve limited uncertainties, in that these are fees accrued, and largely collected, against the provision of financial services which are now complete. Operating receivables relative to services provided but not yet received are, in fact, of an insignificant amount, as illustrated in "Section 4 - Financial assets at amortised cost", in Part B of the Balance sheet assets in these Notes.
For certain revenues associated with the placement of single premium insurance policies, the risk of returning a portion of the commissions received to the insurance company against early termination of said policies by the customers is protected against through the allocation of adequate provisions, as illustrated in Section 10 – Provisions for risks and charges, in Part B - Liabilities of these Notes.
To that end, also note that adjustments in fees recognised in 2023, against services rendered in previous years amounted to a negative 5.2 million, equal to the difference between the verification of greater revenues of 9.0 million and lower revenues of 14.2 million, mainly relating to the distribution of third-party services.

2.2 Fee and commission expense: breakdown

Type of services/Amounts	**Total 2023**	**Total 2022 (*)**
a) Financial instruments	(14,024)	(15,889)
of which: financial instrument trading	(7,730)	(7,252)
of which: placement of financial instruments	(6,294)	(8,635)
of which: individual portfolio management	-	-
- Own	-	-
- Delegated to third parties	-	-
b) Offsetting and settlement	(3,969)	(1,802)
c) Collective portfolio management	-	-
1. Own	-	-
2. Delegated to third parties	-	-
d) Custody and administration	(13,159)	(11,321)
e) Collection and payment services	(59,714)	(57,169)
of which: credit cards, debit cards and other payment cards	(49,878)	(46,924)
f) Servicing for securitisation transactions	-	-
g) Commitments to receive funds	-	-
h) Financial guarantees received	(70,190)	(32,474)
of which: credit derivatives	-	-
i) Off-site offer of financial instruments, products and services	(4,385)	(6,093)
j) Foreign currency trading	(4)	(5)
k) Other fee and commission expense	(36,756)	(19,143)
Total	**(202,201)**	**(143,896)**

(*) The figures for the previous year have been restated, for a like-for-like comparison with 2023, reclassifying commissions previously linked to trading commissions under sub-item b) "Offsetting and settlement".

Line "h) Financial guarantees received" includes 62.2 million (25 million in 2022) for the purchase of credit risk protection by the Group as part of the existing synthetic securitisation transactions, as described in "A.2 Key financial statement items - 16 Other information - Synthetic securitisations" of the Notes to the financial statements.

Section 3 - Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

Items/Income	Total 2023		Total 2022	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	45,611	322	39,661	80
B. Other financial assets mandatorily measured at fair value	12,252	14,390	1,135	11,569
C. Financial assets measured at fair value through other comprehensive income	6,914	-	8,395	-
D. Interests in associates and joint ventures	-	-	-	-
Total	**64,777**	**14,712**	**49,191**	**11,649**

Section 4 - Net trading income – Item 80

4.1 Net trading income: breakdown

Transactions/Income components	Capital gains (A)	Trading income (B)	Capital losses (C)	Trading losses (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**172,681**	**172,368**	**(42,470)**	**(111,633)**	**190,946**
1.1 Debt securities	14,901	23,874	(6,720)	(3,776)	28,279
1.2 Equity instruments	157,130	144,850	(35,311)	(107,191)	159,478
1.3 UCIT units	279	386	(419)	(393)	(147)
1.4 Loans	371	-	(20)	-	351
1.5 Other	-	3,258	-	(273)	2,985
2. Financial liabilities held for trading	**5,538**	**3,977**	**(65,455)**	**(59,272)**	**(115,212)**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	93	3,231	(2,062)	(15,180)	(13,918)
2.3 Other	5,445	746	(63,393)	(44,092)	(101,294)
3. Financial assets and liabilities: exchange rate differences	**X**	**X**	**X**	**X**	**(51,346)**
4. Derivative instruments	**2,819,735**	**3,943,950**	**(2,679,342)**	**(4,047,822)**	**60,227**
4.1 Financial derivatives:	2,819,213	3,940,658	(2,675,910)	(4,043,439)	64,228
- On debt securities and interest rates	2,201,680	2,616,772	(2,033,504)	(2,856,374)	(71,426)
- On equity instruments and share indices	601,554	949,534	(627,191)	(812,891)	111,006
- On currencies and gold	X	X	X	X	23,706
- Other	15,979	374,352	(15,215)	(374,174)	942
4.2 Credit derivatives	522	3,292	(3,432)	(4,383)	(4,001)
of which: natural hedges connected with the fair value option	X	X	X	X	-
Total	**2,997,954**	**4,120,295**	**(2,787,267)**	**(4,218,727)**	**84,615**

Sub-item "4. Derivative instruments" include the effects relating to the exercise of the call option of Vera Vita, positive for 32.1 million. For further details on the impacts deriving from transactions relating to the reorganisation of the bancassurance business, please refer to Part G – Business combinations regarding companies or divisions in the Notes to the consolidated financial statements.

It must be specified that, based on the provisions set out in the Bank of Italy Circular no. 262, the specification regarding "of which: natural hedges associated with the fair value option" refers to a specific type of hedge set out in IFRS 9. In that regard it is noted that there are no amounts to be reported, as Banco BPM Group opted to continue using the hedge accounting regime set out in IAS 39.

Section 5 - Fair value gains/losses on hedging derivatives - Item 90

5.1 Fair value gains/losses on hedging derivatives: breakdown

Income components/Amounts	Total 2023	Total 2022
A. Income relating to:		
A.1 Fair value hedging derivatives	1,276,820	2,607,763
A.2 Hedged financial assets (fair value)	2,626,238	814,200
A.3 Hedged financial liabilities (fair value)	68,777	1,405,836
A.4 Cash flow hedging derivatives	5,737	2,759
A.5 Assets and liabilities in foreign currency	-	-
Total gains on hedging derivatives (A)	**3,977,572**	**4,830,558**
B. Charges relating to:		
B.1 Fair value hedging derivatives	(1,658,306)	(1,394,188)
B.2 Hedged financial assets (fair value)	(1,596,670)	(3,369,914)
B.3 Hedged financial liabilities (fair value)	(717,219)	(65,054)
B.4 Cash flow hedging derivatives	(6,623)	-
B.5 Assets and liabilities in foreign currency	-	-
Total losses on hedging derivatives (B)	**(3,978,818)**	**(4,829,156)**
C. Fair value gains/losses on hedging derivatives (A - B)	**(1,246)**	**1,402**
of which: gains/losses of hedging on net positions	-	-

Section 6 - Gains (losses) on disposal/repurchase - Item 100

6.1 Gains (losses) on disposal/repurchase: breakdown

Items/Income components	Total 2023			Total 2022		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets						
1. Financial assets at amortised cost	60,162	(102,754)	(42,592)	249,074	(310,022)	(60,948)
1.1 Loans to banks	19	(122)	(103)	127	(550)	(423)
1.2 Loans to customers	60,143	(102,632)	(42,489)	248,947	(309,472)	(60,525)
2. Financial assets measured at fair value through other comprehensive income	26,400	(11,458)	14,942	41,174	(142,810)	(101,636)
2.1 Debt securities	26,400	(11,458)	14,942	41,174	(142,810)	(101,636)
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**86,562**	**(114,212)**	**(27,650)**	**290,248**	**(452,832)**	**(162,584)**
Financial liabilities at amortised cost	-	-	-	-	-	-
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities in issue	2,737	(1,470)	1,267	38	(3,381)	(3,343)
Total liabilities (B)	**2,737**	**(1,470)**	**1,267**	**38**	**(3,381)**	**(3,343)**

The result shown under item "1.2. Loans to customers" includes profits of 3.1 million deriving from the sale of securities classified in the portfolio of loans to customers, mainly represented by Italian and foreign government securities (2.9 million), as well as the effect of early redemptions of HTC securities.
Excluding this component, the net loss of that item is 45.6 million due to the disposal of the portfolio of bad and unlikely to pay loans.

For more details of the disposal of HTC securities, please see the section "Other significant aspects relating to Group accounting policies", found in Part A - Accounting Policies, Section A.1 - General Part of these Notes.

The result of the disposal of financial assets measured at fair value through other comprehensive income mainly refers to profits from sales of Italian and foreign government securities.

Section 7 - Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss – Item 110

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

Transactions/Income components	Capital gains (A)	Gains on disposal (B)	Capital losses (C)	Losses on disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-
1.2 Loans	-	-	-	-	-
2. Financial liabilities	**97**	**-**	**(127,978)**	**(69,887)**	**(197,768)**
2.1 Debt securities in issue	97	-	(127,978)	(69,887)	(197,768)
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities in foreign currency: exchange rate differences	**X**	**X**	**X**	**X**	**-**
Total	**97**	**-**	**(127,978)**	**(69,887)**	**(197,768)**

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

Transactions/Income components	Capital gains (A)	Gains on disposal (B)	Capital losses (C)	Losses on disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	**207,611**	**51,808**	**(164,095)**	**(6,852)**	**88,472**
1.1 Debt securities	4,406	1,590	(7,794)	(374)	(2,172)
1.2 Equity instruments	12,333	18,156	(2,056)	(2,117)	26,316
1.3 UCIT units	175,127	29,519	(151,500)	(1,121)	52,025
1.4 Loans	15,745	2,543	(2,745)	(3,240)	12,303
2. Financial assets in foreign currency: exchange rate differences	**X**	**X**	**X**	**X**	**(2,769)**
Total	**207,611**	**51,808**	**(164,095)**	**(6,852)**	**85,703**

Section 8 - Net credit impairment losses/recoveries – Item 130

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

Transactions/Income components	Impairment losses (1)						Recoveries (2)				Total 2023	Total 2022
	Stage 1	Stage 2	Stage 3		Acquired or originated impaired		Stage 1	Stage 2	Stage 3	Acquired or originated impaired		
			Write-offs	Other	Write-offs	Other						
A. Loans to banks	**(855)**	**(41)**	**-**	**-**	**-**	**-**	**804**	**27**	**-**	**-**	**(65)**	**(1,493)**
- Loans	(1)	-	-	-	-	-	338	7	-	-	344	(632)
- Debt securities	(854)	(41)	-	-	-	-	466	20	-	-	(409)	(861)
B. Loans to customers	**(3,655)**	**(74,390)**	**(30,942)**	**(770,879)**	**(304)**	**(9,972)**	**49,713**	**1,517**	**310,388**	**13,358**	**(515,166)**	**(479,081)**
- Loans	(211)	(73,930)	(30,942)	(768,380)	(304)	(9,972)	45,230	1,250	310,388	13,358	(513,513)	(473,692)
- Debt securities	(3,444)	(460)	-	(2,499)	-	-	4,483	267	-	-	(1,653)	(5,389)
Total	**(4,510)**	**(74,431)**	**(30,942)**	**(770,879)**	**(304)**	**(9,972)**	**50,517**	**1,544**	**310,388**	**13,358**	**(515,231)**	**(480,574)**

8.2 Net credit impairment losses relating to financial assets measured at fair value through other comprehensive income: breakdown

Transactions/Income components	Impairment losses (1)						Recoveries (2)				Total 2023	Total 2022
	Stage 1	Stage 2	Stage 3		Acquired or originated impaired		Stage 1	Stage 2	Stage 3	Acquired or originated impaired		
			Write-offs	Other	Write-offs	Other						
A. Debt securities	(2,040)	-	-	-	-	-	1,240	-	-	-	(800)	(2,128)
B. Loans	-	-	-	-	-	-	-	-	-	-	-	-
- To customers	-	-	-	-	-	-	-	-	-	-	-	-
- To banks	-	-	-	-	-	-	-	-	-	-	-	-
Total	**(2,040)**	**-**	**-**	**-**	**-**	**-**	**1,240**	**-**	**-**	**-**	**(800)**	**(2,128)**

Section 9 - Gains (losses) from contractual modification without derecognition - Item 140

9.1 Gains (losses) from contractual modification: breakdown

Items/Income components	Total 2023			Total 2022		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets at FV trough other comprehensive income						
Contractual modification on Financial assets at FV through other comprehensive income	-	-	-	-	-	-
Financial assets at amortised cost						
Contractual modification on Financial assets at amortised cost	3,547	(3,082)	465	4,783	(3,070)	1,713
Total	**3,547**	**(3,082)**	**465**	**4,783**	**(3,070)**	**1,713**

The item, positive by 0.5 million, represents the net impact deriving from contractual modification during the year in relation to types of loans that did not entail total or partial derecognition of the previous credit exposure from the financial statements.

Section 10 – Profit (loss) on insurance services – Item 160

10.1 Insurance revenues and costs deriving from insurance contracts issued - breakdown

Items/Basis of aggregation	Basis A1 2023	Basis A2 2023	Basis A3 2023	Basis A4 2023	Basis A5 2023	Total 2023	Basis A1 2022	Basis A2 2022	Basis A3 2022	Basis A4 2022	Basis A5 2022	Total 2022
A. Insurance revenues deriving from insurance contracts issued valued on the basis of GMM and VFA												
A.1 Amounts associated with changes in assets for residual coverage	**57,604**	**6,704**	**-**	**-**	**-**	**64,308**	**-**	**-**	**-**	**-**	**-**	**-**
1. Claims and other expected costs for insurance services	32,203	5,333	-	-	-	37,536	16,961	2,351	-	-	-	19,312
2. Changes in the adjustment for non-financial risks	5,644	353	-	-	-	5,997	556	55	-	-	-	611
3. Contractual service margin recorded in the income statement for services provided	19,757	1,285	-	-	-	21,042	5,606	650	-	-	-	6,256
4. Other amounts	-	(267)	-	-	-	(267)	-	32	-	-	-	32
A.2 Insurance contract acquisition cost recoveries	**988**	**-**	**-**	**-**	**-**	**988**	**367**	**-**	**-**	**-**	**-**	367
A.3 Total insurance revenues deriving from insurance contracts issued valued on the basis of GMM or VFA	**58,592**	**6,704**	**-**	**-**	**-**	**65,296**	23,489	3,089	**-**	**-**	**-**	26,578
A.4 Total insurance revenues deriving from insurance contracts issued valued on the basis of PAA						**39,723**						18,269
- Life business segment	X	X	X	X	X	-	X	X	X	X	X	-
- Non-Life business segment - motor	X	X	X	X	X	3,013	X	X	X	X	X	1,801
- Non-Life business segment - non-motor	X	X	X	X	X	36,710	X	X	X	X	X	16,467
A.5 Total insurance revenues deriving from insurance contracts issued	**58,592**	**6,704**	**-**	**-**	**-**	**105,019**	23,489	3,089	**-**	**-**	**-**	44,847
B. Costs for insurance services deriving from insurance contracts issued – GMM or VFA												
1. Claims and other directly attributable costs	(37,184)	(5,829)	-	-	-	(43,013)	(14,042)	(2,039)	-	-	-	(16,081)
2. Changes in liabilities for claims	(66)	(33)	-	-	-	(99)	29	(898)	-	-	-	(868)
3. Losses on onerous contracts and recoveries of such losses	(1,750)	-	-	-	-	(1,750)	-	-	-	-	-	-
4. Amortisation of insurance contract acquisition costs	(988)	-	-	-	-	(988)	(367)	-	-	-	-	(367)
5. Other amounts	-	-	-	-	-	-	-	-	-	-	-	-
B.6 Total costs for insurance services deriving from insurance contracts issued – GMM or VFA	**(39,988)**	**(5,862)**	**-**	**-**	**-**	**(45,850)**	(14,380)	(2,936)	**-**	**-**	**-**	(17,316)
B.7 Total costs for insurance services deriving from insurance contracts issued valued on the basis of PAA						**(27,539)**						(9,625)
- Life business segment	X	X	X	X	X	-	X	X	X	X	X	-
- Non-Life business segment - motor	X	X	X	X	X	(1,185)	X	X	X	X	X	(922)
- Non-Life business segment - non-motor	X	X	X	X	X	(26,354)	X	X	X	X	X	(8,703)
C. Total net costs/revenues deriving from insurance contracts issued (A.5+B.6+B.7)	**18,604**	**842**	**1,828**	**10,356**	**-**	**31,630**	**9,110**	**153**	**879**	**7,764**	**-**	**17,906**

Key:
Basis of aggregation 1 = Insurance contracts issued with direct participation features - Life business segment
Basis of aggregation 2 = Insurance contracts issued without direct participation features - Life business segment
Basis of aggregation 3 = Insurance contracts issued without direct participation features - Non-Life Motor business segment
Basis of aggregation 4 = Insurance contracts issued without direct participation features - Non-Life Non-Motor business segment
Basis of aggregation 5 = Investment contracts issued with discretionary participation features - Life business segment

10.2 Insurance costs and revenues from reinsurance - breakdown

As highlighted in section 8 of the Assets in the Notes to the financial statements "Insurance Assets", reinsurance is absolutely marginal in terms of the operations of the insurance companies and, therefore, the related details have been omitted.

The total amount recorded in the income statement is -0.6 million (-2.2 million in 2022) and is recognised in the following Income Statement items:

- item 160 c) insurance revenues from reinsurance of 4.4 million (0.8 million in 2022);
- item 160 d) costs for services deriving from reinsurance of -5.0 million (-3.0 million in 2022).

10.3 Breakdown of costs for insurance and other services

Costs/Basis of aggregation	Basis A1 - with DPF 2023	Basis A2 - without DPF 2023	Basis A1 + Basis A2 2023	Basis A3 2023	Basis A4 2023	Basis A3 + Basis A4 2023	Other 2023	Basis A1 - with DPF 2022	Basis A2 - without DPF 2022	Basis A1 + Basis A2 2022	Basis A3 2022	Basis A4 2022	Basis A3 + Basis A4 2022	Other 2022
Costs attributed to the acquisition of insurance contracts	(988)	-	(988)	(255)	(8,447)	(8,702)	X	367	-	367	(469)	(3,977)	(4,446)	X
Other directly attributable costs	(36,005)	(5,829)	(41,834)	(634)	(8,822)	(9,456)	X	(14,010)	(2,039)	(16,049)	(387)	(3,436)	(3,823)	X
Investment management expenses	X	X	-	X	X	(157)	-	X	X	-	X	X	(39)	-
Other costs	X	X	(3,581)	X	X	(15,970)	-	X	X	(2,291)	X	X	(3,700)	-
Total	**X**	**X**	**(46,403)**	**X**	**X**	**(34,285)**	**-**	**X**	**X**	**(17,973)**	**X**	**X**	**(12,009)**	**-**

Key:
Basis A1 – with DPF = Insurance contracts issued with direct participation features – Life business segment
Basis A2 – without DPF = Insurance contracts issued without direct participation features – Life business segment
Basis A1 + Basis A2 = Life business segment
Basis A3 = Insurance contracts issued without direct participation features – Non-Life –Motor business segment
Basis A4 = Insurance contracts issued without direct participation features - Non-Life –Non-Motor business segment
Basis A3 + Basis A4 = Non-Life business segment

Section 11 - Balance of revenues and costs of a financial nature relating to insurance activities – Item 170

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

Items/Basis of aggregation	Basis A1 2023	Basis A2 2023	Basis A3 2023	Total 2023	Basis A1 2022	Basis A2 2022	Basis A3 2022	Total 2022
1. Interest accrued	-	-	-	-	-	-	-	-
2. Effects of changes in interest rates and other financial assumptions	-	-	-	-	-	-	-	-
3. Changes in fair value of assets underlying contracts valued on the basis of VFA	(145,553)	-	-	(145,553)	(51,542)	-	-	(51,542)
4. Effects of changes in exchange rates	-	-	-	-	-	-	-	-
5. Other	-	26	(176)	(150)	-	(93)	(20)	(113)
6. Total revenues/costs of a financial nature relating to insurance contracts issued recorded in account	**(145,553)**	**26**	**(176)**	**(145,703)**	**(51,542)**	**(93)**	**(20)**	**(51,655)**

Key:
Basis A1 = Insurance contracts issued with direct participation features - Life business segment
Basis A2 = Insurance contracts issued without direct participation features - Life business segment
Basis A3 = Insurance contracts issued without direct participation features - Non-Life business segment

11.2 Net revenues/costs of a financial nature relating to reinsurance

As highlighted in section "8 - Insurance Assets - item 80 of Assets in these Notes to the financial statements, reinsurance is absolutely marginal in terms of the operations of the insurance companies and, therefore, the related details have been omitted.

The total amount recorded under item "170. b): net revenues/costs of a financial nature relating to reinsurance" amounted to 1.2 million (-0.1 million in 2022).

11.3 Insurance operations - Net financial result of investments broken down by life and non-life business segments

Items\Operating segments	Life business segment 2023	of which: DPF	Non-Life business segment 2023	Total 2023	Life business segment 2022	of which: DPF	Non-Life business segment 2022	Total 2022
A. NET FINANCIAL RESULT OF INVESTMENTS	**213,163**	**-**	**1,490**	**214,653**	**42,754**	**-**	**133**	**42,887**
A.1 Interest income from financial assets at amortised cost and measured at fair value through other comprehensive income	89,690	-	1,527	91,217	40,840	-	105	40,945
A.2 Net gains/losses on assets at fair value through profit or loss	110,490	-	14	110,504	879	-	7	886
A.3 Net credit impairment losses/recoveries	(521)	-	(12)	(533)	93	-	3	96
A.4 Other net income/costs	14,404	-	(40)	14,364	1,032	-	-	1,032
A.5 Net gains/losses of financial assets measured at fair value through other comprehensive income	(900)	-	1	(899)	(90)	-	18	(72)
B. NET CHANGE IN INVESTMENT CONTRACTS ISSUED IFRS 9	-	-	-	-	-	-	-	-
C. TOTAL NET FINANCIAL RESULT OF INVESTMENTS	**213,163**	**-**	**1,490**	**214,653**	**42,754**	**-**	**133**	**42,887**
of which: recorded in the income statement	214,063	-	1,489	215,552	42,844	-	115	42,959
of which: recorded in the statement of comprehensive income	(900)	-	1	(899)	(90)	-	18	(72)

Key:
Of which: DPF = Insurance contracts issued with direct participation features
Investment contracts issued IFRS 9 = Investment contracts issued without discretionary participation features

11.4 Insurance operations - Summary of economic results broken down by life and non-life business segments

Summary of results/Operating segments	2023			2022		
	Life business segment	Non-Life business segment	Total	Life business segment	Non-Life business segment	Total
A. Financial results						
A.1 Amounts recorded in the income statement						
1. Total net financial result of investments	214,063	1,489	215,552	42,844	115	42,959
2. Net revenues/costs of a financial nature of insurance contracts issued	(145,527)	(176)	(145,703)	(51,635)	(20)	(51,655)
3. Total	**68,536**	**1,313**	**69,849**	**(8,791)**	**95**	**(8,696)**
A.2 Amounts recorded in the statement of comprehensive income				-	-	-
1. Total net financial result of investments	(900)	1	(899)	(90)	18	(72)
2. Net revenues/costs of a financial nature of insurance contracts issued	-	-	-	-	-	-
3. Total	**(900)**	**1**	**(899)**	**(90)**	**18**	**(72)**
B. Net insurance and financial result				-	-	-
1. Net profit (loss) on insurance services	(20,945)	6,088	(14,857)	(8,249)	(7,458)	(15,707)
2. Total net financial result of investments	213,163	1,489	214,652	42,754	133	42,887
3. Net financial result of insurance contracts	(145,527)	(176)	(145,703)	(51,635)	(20)	(51,655)
4. Total	**46,691**	**7,401**	**54,092**	**(17,130)**	**(7,345)**	**(24,475)**

Section 12 - Administrative expenses – Item 190

12.1 Personnel expenses: breakdown

Type of expense/Sector	Total 2023	Total 2022 (*)
1) Employees	**(1,650,929)**	**(1,590,543)**
a) wages and salaries	(1,136,469)	(1,125,271)
b) social security contributions	(293,401)	(293,776)
c) severance indemnities	(68,974)	(63,065)
d) pension expenses	(274)	(318)
e) provisions for employee severance pay	(10,176)	(6,156)
f) provisions for post-employment benefits and similar obligations:	(3,498)	(648)
- defined contribution	-	-
- defined benefit	(3,498)	(648)
g) payments to external supplementary pension funds:	(42,078)	(39,720)
- defined contribution	(42,078)	(39,720)
- defined benefit	-	-
h) costs deriving from share-based payment agreements	(8,713)	(8,851)
i) other employee benefits	(87,346)	(52,738)
2) Other personnel in service	**(397)**	**(444)**
3) Directors and statutory auditors	**(5,580)**	**(5,594)**
4) Retired personnel	**(264)**	**(279)**
Total	**(1,657,170)**	**(1,596,860)**

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

12.2 Average number of employees per category

	2023	2022
1) Employees	**18,986**	**19,259**
a) executives	270	285
b) total middle managers	7,664	7,650
of which: 3rd and 4th level	3,871	3,911
c) remaining employees	11,052	11,324
2) Other personnel	**25**	**20**
Average number of personnel	**19,011**	**19,279**

The average number of employees does not include directors and statutory auditors. In the case of employees, part-time is conventionally considered as 70%.

12.3 Defined benefit company pension funds: costs and revenues

	Total 2023	Total 2022
- Social security costs relative to current work provided	(126)	(183)
- Financial expense	(3,378)	(471)
- Expected return on plan assets	-	-
- Actuarial gains and losses	(2)	-
- Social security costs relative to past work provided	-	-
- Gains and losses from reductions or extinctions	8	6
Total	**(3,498)**	**(648)**

12.4 Other employee benefits

Other employee benefits, the costs of which are shown in table 12.1 above, under the item "i) other employee benefits", amounted to 87.3 million (52.7 million in 2022).

This item mainly includes costs relating to the Group's welfare system, such as - for example - the so-called "welfare" company bonus, luncheon vouchers and costs of managing company canteens, health and injury policies for the benefit of employees, study grants, contributions to corporate social clubs, loyalty bonuses, costs relating to professional training and refresher courses.

12.5 Other administrative expenses: breakdown

Type of expense/Sector	Total 2023	Total 2022 (*)
a) Expenses relating to real estate	(69,208)	(84,900)
- condominium expenses	(11,381)	(7,410)
- maintenance of premises	(14,353)	(13,970)
- cleaning expenses	(11,592)	(13,786)
- electricity, water and heating	(31,882)	(49,734)
b) Indirect taxes and duties	(308,852)	(313,155)
c) Postal charges, telephone charges, printed materials and other office expenses	(24,333)	(20,984)
d) Maintenance and fees for furniture, machines and systems	(100,206)	(94,933)
- fees	(18,300)	(19,248)
- maintenance	(81,906)	(75,685)
e) Professional and advisory services	(86,010)	(79,474)
f) Fees for surveys and information	(8,991)	(8,807)
g) Security and armoured cars	(14,540)	(15,342)
h) Services from third parties	(231,149)	(221,584)
i) Advertising, entertainment and gratuities	(15,417)	(13,453)
l) Insurance premiums	(10,973)	(10,897)
m) Transport, hiring and travel	(6,000)	(5,686)
- hiring	(746)	(806)
- other expenses	(5,254)	(4,880)
n) Banking industry charges	(187,533)	(225,032)
- ordinary contribution to Resolution Funds	(85,382)	(110,477)
- additional contributions to Resolution Funds	-	-
- ordinary contribution to the Interbank Deposit Guarantee Fund	(102,151)	(114,555)
o) Other costs and sundry expenses	(52,446)	(50,563)
Total	**(1,115,658)**	**(1,144,810)**

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

The items "d) Maintenance and fees for furniture, machines and systems" and "m) Transport, hiring and travel – hiring" include the hiring of software, short-term or low value hiring of machinery and automobiles and support fees relating to hiring.

Contributions to deposit guarantee systems and resolution mechanisms

Following transposition into the national legislation of Directives 2014/49/EU (Deposit Guarantee Schemes Directive –"DGSD") of 16 April 2014 and 2014/59/EU (Bank Recovery and Resolution Directive – "BRRD") of 15 May 2014, starting from financial year 2015, credit institutions are obliged to provide the financial resources necessary for the financing of the Interbank Deposit Guarantee Fund (IDGF) and the National Resolution Fund (merged into the Single Resolution Fund (SRF) starting from 2016), through payment of ex ante ordinary contributions to be paid annually, until a specific target level of 0.8% of protected deposits is reached by 3 July 2024 and of 1% of total protected deposits is reached by 31 December 2023. Where the available financial resources of the IDGF and/or the SRF are insufficient to guarantee the protected reimbursement of depositors or to fund the resolution, respectively, it is set out that banks shall provide such funds via the payment of extraordinary contributions.
The contributions are recognised in the income statement item "190. b) Other administrative expenses" in application of IFRIC 21 interpretation "Levies", on the basis of which the liability relating to the payment of a levy arises at the time the "obligating event" occurs, namely at the time of the obligation to pay the annual fee. In the case in question, in accounting terms, the contributions are considered equivalent to a levy, and the time the "obligating event" occurs was identified in the first quarter for the SRF and in the third quarter for the IDGF.
The ordinary contribution to the SRF for 2023 amounted to 85.4 million (the ordinary contribution was 110.5 million in 2022). In that regard, it is noted that for 2023, as for the previous year, the Group did not avail of the option to fulfil the request by taking on an irrevocable payment commitment ("IPC - Irrevocable Payment Commitments").
The contribution to the IDGF charged to the income statement for 2023 amounted to 102.2 million (the contribution in 2022 was 114.6 million).

The above-indicated amounts are shown in the table above under sub-item "n) Banking industry charges".

Fee to guarantee the convertibility of DTAs - legislative changes to Decree Law no. 59/2016

Please note that Art. 11 of Italian Decree Law no. 59 of 3 May 2016, converted with amendments into Italian Law no. 119 of 30 June 2016, introduced an optional regime by virtue of which the guarantee on the convertibility into tax credits of deferred tax assets (DTAs) which meet the requirements laid out in Law no. 214 of 22 December 2011 is subject to the payment of a fee, due for the years starting from 31 December 2015 until 31 December 2029, to be determined on an annual basis.
On 21 February 2017, the law (Law no. 15 of 17 February 2017) converting the "Salva Risparmio" Decree Law was published in the Official Gazette. In detail, Art. 26-bis, paragraph 4 amended Art. 11 of Decree Law 59/2016, postponing the period for which the annual fee is due, which is now from 31 December 2016 until 31 December 2030.
Pursuant to these regulatory references, the exercise of this option, which was carried out in 2016 by both groups involved in the merger, is considered irrevocable.
In more detail, the annual fee to be paid to ensure the convertibility of the above-mentioned deferred tax assets into tax credits must be determined on an annual basis by applying the rate of 1.5% to a base obtained by adding the difference between the convertible deferred tax assets recognised in the financial statements for the previous year and the corresponding deferred tax assets recognised in the 2007 financial statements, to the amount of conversions of the same deferred tax assets carried out from 2008 until the previous year, and subtracting the taxes set forth in the Decree and paid with reference to the above-mentioned tax periods (base also referred to as "type 2 DTAs"). The fees are deductible for both IRES and IRAP purposes in the year in which they are paid.
In virtue of the cited regulatory provisions, in the income statement item in question ("190. b) Other administrative expenses"), the charges accruing during 2023 were added, which came to 24.1 million (27.7 million was indicated in the income statement in 2022).

Section 13 - Net provisions for risks and charges - Item 200

13.1 Net provisions for risks and charges relating to commitments to disburse funds and financial guarantees given: breakdown

	Allocations	Reallocations	Total 2023	Total 2022
Commitments to disburse funds and financial guarantees given	(2,771)	17,028	14,257	(14,940)

The value of "Reallocations" of 12.5 million relates to the release of the provision recognised in previous years against the commitments undertaken with respect to Generali Italia, which ceased to exist as a result of the agreements signed in December 2023, as shown in "Section 10 - Provisions for risks and charges - Item 100" in Part B, and in "Part G - Business combinations regarding companies or divisions" of these Notes to the financial statements.

13.2 Net provisions for other commitments and guarantees given: breakdown

	Allocations	Reallocations	Total 2023	Total 2022
Other commitments and guarantees given	(6,533)	2,642	(3,891)	533

13.3 Net provisions for other risks and charges: breakdown

	Allocations	Reallocations of surpluses	Total 2023	Total 2022
Risks and charges for legal disputes	**(29,304)**	**27,302**	**(2,002)**	**(7,831)**
Other risks and charges	(35,887)	17,834	(18,053)	(34,976)
Total	**(65,191)**	**45,136**	**(20,055)**	**(42,807)**

Net provisions for other risks and charges amounted to 20.1 million and mainly refer to commitments related to contracts for the sale of interests in associates and joint ventures, divisions, loan portfolios, as illustrated in greater detail in "Section 10 - Provisions for risks and charges - Item 100" in Part B - Liabilities, of these Notes to the financial statements.

Section 14 - Depreciation and impairment losses on property, plant and equipment - Item 210

14.1 Depreciation and impairment losses on property, plant and equipment: breakdown

Assets/Income components	Depreciation (a)	Impairment losses (b)	Recoveries (c)	Net result (a + b - c)
A. Property, plant and equipment				
1. Used in operations	(146,075)	-	85	(145,990)
- Owned	(42,042)	-	-	(42,042)
- Rights of use acquired through leases	(104,033)	-	85	(103,948)
2. Held for investment purposes	-	-	-	-
- Owned	-	-	-	-
- Rights of use acquired through leases	-	-	-	-
3. Inventories	X	-	-	-
Total	**(146,075)**	**-**	**85**	**(145,990)**

Section 15 - Amortisation and impairment losses on intangible assets - Item 220

15.1 Amortisation and impairment losses on intangible assets: breakdown

Asset/Income components	Amortisation (a)	Impairment losses (b)	Recoveries (c)	Net result (a + b - c)
A. Intangible assets				
of which: software	(97,971)	-	-	(97,971)
A.1 Owned	(131,012)	(1,144)	439	(131,717)
- Internally generated	-	-	-	-
- Other	(131,012)	(1,144)	439	(131,717)
A.2 Rights of use acquired through leases	-	-	-	-
Total	**(131,012)**	**(1,144)**	**439**	**(131,717)**

Section 16 - Other operating expenses/income - Item 230

16.1 Other operating expenses: breakdown

	Total 2023	Total 2022 (*)
Expenses on leased assets	(12,859)	(14,343)
Other	(38,613)	(47,596)
Total	**(51,472)**	**(61,939)**

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

"Expenses on leased assets" relate to the costs incurred on assets used as collateral for non-performing exposures for the purchase and resale of assets under finance lease.

The item "Other" includes legal settlement charges exceeding the provisions allocated of 16.0 million (27.5 million in the previous year), operating losses relative to branch management (robbery, fraud, theft and other damages) of 4.9 million (4.2 million in 2022), as well as contingent liabilities and other contingencies.

16.2 Other operating income: breakdown

	Total 2023	Total 2022 (*)
Income on current accounts and loans	6,466	6,398
Tax recoveries	260,370	256,007
Expense recoveries	17,182	18,322
Rental income on real estate	39,156	36,878
Other	85,299	90,216
Total	**408,473**	**407,821**

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

The sub-item "Income on current accounts and loans" refers to the "commissione di istruttoria veloce" (fast track fee) introduced by Decree Law 201 of 6 December 2011, converted by Law 214/2011.

The sub-item "Other" includes sundry income for services rendered of 59.6 million (59.9 million in 2022).

Section 17 - Gains (losses) of associates and joint ventures - Item 250

17.1 Gains (losses) of associates and joint ventures: breakdown

Income components/Sectors	Total 2023	Total 2022 (*)
1) Companies under joint control		
A. Income	**-**	**-**
1. Revaluations	-	-
2. Gains on disposal	-	-
3. Recoveries	-	-
4. Other income	-	-
B. Charges	**-**	**-**
1. Write-downs	-	-
2. Losses on impairment	-	-
3. Losses on disposal	-	-
4. Other charges	-	-
Net result	-	-
2) Companies subject to significant influence		
A. Income	**144,199**	**159,220**
1. Revaluations	144,199	159,220
2. Gains on disposal	-	-
3. Recoveries	-	-
4. Other income	-	-
B. Charges	**(103,382)**	**(33,939)**
1. Write-downs	(102)	(23,237)
2. Losses on impairment	-	-
3. Losses on disposal	-	(10,702)
4. Other charges	(103,280)	-
Net result	**40,817**	**125,281**
Total	**40,817**	**125,281**

(*) The figures relating to the previous year have been restated following the retrospective application of IFRS 17 and IFRS 9 for associated insurance companies.

The items Revaluations and Write-downs include gains and losses deriving from measurement of interests in companies subject to significant influence using the equity method. In particular, profits refer for 76.6 million to Agos Ducato, for 29.5 million to Anima Holding, for 9.2 million to Vera Assicurazioni, for 19.3 million to Vera Vita (in relation to the share of profit for twelve months of 2023, prior to the acquisition of control), for 3.4 million to Alba Leasing, for 2.2 million to Gardant Liberty, for 1.6 million to Etica SGR, for 1.9 million to SelmaBipiemme Leasing. Losses refer to Vorvel Sim for -0.1 million.

The amount indicated in item B.4 "Other charges" mainly represents the overall effects relating to:
- the measurement at fair value of the 35% interest already held in Vera Vita carried out at the time of acquisition of control of the company as required by IFRS 3;
- the purchase from Generali and the simultaneous sale to Credit Agricole Assurances of 65% of Vera Assicurazioni.

For further details on the impacts deriving from transactions relating to the reorganisation of the bancassurance business, please refer to "Part G – Business combinations regarding companies or divisions" in the Notes to the financial statements.

Section 18 - Fair value gains (losses) on property, plant and equipment and intangible assets - Item 260

18.1 Fair value (or revalued value) gains (losses) or estimated realisable value gains (losses) on property, plant and equipment and intangible assets: breakdown

Asset/Income components	Revaluations (a)	Write-downs (b)	Exchange rate differences		Net result (a-b+c-d)
			Positive (c)	Negative (d)	
A. Property, plant and equipment	**58,843**	**(205,690)**	**-**	**-**	**(146,847)**
A.1 Used in operations:	3,067	(50,735)	-	-	(47,668)
- Owned	3,067	(50,735)	-	-	(47,668)
- Rights of use acquired through leases	-	-	-	-	-
A.2 Held for investment purposes:	55,776	(154,955)	-	-	(99,179)
- Owned	55,776	(154,955)	-	-	(99,179)
- Rights of use acquired through leases	-	-	-	-	-
A.3 Inventories	-	-	-	-	-
B. Intangible assets	**-**	**-**	**-**	**-**	**-**
B.1 Owned:	-	-	-	-	-
B.1.1 Internally generated	-	-	-	-	-
B.1.2 Other	-	-	-	-	-
B.2 Rights of use acquired through leases	-	-	-	-	-
Total	**58,843**	**(205,690)**	**-**	**-**	**(146,847)**

This item, totalling a negative 146.8 million (the balance in the previous year was a negative 108.3 million), includes the results of the fair value measurement of "revalued property, plant and equipment used in operations" and "property, plant and equipment held for investment purposes", represented by owned real estate assets and valuable works of art.
In particular, sub-item A.2 "Held for investment purposes" includes 93.9 million for the valuation of properties held for investment purposes, recorded under item "90. Property, plant and equipment" and 5.3 million for the valuation of investment properties for which sales negotiations are in progress, classified under item "120. Assets and disposal groups held for sale".

Section 19 - Value adjustments to goodwill - Item 270

19.1 - Value adjustments to goodwill: breakdown

The results of the impairment test on goodwill recorded in the financial statements did not result in adjustments to the income statement.

For a description of the methods used to perform impairment tests on goodwill, please see that indicated in "Section 10 - Intangible assets" in Part B of these Notes to the financial statements.

Section 20 - Gains (losses) on disposal of investments - Item 280

20.1 Gains (losses) on disposal of investments: breakdown

Income components/Sectors	Total 2023	Total 2022
A. Real estate	**721**	**2,274**
- Gains on disposal	1,785	6,453
- Losses on disposal	(1,064)	(4,179)
B. Other assets	**29,907**	**(16)**
- Gains on disposal	30,347	7
- Losses on disposal	(440)	(23)
Net result	**30,628**	**2,258**

The amount indicated in item B.4 "Other assets - Gains on disposal" mainly represents the overall effects of:

- the profit from the sale of 65% of Banco BPM Assicurazioni to Credit Agricole Assurance;
- the measurement at fair value of the retained interest of 35% of Banco BPM Assicurazioni due to loss of control.

For further details on the impacts deriving from transactions relating to the reorganisation of the bancassurance business, please refer to Part G – Business combinations regarding companies or divisions in the Notes to the consolidated financial statements.

Section 21 - Taxation charge related to profit or loss from continuing operations – Item 300

21.1 Taxation charge related to profit or loss from continuing operations: breakdown

Income components/Sectors	Total 2023	Total 2022 (*)
1. Current taxes (-)	(68,681)	(58,148)
2. Changes in current taxes for previous years (+/-)	5,332	3,693
3. Decreases in current taxes for the year (+)	-	78
3.bis Decreases in current taxes for the year due to tax credits pursuant to Italian Law no. 214/2011 (+)	-	8,175
4. Change in deferred tax assets (+/-)	(475,924)	(298,846)
5. Change in deferred tax liabilities (+/-)	26,050	24,348
6. Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)	**(513,223)**	**(320,700)**

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

The item in question includes the positive effects, amounting to 8.8 million, relating to the calculation of the tax realignment of the Group's properties, following the expiry of the recapture period, as illustrated in the paragraph "Impacts resulting from the realignment of the tax value of properties to their respective book values", contained in Section 4 of Part A - Accounting policies, of these Notes to the consolidated financial statements.

21.2 Reconciliation between theoretical tax charge and actual tax charge

IRES	2023		2022 (*)	
Profit (loss) before tax from continuing operations		**1,777,654**		**1,004,961**
Negative components of gross profit (loss) not definitively significant (+)		**293,251**		**310,171**
Non-deductible interest expense	1,750		771	
Capital losses from disposal/valuation of interests in associates and joint ventures/OCI	4,697		123,595	
Non-deductible taxes other than income taxes	2,546		2,176	
Non-deductible loan losses	1,160		1,661	
Administrative expenses with limited deductibility	3,601		3,545	
Other non-deductible expenses	35,051		32,589	
Goodwill impairment	-		8,132	
Losses of foreign companies	985		1,740	
Consolidation effects of intragroup equity interests	237,224			
Allocations	2,105		3,934	
Other	4,132		132,028	
Positive components of gross profit (loss) not definitively significant (-)		**(390,540)**		**(255,065)**
Insignificant portion of capital gains from disposal/valuation of interests in associates and joint ventures/OCI	(303,640)		(5,566)	
Insignificant portion of dividends before consolidation entries	(105,412)		(123,020)	
Cancellation of intragroup dividends	100,358		125,530	
Consolidation effects of intragroup equity interests	-		(251,478)	
Other	(81,846)		(531)	
Definitive increases not associated with gross profit (loss) elements (+)		**2,055**		**26,415**
Other	2,055		26,415	
Definitive decreases not associated with gross profit (loss) elements (-)		**(116,528)**		**(103,645)**
Lump sum 10% IRAP deduction and cost of labour for employees IRAP deduction	(66)		(118)	
Portion of ACE subsidisable income	(84,817)		(82,728)	
Other	(31,645)		(20,799)	
IRES calculation base, income statement		**1,565,892**		**982,837**
IRES nominal rate	24%		24%	
Actual IRES		**(375,814)**		**(235,881)**
IRES tax rate		**(21.14%)**		**(23.47%)**

IRAP	**2023**		**2022 (*)**	
Profit (loss) before tax from continuing operations		**1,777,654**		**1,004,961**
Negative components of gross profit (loss) not definitively significant (+)		**468,203**		**454,731**
Non-deductible interest expense	1,775		732	
Non-deductible portion of amortisation/depreciation of assets used in operations	27,699		30,898	
Other non-deductible administrative expenses	162,556		164,433	
Personnel expenses net of deductions allowed (tax wedge reduction, disabled, etc.)	5,938		2,157	
Other value adjustments pursuant to item 130 of the income statement	430		1,730	
Net provisions for risks and charges	11,812		57,335	
Other operating expenses	-		58,733	
Losses on interests in associates and joint ventures	966		105,479	
Goodwill impairment	-		8,132	
Consolidation effects of intragroup equity interests	237,224		-	
Other	19,803		25,102	
Positive components of gross profit (loss) not definitively significant (-)		**(355,460)**		**(297,639)**
Gains on interests in associates and joint ventures	(267,084)		-	
Insignificant portion of dividends before consolidation entries	(77,267)		(86,889)	
Cancellation of intragroup dividends	100,358		125,530	
Other operating income	(15,917)		(58,940)	
Profits on disposal of insignificant investments	(690)		(2,977)	
Consolidation effects of intragroup equity interests	-		(251,478)	
Other	(94,860)		(22,885)	
Definitive increases not associated with gross profit (loss) elements (+)		**3,680**		**7,107**
Adjustments to neutralise negative value of production	-		-	
Other	3,680		7,107	
Definitive decreases not associated with gross profit (loss) elements (-)		**(7,709)**		**(20,184)**
Other	(7,709)		(20,184)	
IRAP calculation base, income statement		**1,886,368**		**1,148,976**
Nominal average weighted IRAP rate	5.60%		5.54%	
Actual IRAP		**(105,618)**		**(63,678)**
IRAP tax rate		**(5.94%)**		**(6.34%)**

IRES and IRAP not accruing during the year and other taxes	**2023**		**2022 (*)**	
Total impact		**(31,791)**		**(21,141)**
IRES - Current taxes and deferred tax assets and liabilities from previous years	16,879		3,251	
IRES - Additional 3.5% rate	(54,946)		(33,394)	
IRAP - Current taxes and deferred tax assets and liabilities from previous years	6,448		9,167	
Foreign taxes - other	(172)		(165)	
IRES and IRAP tax rate not accruing during the year and other taxes		**(1.79%)**		**(2.10%)**

Total taxes on gross profit (loss)	**2023**	**2022 (*)**
Total IRES + IRAP + Other taxes	**(513,223)**	**(320,700)**
Total tax rate	**(28.87%)**	**(31.91%)**

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

It should be noted that the only taxes referring to countries other than Italy amount to 172 thousand euro (165 thousand euro for the year 2022), as indicated in the previous table, and refer to taxes determined pursuant to Swiss tax regulations by the subsidiaries Bipielle Bank (Suisse) S.A. in liquidation and Banca Aletti & C. (Suisse) S.A. based in Switzerland.

Section 22 - Profit (loss) after tax from discontinued operations - Item 320

22.1 Profit (loss) after tax from discontinued operations: breakdown

This item was blank for the current year and the previous year. Therefore, the related table is omitted.

22.2 Breakdown of taxation charge related to profit or loss from discontinued operations

This item was blank for the current year and the previous year. Therefore, the related table is omitted.

Section 23 - Profit (loss) for the year attributable to non-controlling interests - Item 340

23.1 Breakdown of item 340 "profit (loss) for the year attributable to non-controlling interests"

Company names	2023	2022
Interests in consolidated companies with significant non-controlling interests	-	-
Other interests	22	786
Total	**22**	**786**

The amount refers to the non-controlling share of profit (loss) of the subsidiary BRF Property.

Section 24 - Other information

There is no other significant information other than that already provided in the above sections.

Section 25 - Earnings per share

	31/12/2023		31/12/2022 (*)	
	Basic EPS	Diluted EPS	Basic EPS	Diluted EPS
Weighted average of ordinary shares (number)	1,507,882,573	1,507,882,573	1,508,790,220	1,508,790,220
Attributable profit (loss) (thousands of euro)	1,260,453	1,260,453	682,047	682,047
EPS (euro)	**0.836**	**0.836**	**0.452**	**0.452**

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

25.1 Average number of ordinary shares with diluted capital

Note that as at 31 December 2023, the Basic EPS matched the Diluted EPS, as there were no financial instruments with potential dilution effects.

25.2 Other information

There is no other significant information other than that already provided in the above sections.

PART D – STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Analytic statement of consolidated comprehensive income

Items		31/12/2023	31/12/2022 (*)
10.	**Profit (loss) for the year**	**1,264,431**	**684,261**
	Other comprehensive income without reclassification to the income statement	**(71,551)**	**2,018**
20.	Equity instruments designated at fair value through other comprehensive income:	8,096	(37,725)
	a) fair value change	3,547	(35,627)
	b) transfers to other shareholders' equity components	4,549	(2,098)
30.	Financial liabilities designated at fair value through profit and loss (changes to its own credit risk):	(44,332)	(13,619)
	a) fair value change	(43,948)	(14,068)
	b) transfers to other shareholders' equity components	(384)	449
40.	Hedges of equity instruments designated at fair value through other comprehensive income:	-	-
	a) fair value change (hedged instrument)	-	-
	b) fair value change (hedging instrument)	-	-
50.	Property, plant and equipment	(27,445)	7,291
60.	Intangible assets	-	-
70.	Defined benefit plans	2,549	55,638
80	Non-current assets and disposal groups held for sale	-	-
90.	Share of valuation reserves related to interests in associates and joint ventures carried at equity	4,035	917
100.	Revenues or costs of a financial nature relating to insurance contracts issued	-	-
110.	Income taxes relative to other comprehensive income without reclassification to the income statement	(14,454)	(10,484)
	Other comprehensive income with reclassification to the income statement	**160,103**	**(719,586)**
120.	Foreign investment hedges:	(1,102)	(999)
	a) fair value changes	(1,102)	(999)
	b) reclassification to income statement	-	-
	c) other changes	-	-
130.	Exchange rate differences:	3,081	2,371
	a) changes in value	-	-
	b) reclassification to income statement	-	-
	c) other changes	3,081	2,371
140.	Cash flow hedges:	10,717	(16,790)
	a) fair value changes	10,717	(16,790)
	b) reclassification to income statement	-	-
	c) other changes	-	-
	of which: result of net positions	-	-
150.	Hedging instruments (non-designated items):	-	-
	a) changes in value	-	-
	b) reclassification to income statement	-	-
	c) other changes	-	-
160.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income:	339,794	(1,227,507)
	a) fair value changes	192,137	(950,880)
	b) reclassification to income statement	6,375	(52,212)
	- losses on credit risk	(1,446)	1,543
	- profit/loss from disposal	7,821	(53,755)

Items	31/12/2023	31/12/2022 (*)
c) other changes	141,282	(224,415)
170. Non-current assets and disposal groups held for sale:	-	-
a) fair value changes	-	-
b) reclassification to income statement	-	-
c) other changes	-	-
180. Share of valuation reserves related to interests in associates and joint ventures carried at equity:	6,811	(53,494)
a) fair value changes	6,811	(53,494)
b) reclassification to income statement	-	-
- impairment adjustments	-	-
- profit/loss from disposal	-	-
c) other changes	-	-
190. Revenues or costs of a financial nature relating to insurance contracts issued:	(120,360)	156,606
a) fair value changes	-	156,606
b) reclassification to income statement	-	-
c) other changes	(120,360)	-
200. Revenues or costs of a financial nature relating to reinsurance:	-	-
a) fair value changes	-	-
b) reclassification to income statement	-	-
c) other changes	-	-
210. Income taxes relative to other comprehensive income with reclassification to the income statement	(78,838)	420,227
220. Total other comprehensive income	**88,552**	**(717,568)**
230. Comprehensive income (Items 10+220)	**1,352,983**	**(33,307)**
240. Consolidated comprehensive income attributable to non-controlling interests	(22)	(786)
250. Consolidated comprehensive income attributable to the Parent Company	**1,353,005**	**(32,521)**

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

Item "110. Income taxes relative to other comprehensive income without reclassification to the income statement" refers to the tax effects of other comprehensive income without reclassification to the income statement and the effect resulting from the recalculation of the realignment on operating properties, negative for 35.7 million, as illustrated in the paragraph "Impacts resulting from the realignment of the tax value of properties to their respective book values" contained in Section 4 of Part A - Accounting policies of these Notes to the consolidated financial statements.

PART E – INFORMATION ON RISKS AND RELATED HEDGING POLICIES

This Part E provides information on the Group's risk profiles, relating to the management and hedging policies for risk (credit, market, liquidity and operational) implemented by the Group, and operations in derivative financial instruments.
For more information on the monitoring and management of risk of Banco BPM Group (capital adequacy, exposure to risk and the general characteristics of the systems set in place to manage and control them) refer to the document "Disclosure to the Public by Entities - Pillar III", drawn up in accordance with the provisions of the Bank of Italy Circular no. 285 of 17 December 2013, which transposed the provisions contained in Regulation (EU) no. 575/2013 (CRR), as amended by Regulation (EU) no. 876/2019 (CRR II), as well as in accordance with other applicable external directives, and made available, within the terms provided by the regulations, in the Investor Relations section of the website www.gruppo.bancobpm.it.

Section 1 - Risks of the consolidated book

QUANTITATIVE INFORMATION

A. Credit quality

A.1 Non-performing and performing credit exposures: outstanding amounts, value adjustments, changes and economic distribution

A.1.1 Distribution of financial assets by portfolio and by credit quality (book values)

Portfolio/quality	Bad loans	Unlikely to pay	Non-performing past-due exposures	Performing past-due exposures	Performing exposures	Total
1. Financial assets at amortised cost	626,229	1,168,282	67,146	976,167	132,354,729	135,192,553
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	19,402,899	19,402,899
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	710	250,134	-	270	570,884	821,998
5. Financial assets held for sale	14,530	80,224	-	-	9	94,763
Total 31/12/2023	**641,469**	**1,498,640**	**67,146**	**976,437**	**152,328,521**	**155,512,213**
Total 31/12/2022	**721,328**	**1,628,343**	**60,097**	**1,208,036**	**148,709,304**	**152,327,108**

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 (transaction named "Wolf"). As a result of the cited 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. The aforementioned loans were classified as "performing exposures" as it was deemed that, taking into account the extraordinary elements that characterised the transaction and 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. In the Financial report for 2022, 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 the classification and measurement of exposures in the financial statements as at 31 December 2022, as the prudential classification has no impact on the determination of their fair value.

On 23 March 2023, 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, the Group restored the prudential classification of the loans in question as “non-performing exposures”. As at 31 December 2023, the fair value of the exposures in question, amounting to 219 million, is therefore represented under “unlikely to pay” in the portfolio of “Financial assets mandatorily measured at fair value”.

Information on the portfolio to which forborne credit exposures belong

As at 31 December 2023, net forborne exposures amounted to 2,794.6 million (of which 1,116.7 million non-performing and 1,677.9 million performing) and were mainly attributable to the portfolio of “Financial assets at amortised cost - loans to customers”; for further information on these exposures, reference should be made to table A.1.5 below.

A.1.2 Distribution of financial assets by portfolio and by credit quality (gross and net values)

Portfolio/quality	Non-performing				Performing			Total (net exposure)
	Gross exposure	Total value adjustments	Net exposure	Total partial write-offs*	Gross exposure	Total value adjustments	Net exposure	
1. Financial assets at amortised cost	3,753,060	(1,891,403)	1,861,657	112,838	133,766,272	(435,376)	133,330,896	135,192,553
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	19,406,113	(3,214)	19,402,899	19,402,899
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value	285,940	(35,096)	250,844	-	X	X	571,154	821,998
5. Financial assets held for sale	198,669	(103,915)	94,754	26,501	9	-	9	94,763
Total 31/12/2023	**4,237,669**	**(2,030,414)**	**2,207,255**	**139,339**	**153,172,394**	**(438,590)**	**153,304,958**	**155,512,213**
Total 31/12/2022	**4,892,895**	**(2,483,127)**	**2,409,768**	**379,862**	**149,810,450**	**(433,489)**	**149,917,340**	**152,327,108**

(*) Value to be shown for disclosure purposes

Portfolio held for trading and derivatives

The following table shows the credit quality of credit exposures classified as financial assets held for trading (securities and derivatives) and hedging derivatives (not shown in the table above):

Portfolio/quality	Assets of evident poor credit quality		Other assets
	Cumulative capital losses	Net exposure	Net exposure
1. Financial assets held for trading	(839)	410	2,394,353
2. Hedging derivatives	-	-	980,017
Total 31/12/2023	**(839)**	**410**	**3,374,370**
Total 31/12/2022	**1,329**	**154**	**4,858,485**

B. Disclosure of structured entities (other than the companies for securitisation)

B.1 Consolidated structured entities

As at 31 December 2023, there were no structured entities consolidated in the accounts other than the securitisation entities, included in the scope of Banco BPM Group.

B.2 Unconsolidated structured entities

B.2.1 Prudentially consolidated structured entities

As at 31 December 2023, there were no structured entities prudentially consolidated in the accounts, included in the scope of Banco BPM Group.

B.2.2 Other structured entities

The Group holds interests in UCITs (funds and SICAVs), primarily in order to meet its investment needs. These also include fund units held following sales of multi-originator non-performing credit exposures of the Group.
Total exposure to these investments amounted to 5,879.1 million (3,530.8 million as at 31 December 2022).
For further details please refer to:
- the information provided in the tables breaking down items 20 a) and 20 c) of the balance sheet assets, contained in Part B of these Notes;
- the information provided in table 4 of "Part B - Information on the consolidated balance sheet - Other information" of these Notes to the Financial Statements;
- the Section "Risks of prudential consolidation - D.3 Sale transactions - Financial assets sold and fully derecognised" below.

Additional involvement in structured entities, which goes beyond the mere holding of units, is represented by the activity of placing UCIT units.
The Group's net revenues deriving from the placement of Investment funds in 2023 amounted to 446.6 million (499.7 million in 2022).

Section 2 - Risks of prudential consolidation

Group Risk Appetite Framework (RAF)

During the first quarter of 2023, the Board of Directors of the Parent Company Banco BPM approved the new Risk Appetite Framework (hereinafter, also "RAF"), both at consolidated level and at the level of the most important individual Legal Entity, through which the Body with strategic supervision functions approves the level of risk that the Group is willing to accept in pursuing its strategic objectives. Particularly with reference to the RAF of the Insurance Companies, as significant Legal Entities, the revision of the 2023 RAF was completed by the Parent Company's Risk Function and the Insurance Companies' Risk Function.

The new framework comprises the following basic elements:

1. Governance, which defines the roles and responsibilities of the parties involved and the information flows between them;
2. the system of metrics, which summarises risk exposure;
3. the system of thresholds, which defines the risk appetite;
4. the escalation process, activated with different levels of intensity and parties involved when the various thresholds defined are exceeded;
5. the Risk Appetite Statement (RAS), in which the metrics and methods for calculating the thresholds are analysed;
6. the instruments and procedures, which support the representation and operational management of the RAF, including "Most Significant Transactions (MST)" and "Significant Transactions (ST)".

The RAF is the tool that makes it possible to establish, formalise, communicate, approve and monitor the risk objectives that the Group and the individual relevant Legal Entities intend to assume. To this end, it is divided into thresholds and risk areas that make it possible to identify in advance the levels and types of risk that the Group intends to assume, stating the roles and responsibilities of the Corporate bodies and functions involved in the process of managing these risks. More specifically, the Risk Function has strengthened the overall structure of the Framework, by envisaging, for certain indicators:

- the breakdown by hierarchical levels and risk area (cascading down);
- horizontal cascading at Legal Entity and business line/portfolio level.

The Group must ensure that the RAF, in its operational version, is used and internalised and constitutes an element of guidance for the preparation of processes such as, for example, the Strategic Plan and the Budget, as well as the internal processes of self-assessment of capital adequacy (ICAAP) and liquidity adequacy (ILAAP). The framework is also used as an operational tool within the Recovery Plan and when defining Remuneration Policies.
The general principles that guide the Group's risk assumption process can be summarised as follows:

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

In 2023, the ESG (Environmental, Social and Governance) area was reinforced further through the introduction of new RAF indicators, consistent with the ESG project defined by the Group. Given the significance of the matter, specific ESG indicators referring to the Legal Entities have also been established, and new indicators have been introduced at individual Business Line level.
The set of RAF indicators leverages the Risk Identification process and takes into account recent legislative provisions relating to Risk Governance. All significant risks identified at the end of this process are considered when the Risk Appetite Framework is drawn up and specific indicators to monitor them are identified. In particular, the Group's RAF has identified a set of indicators for the main risk areas: (Pillar I and Pillar II) Capital Adequacy, Adequacy of Liquidity/Funding & IRRBB, Credit Quality & Structure, Profitability, Operational/Conduct, Other Significant Issues and areas of specific financial risks for Insurance Companies.
The indicators that summarise the Group's risk profile in these areas have been divided into 3 levels, differentiating between:

1. strategic indicators, which allow the Board of Directors to guide the Group's strategic choices;
2. operational indicators, in order to integrate and anticipate the trends - where possible - of the strategic indicators, and
3. Early Warning Indicators (hereinafter also EWI), which cover the risk areas of the Operational RAF perimeter, making it possible to anticipate the trends of the indicators belonging to the Strategic and Operational RAF.

Specifically:

- the Strategic RAF is a set of metrics and thresholds that enable the Group's risk strategy to be defined and monitored. It includes a limited and exhaustive number of indicators, which express the risk appetite approved by the Board of Directors and represent the summary performance of the overall risk profile;
- the Operational RAF is a set of metrics that enables the strategic indicators to be integrated and broken down and the evolution of the risk profile to be anticipated. These metrics enable specific aspects of the

main business processes to be encompassed and are usually monitored with greater frequency in line with their task of anticipating critical situations;
- the Early Warning Indicators are a set of metrics useful for predicting signs of deterioration of the indicators included in the Strategic and Operational RAF. These metrics enable specific aspects of the main business processes to be encompassed and are usually monitored with greater frequency in line with their task of anticipating critical situations.

The system of thresholds for the indicators envisages the definition of the following limits:
- *Risk Target* (Medium to Long Term Objective): normally the risk objective defined in the Industrial Plan at Group level. It indicates the level of risk (overall and by type) to which the Group is willing to be exposed to pursue its strategic objectives;
- *Risk Trigger*: this is the threshold, differentiated by indicator, the exceeding of which activates the various escalation processes envisaged by the Framework. The Risk Trigger is also determined with stress tests. In line with the Trigger values, a system of limits used for operating purposes is also defined ("Risk Limits");
- *Risk Alert*: this is the threshold for Early Warning Indicators, the exceeding of which does not activate the various escalation processes envisaged by the Framework, but an information flow to the Committees and Corporate Bodies. The Risk Alert is also determined by the use of stress tests, and in line with the Trigger values of the operational or strategic indicators, which anticipate their trends;
- *Risk Tolerance*: this is the maximum permitted deviation from the Risk Appetite; the tolerance threshold is set in such a way so as to ensure that the Group has sufficient margins to operate, even in conditions of stress, within the maximum risk that may be assumed;
- *Risk Capacity*: this is the maximum level of risk that the Group is able to assume without infringing regulatory requirements or other restrictions imposed by the shareholders or by the Supervisory Authority.

As regards the operational indicators, only the Risk Trigger is established: exceeding the risk limits triggers the prompt activation of specific escalation processes.

On the other hand, as regards the Early Warning indicators, only the Alert threshold is established, and exceeding the risk limits does not trigger the activation of specific escalation processes, but a prompt information flow is prepared for the Committees and Corporate Bodies.

The Risk Function, in collaboration with the Planning and Control Function and the other relevant Functions, develops the RAF, providing support to the Management Body (MB), from a legislative and operating perspective, consistent with strategy, business plans and capital allocation in ordinary conditions and in stressed situations. The RAF is updated at least once a year, also in the event of changes in the internal and external conditions in which the Group operates.

From an operating perspective, ex ante risk management activities are also found in the process to manage the MST (relating to credit, finance, disposal of loans, etc.), which primarily involve the Risk Function, which must express a prior and non-binding opinion on all transactions categorised as such based on criteria established and regulated internally. In the credit area, the scope of application of the ex-ante opinions of the Risk Function envisages the issue of a prior opinion also for transactions defined as Significant (ST), allowing the preventive assessment of a significantly higher number of loan transactions, both in the disbursement phase - with reference also to the SME portfolio - and in the phase of classification from higher to lower risk, and vice versa. The scope of MST and ST in the credit area was expanded in 2023, including assessments relating to "Project Finance" transactions, the review of the credit line system of the top 10 Groups of related customers, as well as the granting of multiple forbearance measures.

The Group also provides training activities and dedicated training courses in order to disseminate and promote a solid and robust risk culture within the Bank, with reference, for example, to operational, credit and financial risk areas, linked to the Administrative Liability of Entities, MiFID and Anti-Money Laundering, as well as physical security and cybersecurity.

As part of the "Bancassurance Internationalisation Project", in the first two months of 2023 Banco BPM completed the training plan dedicated to Parent Company functions, including the CRO, for the acquisition and strengthening of technical and regulatory skills in the insurance realm. The topics covered concerned:
- the governance and operating model adopted by Banco BPM;

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

In 2023, some specific topics were also examined in depth, such as regulations on the production and distribution of insurance products, anti-money laundering, GDPR and Privacy.
Training sessions were planned and organised in June relating to the management impacts deriving from the application of the new accounting standards IFRS 17 and IFRS 9.
In 2023, the training activities launched in 2022 were also completed, to support the introduction of new credit policies, new processes and tools for the assessment of credit risk integrated with ESG factors and the new FFS tool, involving Managers and Portfolio Managers.

Also in the area of credit risk, in the second half of 2023, training dedicated to the new process to identify Forborne exposures was completed, and training was launched to support the RWA Credit Project (Pilot Phase) and the new IRS (Internal Rating System) for the Corporate area.

At the end of 2023, the planning phase for training for the Control functions began, to support the SGR dedicated to institutional customers. Furthermore, note that in the first half of the year, the Group was involved in the 2023 EU-wide Stress Test conducted by the European Banking Authority (EBA) in collaboration with the European Central Bank (ECB), the European Systemic Risk Board (ESRB) and the European Commission, intended to test the business model and the resilience of banks on the basis of two 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 same EBA at the end of July 2023.
Lastly, it should be noted that in the last quarter of 2023, the Group started preparations to perform data collection of the starting points as at 31 December 2022 of climate data (which will take place in the first quarter of 2024) requested by the ECB as part of the first "Fit for 55 climate risk scenario analysis" exercise, conducted by the EBA with the collaboration of the ECB. 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.

Monitoring and reporting activities

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

To this end, the Parent Company prepares periodic reports for the Corporate Bodies in line with the Group's internal policies. As part of integrated risk reporting prepared at Group and individual Legal Entities level, the Risk Function analyses the main risks to which the Group and the individual Legal Entities are exposed, and conducts a periodic assessment of the risk profile of the RAF indicators by comparing it with the thresholds defined in the framework, providing historic and detailed analyses that explain the trends, the areas that need attention and the areas for improvement. It should be noted that, at Insurance Company level, monitoring is carried out directly by the Company's Risk Function; the Parent Company's Risk Function integrates this information in its periodic reporting, in order to provide complete information on the Group's performance. Furthermore, at least on a quarterly basis an update is provided in integrated reporting on Recovery Plan indicator trend, with the support of the Recovery and Resolution Planning Function.
Positioning analyses (benchmarks) provide the Corporate Bodies of the Parent Company and top management with an at least six-monthly update on the Group's positioning, representing different comparisons on the main indicators with respect to the banking system identified by the EBA Risk Dashboard, or a significant European sample comparable with Banco BPM Group, making use of the main findings and the risk metrics reported in the EBA Risk Dashboards, ECB Supervisory Banking Statistics and in the information contained in the Market Disclosure (Pillar 3) documents, therefore enabling any opportunities for improving risk management to be identified. In the insurance sector, positioning analyses consider the main solvency metrics posted in the Solvency and Financial Condition Reports (SFCR) published annually by insurance companies and groups, in line with Pillar 3 of the Solvency II

regime, as well as the data in the Quantitative Reporting Templates (QRT), produced by the companies and available on the ANIA InfoQRT portal.
A verification of current and forward-looking capital adequacy, both from a Pillar I (regulatory) perspective and from a Pillar II (economic) perspective, in accordance with the provisions of the ECB ICAAP Guidelines, is also reported periodically to the Committees and Corporate Bodies.

Pillar I and Pillar II capital adequacy

To provide its management team and the Supervisory Authority with a complete and informed disclosure, which confirms the adequacy of its own funds, the first defence against the risks assumed, Banco BPM Group assesses its capital situation from a current and forward-looking perspective, both as regards Pillar I and Pillar II, based on Basel III rules (which are applied through CRR/CRD IV) and the specific guidelines that the banks receive from the Supervisory Authority.

As regards Pillar I, the Group's capital adequacy entails continuously monitoring and managing the capital ratios, calculated on the basis of the information provided by the Administration and Budget Function through the application of the rules established by Supervisory Regulations, in order to verify compliance with regulatory limits and to ensure that the minimum capitalisation levels required are maintained. These ratios are also estimated during the Budget preparation or Strategic Plan review process, and their consistency with the thresholds established in the Risk Appetite Framework is assessed.
As regards Pillar II, the Risk Function is tasked with coordinating the internal process to determine the Group's capital adequacy, in accordance with regulatory provisions, and with making the current and forward-looking estimates, in both a baseline and stressed scenario, reported to the Corporate Bodies and included annually in the ICAAP (Internal Capital Adequacy Assessment Process) package submitted to the Supervisory Authorities.

Within ICAAP, capital adequacy is assessed by verifying compliance with both Pillar I and Pillar II capital constraints (capital reserve calculated as the ratio between Available Financial Resources (AFR) and capital requirements – Economic Capital (ECAP), calculated using advanced methods developed internally and validated by the competent corporate function), using the Risk Appetite Framework, as well as qualitative elements.
The outcome of the internal assessment of capital adequacy, conducted on a multi-year basis, takes into consideration both the simulations made from a regulatory perspective and via the application of internal management methods (economic perspective). The simulations are conducted under normal operating conditions and also consider the results of the application of stress scenarios.
In accordance with the ICAAP Guidelines issued by the European Central Bank, at least on a six-monthly basis, Banco BPM Group also updates analyses to verify its regulatory and economic capital adequacy.
The above guarantees that the self-assessment required by the Supervisory Authority is performed on a continuous basis. The main results emerging from this specific monitoring exercise are reported to the Bank's Corporate Bodies.
The updating of capital adequacy analyses also enables changes in the external macroeconomic scenario to be taken into account, and any vulnerable areas and/or elements relating to the Group to be identified (so-called idiosyncratic factors added to the stress scenario selected at the time), at the same time defining the potential actions deemed most appropriate, with a view to maintaining adequate capital buffers, to guarantee that the medium/long-term company strategies and objectives can be pursued.

Outcomes of internal validation activities

The Internal Validation Function conducts qualitative and quantitative analyses to assess the soundness and accuracy of Pillar I and Pillar II risk estimates.
It expresses an opinion on the regular functioning, on the predictive capacity, on the performance and on the prudence of the internal risk measurement methods.
From the analyses conducted in 2023, no significant gaps emerged in the methodologies used by the Group for risk measurement.

Pillar I and Pillar II liquidity adequacy

Banco BPM Group manages the adequacy of the liquidity profile both from a current and forward-looking perspective, with regard to Pillar I and Pillar II, on the basis of the regulatory framework of Basel 3 and the guidelines of the Supervisory Authority.

As regards Pillar I, the Group's liquidity adequacy is continuously monitored by two indicators: (i) the Liquidity Coverage Ratio (LCR), which seeks to enhance the short-term resilience of the Bank's liquidity risk profile by ensuring that it has sufficient high quality liquid resources to overcome an acute situation of stress that lasts for one month; (ii) the Net Stable Funding Ratio (NSFR), which seeks to improve longer term resilience by providing the Bank with greater incentives to fund its own activities by drawing from more stable sources of funding on a structural basis. This structural indicator has a timeline of one year and has been drawn up to guarantee that assets and liabilities have a sustainable structure by maturity. As part of Pillar II, these indicators are supplemented by metrics developed internally, complementary to the regulatory liquidity indicators, and by stress tests.
The Group has also set in place an Internal Liquidity Adequacy Assessment Process (ILAAP) and strategy. In fact, the ILAAP is the internal process through which Banco BPM Group manages and monitors liquidity risk at Group level and assesses liquidity adequacy in both the short and medium-long term. The ILAAP also includes an annual internal self-assessment of its overall liquidity risk management framework, aimed at continuous improvement of the same.

Other risks considered by the Group

The process of identifying risks (Risk Identification) represents the starting point for the Group's main strategic processes (RAF, ICLAAP, Strategic Plan). This process represents a structured and dynamic process that is carried out annually at Group level by the Risk Function, with the involvement of the top management of the Bank and of the main Group companies and makes it possible to identify the main risk factors and emerging risks to which it is or could be exposed, ensuring that the process itself is actually acted upon and known within the Group. The output of the process enables the long list of risks to be updated, which takes the form of a Risk Inventory, which is a list of all the risks identified by the Group, including those against which an economic capital has been calculated, for which suitable organisational controls are defined for their prevention and mitigation (process monitoring or in terms of RAF indicators), as well as the Risk Map, which is a list of only the risks relevant to Banco BPM Group, quantified through internal methods, for which the materiality is verified, and also includes any additional risks that can be quantified through regulatory methods (e.g. leverage ratio). The outcome of the process represents the basis for defining the RAF indicators and the risks contained in it must be considered in the ICAAP.

The Parent Company, Banco BPM, guarantees the measurement, monitoring and management of the capital requirements for each type of significant risk and guarantees the supervision and quantification of the capital resources available to the Group to cover risk exposure, in order to fulfil the regulatory obligations of the First and Second Pillar. More specifically, the centralised management of Group capital adequacy, which entails a comparison between the amount of available capital resources and the capital requirements resulting from the risks to which the Group is exposed, from a current and forward-looking perspective, in normal and stressed conditions, is performed by implementing the internal capital adequacy assessment process (ICAAP).
In addition to Pillar I risks (credit risk, counterparty risk, market risk, operational risk), the risks identified by Banco BPM Group following implementation of the Risk Identification process (Risk Inventory) are listed below:

AML	Risk of money laundering and terrorist financing.
INSURANCE	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). Risks 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.
CREDIT CONCENTRATION	Risk that 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 OF RISKS	This represents the risk that the exposure towards a single counterparty may lead to different types of risk at the same time.
CONDUCT	This risk is included in operational risk. This is defined as the current and future risk of losses caused by the inadequacy of the financial services provided, including the risk of misconduct and incorrect treatment of customers.
CYBER AND SECURITY	The risk of incurring financial, reputational and market share losses due to cyber and security measures.
OUTSOURCING	This is the risk that derives from outsourcing/service contracts with partners outside the Group.
EXECUTION	Losses due to shortcomings in the settlement of transactions or in process management, as well as losses due to relations with commercial counterparties, sales agents and suppliers.
TAX	The risk of operating in violation of tax regulations or contrary to the principles or purposes of the tax system.
ICT	This is the risk of financial, reputational and market share losses due to the use of information and communication technology (ICT).

PROPERTY	Current and future risk resulting from changes in the value of the property held by the Group caused by fluctuations in the Italian property market.
EXCESSIVE FINANCIAL LEVERAGE	This is the risk that a particularly high level of debt with respect to own funds could make the Bank vulnerable, requiring it to take corrective measures in its business plan, including selling assets at a loss, which could require recognising value adjustments on other assets as well.
MARKET RISK IN THE BANKING BOOK	This is the risk of loss due to transactions on the market of financial assets classified in the banking book.
MODEL	This is the risk that the model used in a measurement process or which strategic decisions are based on gives an erroneous output due to an erroneous specification, flawed processing or the improper use of the model.
COMPLIANCE	The risk of incurring legal or administrative sanctions, significant financial losses or reputational damage as a result of the violation of binding rules (laws, regulations) or self-regulatory systems (e.g., articles of association, codes of conduct, corporate governance codes).
NEW PRODUCTS	Risks arising from the development, implementation and investment in new products.
EQUITY INTEREST	This is the risk resulting from changes in the value of interests in associates and joint ventures held in the banking book due to market volatility or the status of the issuer.
PENSION	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.
REGULATORY	The risk resulting from current regulatory developments which could influence the pursuit of the strategies identified by the Group.
REPUTATIONAL	This is the risk associated with a negative perception of the Bank's image by its customers, shareholders, investors, financial analysts and the Supervisory Authorities, which could have a negative influence on the Bank's ability to maintain or develop new business opportunities or to continue to have access to funding.
RESIDUAL	This is the risk that generally accepted techniques to mitigate credit risk used by the Group may be less effective than expected. To quantify it, the significance of the various types of Credit Risk Mitigation (CRM) tools is assessed in terms of reducing the capital requirement resulting from their use.
STRATEGIC	This is the current and future risk associated with a potential fluctuation of profits or of capital due to an inadequate market positioning or flawed managerial decision making. More specifically, it represents the risk that the competitive/strategic positioning choices do not produce the expected results, penalising the achievement of short and medium to long-term economic and capital objectives, or even provoking unwanted decreases in profitability levels and capital soundness. In this view, strategic risk related to the possibility of failure of company projects, which results in disruption to Bank management and inertia when faced with unforeseen market dynamics.
INTEREST RATE IN THE BANKING BOOK	Risk of changes in the net interest income (Funding Cost Risk) and the economic value of Banco BPM Group as a result of unexpected changes in interest rates which affect positions classified in the banking book for regulatory purposes. The risk arises mainly from acting as intermediary in the process of transforming maturities. In particular, the fair value of issued fixed-rate securities, the disbursement of fixed-rate commercial credit lines and loans, and collection via current accounts presents a source of interest rate risk. Cash flows from assets and liabilities subject to floating rates also represent a source of interest rate risk. Said risk includes the Basic risk component.
LIQUIDITY	The risk that the Group is unable to meet its payment commitments, which are certain or envisaged with reasonable certainty due to the inability: i) to raise funds without compromising its core business activities and/or its financial situation (funding and liquidity risk); ii) to liquidate specific assets 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 (market liquidity risk).

With reference to climate risk, defined as the direct and indirect risks linked to climate change issues, the effects are considered in the context of the individual types of risk.

Climate and environmental risks

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

Risk management is one of the fundamental components of Banco BPM Group's operating activities. The approach to risk management has evolved considerably in recent years, when the risk related to the effects of climate change was fully integrated as a driver for the development of medium/long-term business strategy, stimulating the various interested parties, including Banco BPM, to take proactive steps to meet the growing interest of the various stakeholders in this issue.
This need emerged in particular following the international commitment stated with the 2015 Paris Climate Agreement and with the European Climate Law (Regulation (EU) no. 1119 of 30 June 2021), which sets out a binding objective of climate neutrality in the European Union by 2050 and an intermediate target for reduction of greenhouse gas emissions by at least 55% by 2030 with respect to the levels recorded in 1990.

In addition to all of the other projects undertaken as regards the analysis, management and mitigation of the risks relating to climate change, Banco BPM's decision to join the Task Force on Climate-Related Financial Disclosures

(TCFD) and the Net-zero Banking Alliance (NZBA) further confirms the Group's awareness of playing a prominent role in action taken against climate change. For further details on the management and mitigation of climate and environmental risks, please refer to the Group's specific disclosure documentation: Non-Financial Statement and Pillar 3 Disclosure.

Main interactions with the ECB

The European Central Bank has a prominent role in guiding the players in the banking and credit sector towards the disclosure of risks related to climate change.

In November 2020, the ECB published the final version of the "Guide on climate-related and environmental risks" for banks, which contains the Regulator's expectations as regards the management of these risks, followed by the communication of the Chair of the ECB Supervisory Board in January 2021, concerning "Supervisory Expectations on climate-related and environmental risk: request for self-assessment and implementation plans", through which Banks were asked to conduct a self-assessment of the variances found with respect to the expectations contained in the ECB Guide (Questionnaire A) and to provide action plans with a view to monitoring the impact of climate and environmental changes (Questionnaire B), judged for Banco BPM Group to be complete and adequate. The results aggregated at European system level have been made available by the ECB.
With reference to the latter document, the main actions envisaged were divided into the following macro-areas, the main elements of which are summarised below:

1. Business Model and Strategy: to take strategic decisions that are consistent with and respect the context in which it operates, Banco BPM needs to understand the impact of climate-related and environmental risks. To this end, in the Group's Strategic Plan, the main strategic objectives as regards the management of climate and environmental risks are indicated, as well as the ways they can be integrated into the business and operations, also through Banco BPM's ESG Programme, which involves the company at all levels;
2. Governance and Risk Appetite: when drawing up business strategy and when establishing business objectives, Banco BPM intends to consider the impact of climate and environmental risks, by progressively including specific indicators that summarise the exposure to the risk in these areas in its Risk Appetite Framework (RAF), to allow the Corporate bodies, Management Committees and the main company functions involved, to take informed decisions relating to the management of these risks;
3. Risk Management: to be able to consider climate-related and environmental risks as key drivers for the other categories of risk included in the risk management framework, the physical and transition risks that the loan portfolio of Banco BPM Group is exposed to have to be identified, making it possible to integrate such factors also within the definition and assessment of customer creditworthiness and in loan origination, monitoring and pricing processes. The environmental and climate-related risk components must also be adequately considered in processes for defining business continuity plans and in the implementation of operational, reputational, market and liquidity risk management frameworks;
4. Disclosure: Banco BPM is required to publish the information and results related to climate and environmental risks deemed relevant by developing reporting in line with the expectations established by specific legislation on the subject.

Lastly, 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 Supervisory Authority.

The main initiatives implemented in 2023

In 2023, Banco BPM continued the development and implementation activities of the many project initiatives aimed at analysing and managing climate and environmental risks, both with regard to the specific ESG Programme and in response to the expectations of the ECB Guide on the subject, in line with the detailed operational plans defined by the Group and updated as part of the overall thematic review process (Thematic Review).

More specifically, Banco BPM has completed the activities regarding the overall assessment of the materiality of environmental and climate risks, which can be further broken down into the following main objectives achieved:

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

With regard to the specific "RAF" initiative, the overall 2023 Risk Appetite Framework of Banco BPM was further strengthened in the ESG area with the introduction of new KPIs. It should be noted that the ESG indicators are defined across three different levels of analysis (strategic, management and early warning) that cover the different risk areas in question.

In particular, new indicators have been established to monitor energy consumption and the scope 1 and scope 2 emissions of Banco BPM Group, in addition to the opening by Business Line of the indicator (horizontal cascading) referring to green disbursements. In line with NZBA targets, overall risk reporting was also enhanced with a specific focus on the performance of lending to priority sectors. With a view to continuously developing the framework, future implementations that the Group will carry out with regard to this area are currently under review.

During the year, work continued to strengthen/fine-tune the estimation methods referring to the traditional types of risk impacted by environmental and climate factors.

Specifically, in the credit risk area, Banco BPM has:

1. integrated climate risks into IFRS 9 provisioning measures (through post model adjustment starting from December 2022);
2. integrated climate risks, adopting an advanced approach, into capital adequacy assessments - ICAAP (starting from March 2023);
3. 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 2022 NGFS 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 borrower 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.

With specific reference to market risks, Banco BPM further analysed the materiality and sensitivity analyses of its investment portfolios (trading and banking book), examining their composition as well as the concentration/distribution by individual issuer, also considering the business sectors deemed more sensitive (transition risk). Starting from December 2023, the Bank has also implemented a quantitative solution to measure transitional environmental and climate risks that makes it possible to assess their impact on the overall deterioration of portfolio performance, due to a downgrade or default of the issuers.

During the year, Banco BPM also defined the overall framework adopted by the Group for the continuous monitoring and mitigation of the ESG reputational risk relating to the borrower counterparties.

In order to enhance and strengthen internal reporting on climate and environmental risks, Banco BPM has also arranged for an initial disclosure to be prepared, addressed to the main corporate bodies, on the issue of emissions financed by the Group with a view to reporting on the evolution of the overall loan portfolio also in relation to the upcoming definition of specific sector targets (selected as part of joining the NZBA initiative).

Lastly, it should be noted that, during the year, Banco BPM Group prepared and published the specific Pillar 3 ESG disclosures, in compliance with the express requirements of current legislation on the matter.

For an illustration of the impacts of ESG factors on credit processes and investment services, please refer to the respective sections relating to Credit Risk and Wealth Management risks.

Wealth Risk Management control framework

During 2023, Banco BPM Group continued the design phase for the introduction of ESG portfolio metrics, in preparation for the integration of ESG risks in the investment services area, and in particular aimed at the future planning of issues of management lines, pursuant to Art. 8 for SFDR purposes, consistent with the classification model. The Risk Function carried out the calibration and monitoring phases, in order to guarantee the effectiveness of the model and the controls in place.
In addition, the Group:

- integrated the Product Testing model, extending it to bonds, and launched analyses relating to asset management products;
- extended the scope of controls on the risk measures used, for the purpose of adequacy checks;
- developed a monitoring model to identify the customer portfolios to be addressed due to a high concentration of risks, for example due to an excessive deviation of the allocation of the actual portfolios compared to the those of the profile, or due a low diversification of investments;
- introduced a monthly report on the integration of the Risks of Monte Titoli on Asset Management issued by the Group.

Lastly, standard measurement and monitoring analyses were conducted on the Advisory, Product Governance, Pricing, and Best Execution macro-processes.

Data Quality Aggregation

The data quality framework covers all first pillar risk categories (market risk, credit and counterparty risk and operational risk), as well as interest rate and liquidity risks. Additional data quality controls were also developed, as part of the development of estimation models for Credit risk and the New Definition of Default.
During the year, work focused on extending the BCBS239 standards beyond the risk area, and in particular to the ESG area, and on assessing the monitoring of data quality as regards the Consolidated Non-Financial Statement (CNFS) and Bancassurance. Work started on extending these principles to the reporting and anti-money laundering areas, and the processing steps and data used in the EU-wide ST 2023 exercise were analysed.

Second-level monitoring of data quality was carried out using the structured KQI-2L approach on the focus areas mentioned above, to the extent that this approach is applicable depending on the characteristics of the individual area. Also in this case, the methodology applied to the Risk area will be progressively extended.

Special attention will be paid to second level controls on projects underway that regard the Risk function, such as applications for authorisation to use internal models, the credit data warehouse, ESG issues and the performance of stress tests.

IT Risk and CyberRisk

In light of Bank of Italy Circular no. 285 and that emphasised by the ECB during the IT and Cyber Security Risk OSI inspection, on 3 July 2023, the ICT & Security Risk organisational unit was created in the Enterprise Risk Management area.
The unit meets the need to have a second level function to monitor the IT and logical and physical Security functions, which are of increasing importance to company strategy.
Circular no. 285 assigns the role of both control and monitoring to the function. In particular, the control function is responsible for monitoring and controlling ICT and security risks, as well as verifying the compliance of ICT operations with the risk management system.
The ICT & Security Risk organisational unit has already started activities and has achieved some milestones, such as adapting the method for conducting the analysis of ICT and security risks with respect to the update of Circular no. 285, and the evolution of the RAF indicators relating to the Security position, and expects to be fully operational during 2024, also by leveraging an extensive dedicated annual plan.
Starting from the first months of 2021, with the preparation of the 2021-2024 Strategic Plan, Banco BPM Group focused its attention on the evolution of the IT architecture, on the development of cloud adoption and on data reliability, through the review of IT Governance processes and tools, modernisation of the infrastructure, development of the IT operating model and digitalisation.
Banco BPM's Information Technology Department continued to guarantee the highest levels of IT system security and continued its transformation and evolution plan in line with the objectives set, also in terms of performance optimisation and scalability.
The IT and security risk management method, approved in 2020, was adapted in 2023 to respond to the updates introduced to the above-cited Circular no. 285 and has been applied to applications in the current perimeter.
The risk assessment method envisages assessing the residual risk of individual applications, incorporating aspects linked to strategic and reputational risk.
The overall assessment underway is confirming a low residual risk overall, in line with previous assessments.
The process of rationalisation and consolidation of the supplier base, launched in 2020, continued, which, on the one hand, led to a reduction in suppliers considered non-essential and, on the other hand, made it possible to take advantage of new partnerships in the areas of digital innovation and cybersecurity.
Over the same period of time, controls on outsourced services were also strengthened, both within and outside the Group, to ensure adequate control over the stability and quality of services offered by suppliers.
In this regard and in order to continue with efforts to combat and maintain the security levels acquired, the cybersecurity strategy continued, in line with the multi-year plan, through cross-functional interventions to develop security measures.
Efforts were made to develop the tools to support the IT risk analysis model, including a tool to support the collection of impacts in the field of strategic and reputational risks.
With a view to the development of human capital and the skills of IT resources, and in consideration of process and technological innovation, a development programme is underway to support IT transformation and strengthen the role of Data Quality and IT Security of the Group with a view to up-skilling and re-skilling professional and cross-functional skills.
The Key Risk Indicators presented in the Risk Appetite Statement 2022 did not exceed the pre-established thresholds.
The 2023 IT Risk Questionnaire, whose completion is required by the ECB, showed that Banco BPM made several improvements compared to the previous questionnaire, both in terms of reducing exposure to risk and increasing maturity in various areas subject to monitoring.
For the period in question, pending the completion of the assessment process, the first indicators point to a confirmation of these results also for 2023. It should also be noted that, following the OSI inspection on IT and Cyber Security Risks, areas for improvement have emerged that the Bank will have to address in the coming years. The activities will be closely monitored.

Risks consequent to the reform of benchmark rates

In the light of the changes in legislation, the Group analysed the risks related to the reform of benchmark rates, with particular regard to the risk related to the cessation of the Euribor rate, which represents the main benchmark rate used by the Group to index loan contracts and for the assets underlying interest rate derivative contracts.

For further details, please refer to the content of "Section 5 - Other Aspects" in Part A of the Notes.

With reference to the other types of risk identified by the Group, in 2023, in relation to the methodologies adopted:

- Reputational risk: the Risk Function maintained the methodology already used in 2022 to quantify reputational risk in order to also include, in the economic capital estimates, the possible deterioration of the Group's image, perceived by its various stakeholders, due to the potential emergence of specific ESG risk factors. In particular, the marginal contribution of the various climate and environmental risk factors was estimated with respect to the overall measure of economic capital able to manage this specific type of risk. A what-if analysis tool was also developed to assess potential reputational impacts observed in the banking system as a whole;
- Strategic Risk: the development of the methodology already adopted in 2022 continued, which envisages an accurate assessment 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;
- Equity risk: fine-tuning of the estimation methodology in order to include the assessment of ESG factors, highlighting in particular the impact of transition risk on the analysis portfolio and on the relative economic sectors;
- Real estate risk: the estimation methodology also considered the impacts of environmental and climate risk factors (physical risk) on the potential expected value of the real estate portfolio owned by the Group;
- Risk-based incentive system: the 2023 Short Term Incentive (STI) plan of the Group was defined on the basis of the Supervisory provisions concerning "Remuneration and incentive policies and practices" issued by the Bank of Italy (Circular no. 285/2013 and subsequent updates). In this regard, the conditions for activating the incentive plan are aligned with the Group's RAF framework and, more generally, with the risk appetite approved by the Parent Company's Board of Directors. In general, during 2023, work continued to strengthen the link with the RAF. In particular, the Risk Function, in defining the Key Performance Indicators of the Short Term Incentive plan, ensures that the target levels defined are consistent with the risk profile approved by the Group, and to this end conducted an in-depth study to propose developments to define consistent risk-based metrics that are actionable by risk takers.

Stress testing

Banco BPM Group has implemented a detailed stress testing framework, meaning the set of quantitative and qualitative techniques used by the Bank to assess its vulnerability to exceptional, but plausible events. As part of the framework, guidelines have also been established regarding the application of stress scenarios as well as the roles and responsibilities of the company functions and the Corporate Bodies. The framework for long-term forecasting and for stress testing adopted by Banco BPM therefore represents a coordinated set of methods, processes, controls and procedures that establish the main variables to use for forecasting purposes for estimates in ordinary and adverse conditions, with a view to both planning and risk management purposes and regulatory and operational purposes.
Stress tests seek to verify the effects on the Bank's risks due to specific events (sensitivity analysis) or joint changes in a series of economic-financial variables in cases of adverse scenarios (scenario analysis), with reference to individual risks (specific stress tests) or in an integrated manner on several risks (joint stress tests).
The process of analysis is based on quantifying the impacts relating to firm-wide stress tests, which enables a global assessment of the Bank's risk profile to be made.
These tests allow identification of the risk factors that contribute more than others to this negative result and consequently allow loss-limiting strategies to be implemented when these scenarios occur.
The Scenario Council, set up in 2019, is tasked with confirming or proposing a review of the scenarios used in Group processes, in light of external events or the Bank's specific vulnerabilities, also taking account of any considerations from top management deriving, for example, from substantial changes in the risk and profitability estimates, changes in the market or reference context, the introduction of new regulatory standards or specific indications of the Supervisory Authority, also identifying the related processes impacted and assessing their potential

update. The updates of macroeconomic scenarios made by different external providers are examined continuously, assessing on each occasion whether to transpose them into the related strategic processes.
To better enhance and structure the activity performed by the Scenario Council, 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 addition, in July 2023, the ECB announced that it would be conducting the first Cyber Resilience Stress Test exercise in early 2024. The exercise, managed centrally by the ICT & Security Risk function, involves all functions of the bank. The objective is to assess the resilience of banks identified as "significant" to cybersecurity events, to identify and address weaknesses and shortcomings, and to propose a "learning experience" for both banks and the ECB. The results of the Stress Test will be shared with the banks in July 2024.

The internal risk control system

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, responsible for controlling risk, are as follows:

- Audit Function;
- Risk Function;
- Compliance Function;
- Anti-Money Laundering Function.

The Audit Function reports directly to the Board of Directors, it performs the Internal Auditing activities envisaged by Supervisory Provisions by conducting auditing and monitoring exercises - on site and remotely - at the Group Banks and Product Companies, under a specific outsourcing agreement, namely as Parent Company. The head of the Audit Function has direct access to the Body in charge of the control function and enjoys unrestricted communication with the same, without the need for mediation.
On the one hand, the Audit Function of the Parent Company is responsible for monitoring the regular performance of operations and the evolution of risks, with a view to third-level controls, including on-site and off-site checks, and, on the other hand, it strives to assess the efficiency and effectiveness of the Internal Control System overall, reporting the results of its activities to the corporate bodies, as well as the measures that management needs to implement to achieve the full adequacy of the control system and its processes.
The Audit Function is responsible for the internal audit activities relating to all the central and peripheral units of the Italian companies of the banking Group. For the only foreign entity belonging to the Group (Banca Aletti Suisse), it conducts its own audits, in addition to those conducted by the local unit assigned audit activities, and coordinates with the same where necessary. The Audit Function of the Parent Company also carries out the role of guidance, coordination and control of the Internal Audit Functions of the insurance companies belonging to the Financial Conglomerate.
In addition to that envisaged by internal regulations, when performing its duties, the Audit Function takes the provisions of international professional standards into account.
In addition to the usual internal audit activity, the Audit Function provides advisory services, offering its experience mostly by participating in projects and working groups, with specific reference to aspects relating to the internal control structure.

The Risk Function reports directly to the Chief Executive Officer of Banco BPM S.p.A.; the head of the function has direct access to the Body with strategic supervision functions and the Body in charge of the control function and communicates with them without restrictions or intermediaries.
The Parent Company’s Risk Function is assigned the role of control function pursuant to Circular 285/2013 of the Bank of Italy, it guarantees the functional coordination of risk control measures of Group Companies and oversees - at Group level and in an integrated manner - the governance and control (Enterprise Risk Management), development and risk management (Risk Models) processes and the validation process of internal risk measurement models (Internal Validation).
The Risk Function and its internal structures are independent from operational functions and activities. In particular, they are responsible for:

- proposing and developing guidelines and policies regarding the management of the relevant risks, in accordance with the company’s strategies and objectives;
- coordinating the implementation of the guidelines and the policies regarding the management of the relevant risks by the units assigned by the Group, also in different corporate areas;
- guaranteeing the measurement and control of the Group’s exposure to the different types of risk and of the relative capital absorption, verifying the implementation of the guidelines and the policies established for the management of the relevant risks and the compliance with the thresholds established within the Group’s Risk Appetite Framework;
- guaranteeing the development and continuous improvement of the models and metrics for the measurement of risk - of the First and Second Pillar in base and stressed conditions - also through projects to implement and enact advanced models, to align with the standards that are gaining recognition at international level over time, to implement supervisory regulations and directives, and to develop increasingly effective controls;
- overseeing the validation process of the internal models used to calculate capital requirements;

- overseeing the process to verify, through second level controls, that the trends of individual exposures are being correctly monitored, as well as to assess the consistency of the classifications, the appropriateness of provisions and the adequacy of the recovery process;
- ensuring that the information used for measurement, monitoring and reporting of the risks under their responsibility were subject to a robust Data Quality and Aggregation framework;
- formulating mitigation proposals, specifically through the use of insurance or financial cover, in order to externalise the risk, assigning the assessment and execution thereof to the functions in charge, monitoring the performance;
- to carry out second-level controls relating to the monitoring of the IT and logical and physical security functions, which are of increasing importance to company strategy, as well as verifying the compliance of ICT operations with the risk management system.

The head of the Risk Function is also responsible for assisting the Corporate Bodies in performing their respective duties in terms of the Internal Control System, by:

- intercepting all the relevant information required to quantify and manage risk promptly and in a coordinated manner;
- ensuring a more integrated ability to process, organise and contextualise the information acquired and to make assessments (both in terms of risk and asset value) separately from other cases;
- drawing up a summarised (integrated) report on company risks and, therefore, enabling the Corporate Bodies to gain a better understanding of the main problems identified by the second-level internal control system;
- promptly implementing corrective measures, in accordance with the problems and the relative priorities indicated by the second-level Internal Control Functions.

The Internal Validation Function, which reports directly to the Risk Function, independently oversees the internal validation processes of the risk measurement and management systems. The Function assesses the model risk implicit in the methods used to measure risk and conducts tests to validate the calculation of capital requirements with reference to the application of internal validated models.
In December 2022, as part of a broader renewal of the organisational and governance model, the risk control function was strengthened through the establishment of the position of CRO (Chief Risk Officer) reporting directly to the Chief Executive Officer.

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, according to a risk-based approach, the management of compliance risk with regard to all company activities, verifying - during both the start-up and operating phases - that internal procedures are adequate to prevent that risk.
For rules relating to the exercise of banking and brokerage activities, the management of conflicts of interest, transparency towards customers and, more generally, regulations for consumer protection, the Compliance Function - as required by the Supervisory Provisions - is directly responsible for managing the risk of non-compliance.
With reference to other regulations that provide for specific forms of specialised oversight, the duties of the Compliance function, based on an assessment of the adequacy of the specialised controls to manage the non-compliance risk profiles, are tiered and the Compliance function itself is, in any case, responsible (in collaboration with the delegated specialised departments) for: i) defining the methodologies for assessing the risk of non-compliance; ii) identifying the relative procedures; iii) verifying the adequacy of the procedures themselves to prevent the risk of non-compliance.
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.
The Head of Compliance has also been given the role of Data Protection Officer (DPO) in accordance with European Regulation 2016/679 (GDPR) concerning personal data protection.

The Group's Anti-Money Laundering 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, with full autonomy to oversee the risk of money laundering and terrorist financing, as well as reports of suspicious transactions, and has direct access to the Corporate Bodies, communicating with them without any restrictions or

intermediation. Furthermore, the function carries out the activities required under the regulations assigned to the Head of the Anti-Money Laundering Function and the Suspicious Transaction Reporting Officer (SOS).
The activities are performed according to a risk-based approach, conducting audits and checks in order to assess exposure to the risk of money laundering and terrorist financing, the effectiveness of the organisational and control oversight measures, when setting them in motion and when established, and any corrective measures to be implemented to remedy the vulnerabilities found.

Improvement activities for the risk control and management system

Over time, Banco BPM Group has launched numerous projects to improve its risk management and control system. Specifically, to date the Group has been authorised to use its internal models to calculate regulatory capital absorption with regard to the following Pillar I risks:

- credit risk (starting with the measurement at 30 June 2012): the scope concerns advanced internal ratings-based models (PD, for both monitoring and acceptance and LGD) relating to loans to Banco BPM enterprises and retail. The standard regulatory approach will continue to be adopted, for prudential reasons, for loan portfolios that are not included in the scope of first validation A-IRB. In 2017, Banco BPM Group submitted a request to the European Central Bank for the extension of the advanced internal models (A-IRB) to the Corporate and Retail portfolio of BPM S.p.A. and the use of the EAD model limited to the Retail scope, for the relative calculation of the capital requirement for credit risk, together with a model change for the definition of default and updating of historical series. In this context, the Group was authorised by the ECB to use these templates for reporting purposes in the first quarter of 2018, starting from January 2018.
  From March 2021, the Regulator authorised the Bank to use a more updated IRB framework with the introduction within the various areas of application (regulatory and operational) of new PD, LGD and EAD parameters for retail customers and corporate customers. The effects of these new parameters incorporate the new regulatory definition of default (EBA/GL/2016/07) and anticipate a range of aspects regarding the EBA guidelines on the estimation of PD, LGD and downturn (respectively EBA/GL/2017/16 and EBA/GL/2019/03).
  In 2021, the Bank launched an important project to review the A-IRB system, with the aim of completing the process to align the current credit risk models with the regulatory requirements originating from the EBA Guidelines on the development of PD and LGD models (EBA/GL/2017/16), estimation of downturn (EBA/GL/2019/03, as well as EBA/RTS/2018/04) and Credit Risk Mitigation techniques (EBA/GL/2020/05). The projects to review credit risk models, the assessment criteria of the same (backtesting framework) and the adaptation of the various Bank processes, led to the submission of an A-IRB model change application to the Regulator in the first quarter of 2022; in December 2023, in response to the application, authorisation was received from the ECB to use the above-mentioned models for reporting in the first quarter of 2024.
  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 Art. 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;
- market risk: on 11 January 2023, the Final Decision was received from the ECB, approving the implementation of the relative change in the IRC calculation method, following the resolution of obligation 18 (IMI 4145) requested in January 2022. The new method guarantees a more accurate estimate of the P&Ls associated with rating migration events through a greater number of financial instruments used to calibrate the spread levels of the worst rating classes. A forward structure with different maturities (1, 3, 5, 7, 10 years) for the different rating classes and sectors was also introduced in the Asset Swap Spread matrix and a CDS spread matrix was created to calculate the P&L associated with the shock spreads of the CDS, with the same forward structure (1, 3, 5, 7, 10 years). Therefore, the new methodology is used to calculate capital absorption/RWA starting from the first quarter of 2023. The ECB decision in question led to the removal of the 10% IRC add-on starting from 2 January 2023. As regards the latter metric, a

limitation was actually in place with a 10% add-on on an individual and consolidated basis, until several relative methodological findings were resolved.
On 14 April 2023, following the remedial activities prepared by the Bank to fulfil obligations 2 and 3 of IMI4145, the ECB granted the authorisation to extend the approach of the IMA model to the exchange rate risk of Banking Book positions.
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.

1.1 CREDIT RISK

QUALITATIVE INFORMATION

1. General aspects

Banco BPM Group pursues lending policy objectives that seek to:

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

To optimise credit quality and minimise the global cost of credit risk for the Group and the individual companies, under the organisational model the Parent Company's Loans Function is in charge of lending policy guidelines for both the banks and companies of the Group.
Guidelines have also been set at Group level, defining conduct with respect to assuming credit risk, to avoid excessive concentrations, limit potential losses and guarantee credit quality. In particular, in the loan approval phase, the Parent Company exercises the role of management, direction and support for the Group.
The above Function monitors the loan portfolio, and focuses on analysing the risk profile performance of economic sectors, geographical areas, customer segments and types of credit lines granted, as well as on other dimensions of analysis, which enable any corrective actions to be defined at a central level.
The role of the Parent Company's Risk Function is to support Top Management in planning and controlling the risk of exposure and capital absorption, in order to maintain the stability of the Group, verifying forward-looking capital adequacy and under stressed conditions, as well as compliance with the RAF thresholds, the Group's risk limits and its risk appetite. In particular, the Function's task is to develop, manage and optimise internal rating models (Pillar I), the loan portfolio model (Pillar II) over time, and to supervise - as part of second level controls - the calculation of risk-weighted assets using advanced methods.
Credit risk monitoring at portfolio level is based on a default model that is applied on a monthly basis to credit exposures of Banco BPM Group.
For an examination of the main initiatives and adjustments made to factor in uncertainties in the reference macroeconomic context and other risk factors not intercepted by expected loss calculation models, please refer to the section below "2.3 Measurement methods for expected losses".

2. Credit risk management policies

2.1 Organisational aspects

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

The credit risk management policies represent the reference framework for the operations of the structures allocated with risk management, they are updated annually as part of the RAF and they guide credit policies in terms of the evolution of the company's activities, the expected risk profile and the external scenario.
As required by supervisory regulations, the Group has drawn up an internal ex-ante management process for Most Significant Transactions (MST) and for the supervision of large exposures, controlled by specific company regulations in this regard.
The Parent Company draws up Group credit policies, in parallel with the budget process and in line with the strategies, the risk appetite and the economic objectives approved by the Board of Directors.

To measure the different aspects and components of credit risk, the Group adopts models and metrics developed in accordance with supervisory regulations, with a view to guaranteeing the sound and prudent management of the risk positions assumed and to comply with regulatory requirements, also assessing the effect of changes in the scenario to which the credit portfolio is exposed.
These models must periodically undergo backtesting and stress testing in order to guarantee their statistical and prudential robustness, validated by an operational unit that is independent to the function responsible for developing them, reviewed at least annually by the Audit Function.

From a regulatory perspective, risk-weighted assets (RWA) are calculated by a method based on internal ratings (A-IRB Approach), risk segments/parameters validated by the Supervisory Authorities and using the Standard Approach for the other exposures, in accordance with the Group's roll-out plan. As regards the scope of Banca Akros and Banca Aletti, the standardised regulatory approach is applied.

The risk parameters of the models are periodically calibrated.
The development and updating "model change" process for the rating models entails a series of activities and procedures, the aim of which is to define, initially or when updated, the rating models applicable to credit exposures, namely statistical or empirical models to confirm the credit assessments made by the Companies of the Banking Group and to enable the capital requirements of the same against the risk of unexpected losses to be calculated.

With regard to the segments validated, these include:
- five rating models (4 for Business customers, 1 for Private customers), which use financial statement, performance and qualitative information (Business) and sociological/performance (Private), calibrated adopting a long-term approach (Through-the-Cycle), in order to neutralise the possible impacts of an expansive or recessive phase of the economic cycle;
- two LGD performing models (1 for Business, 1 for Private customers);
- two LGD non performing ELBE (Expected Loss Best Estimate) and Defaulted Asset models, separate for Business and Private customers;
- two EAD models for Corporate customers and for the Private customer portfolio respectively.

From an operational perspective, the unexpected loss on credit risk is measured by quantifying the economic capital through the application of a Credit VaR portfolio model.

The key component of the credit risk measurement models is the Rating System, namely a structured and documented set of methods, organisational and control processes and procedures to organise databases, which enables the relevant information to be collected and processed, to reach summary assessments of the risk level of a counterparty and of individual credit transactions.
The rating system is incorporated in the decision-making processes and in the management of the company's operations, playing an important role in the following Group processes:
- Lending policies;
- Business planning;
- Capital planning;
- Risk Appetite Framework;
- Product pricing;
- Granting loans;
- Monitoring and managing loans;
- Provisioning;
- Risk measurement and control;

- ICAAP and ILAAP;
- Management of the bonus system;
- A.Ba.Co. (other funding instruments).

The procedures for the operational use of the rating system in the various company processes are regulated by regulations issued over time in the above-mentioned areas. The regulatory framework set in place to oversee credit risk, developed in accordance with company standards, is based on specific Regulations and Process Rules, specifically the Regulations on counterparty credit risk and the Regulations for Limits of Autonomy and powers in the granting and management of loans.
The principles established in the Regulations issued have been applied and included in the wording of the regulations, for the processes included in company taxonomy.
The processes for the granting of loans guarantee an adequate, objective and harmonised assessment of creditworthiness and of risk, through the use of the rating system to guide the decision-making steps.
More specifically, the ratings are used to define the scope of decision-making, by means of a weighting method based on an assessment of the creditworthiness of each counterparty, summarised by the rating, as well as on the measures to mitigate the risk assumed.
An assessment of the risks already assumed or to be assumed is conducted for each individual customer and Risk Group, namely the set of parties related through the ties considered for the registration of Economic Groups, as well as joint account holders and those with a joint-obligation, as regards the entire Banking Group.
The criteria for the allocation of responsibilities to the various parties/organisational units that take part in the loan granting process are based on principles of separation in order to guarantee independence of judgement and prudence in the assumption of risk.
To this end, with regard to the activities envisaged in the loan granting process, the roles of “Proponent”, of “Decision-maker” and of any “Intermediate body that gives an opinion” are clearly separated.
In the case of “non-resident” customers, compliance with the authorised maximum limit for “Country Risk” must first be checked, before the assumption of “Credit Risk”, “Delivery Risk”, “Placement Risk” and “Evidence Risk”.
The “Authorisation, monitoring and management of overdrafts and/or past due loans” Rules establish the continuous monitoring activities that the Manager must perform when managing the account, with regard to overdrafts, past due instalments not paid and drawdowns on expired or reduced loans.
The management of overdrafts is accompanied by a specific procedure that has made access to data regarding positions classified as “becoming past due” more efficient, enabling both current and historical information available to be consulted, right down to the details of an individual account, as well as obtaining lists based on selection criteria entered by the user.
Forborne exposures are identified as part of the loan granting process and, therefore, through the ELA (Electronic Loan Application) function.
The identification of forborne exposures is carried out for both performing loan positions included in the watchlist, and for those classified as non-performing loans, for which a status of financial difficulty has been found (said status is objective for the positions classified as non-performing) and the granting of a tolerance.
The Account Manager, in the role of “Proponent”, is responsible for:

- assessing the customer’s situation of financial difficulty. To reach an opinion, all of the information from the preliminary check used to analyse creditworthiness in the ELA, including a specific additional checklist that differentiates between Business and Private customers;
- assessing the proposed award of forbearance measures;
- entering the Account Manager’s assessment of the customer’s situation of financial difficulty or otherwise in the information system and identifying award or otherwise of the proposed forbearance measures.

The Intermediate Body that gives an opinion is required to share the Proponent’s assessments.
The Decision-making Bodies are responsible for ascertaining the consistency or otherwise of the assessment made by the Proponent.

The evidence expressed at the time of the decision on the individual line of credit automatically identifies all accounts related to it as “forborne”.
Once classified as forborne, the exposures are managed in accordance with the relevant processes (“Monitoring and managing non-performing loans” for “Forborne non-performing exposures” and “Monitoring and managing loans: watch list” for “Other forborne exposures”).
Decisions regarding situations in which the exposure is no longer forborne, or the reclassification of “Forborne non-performing exposures” as “performing” are assisted by the information system.

In this regard, all positions that surpass the objective parameters established by EBA regulations are automatically highlighted and the proposals are subject to a structured process which enables all of the available assessment elements to be examined and historicised.
The reclassification of a "performing" exposure, already the subject of forbearance measures, to a higher risk category, is automatic if the events established by EBA regulations occur.
Country Risk, which identifies the risk factors relating to the political, macroeconomic, institutional and legal situation of a foreign country, is considered, with regard to all business and financial transactions, if the counterparty is resident or has registered offices in a foreign country. Country risk is based on two main elements:

- political risk, namely the set of factors regarding the political and institutional system that may influence the country's willingness to honour its commitments;
- transfer risk, namely the set of economic factors that can influence the possibility that a certain country may establish, as an element of its economic policy, limits to the transfer of capital, dividends, interest, commission or royalties to foreign creditors and/or investors.

In the case of "non-resident" customers, compliance with the authorised maximum limit for "Country Risk" must first be checked, before the assumption of "Credit Risk", "Delivery Risk", "Placement Risk" and "Evidence Risk".
With regard to Transfer Risk, note that this risk is included in the credit portfolios that use ECAI ratings (exposures towards Governments and Central Administrations, Supervised Intermediaries and non-resident Corporate customers). The residual limited scope (non-resident customers without ECAI), is monitored periodically by the Parent Company's Risk Function.
The organisational structures of the Loans Function and of Loans of the Territorial Departments are defined in accordance with the credit granting, monitoring and management processes.
Furthermore, the Head of the Loans structure of the Territorial Departments reports functionally to the Head of the Loans Function and the Head of Loans for the Business Area, who, in turn, reports functionally to the Head of the Loans structure of the Territorial Department.
In terms of procedures and tools to support the processes, attention is drawn to the following:

- in "Loan Granting" processes, the Electronic Loan Application (ELA) procedure provides support to the Network in the preliminary examination, proposal, approval and finalisation stages and automatically calculates decision-making scope;
- the web-based Electronic Loan Application provides support to the loan granting process through a specific work flow based on parameters and enables each step of the process of preliminary examination - proposal - forwarding to higher Bodies and approval to be traced, as well as automatically checking the documents required and the validity of the assessment elements;
- as regards measures to assist "Private", "Small Business" and "Small Business Operator" customers, decision-making engines are used (ScoPri, Transact), to establish the financial feasibility of the proposed transaction, which make a summary assessment of the increasing risk;
- the process of monitoring and managing performing loans is assisted by a special procedure on a web platform that also permits the automatic interception of positions and classification on the watchlist, as well as the following of their management and verification of compliance with the decisions made. Positions are intercepted both when the thresholds for specific parameters are exceeded and via the use of an automatic indicator, which is calculated monthly, capable of producing a summary assessment of the performance of the account. This indicator can be searched both with reference to the month of processing and as an average indicator for the period (last six months) and is integrated within credit processes as a parameter of evidence;
- to support the monitoring and management processes of non-performing loans, broken down by status (Past Due and Substandard; Restructured; Bad Loans) a new procedure "Electronic Management Procedure - EMP" has been created;
- the credit assessment processes are conducted using the "IFRS 9 Suite" IT procedure.

The Loans Function prepares a quarterly report - in conjunction with the publication of the quarterly financial statements data - which includes a series of summary views on the main dimensions of loans. Specifically, the report focuses on the national scenario, the distribution of Group loans, the distribution of loans by sector, the distribution by rating classes, the development of loans and mortgages to Private customers – Consumer households.
The Risk Function produces monthly reports on "Credit Risk – Portfolio Model", which include evidence with group, company, economic sector and geographical area views.

In addition, a summary document has been introduced, with a monthly frequency, relating to the overall Pillar I and Pillar II risk trend, to support the periodic integrated Group risk report, with a view to monitoring the evolution of economic capital and to report the appropriate figures to the Corporate Bodies.

2.2 Management, measurement and control systems

Banco BPM Group uses an elaborate set of instruments to grant and manage credit and to monitor portfolio quality.
Rating plays a key role in loan granting, credit product disbursement, monitoring and performance management processes. In particular, it plays a role in defining guidelines for credit policies, in deciding which bodies are competent to approve loans, as well as on the mechanism for the automatic renewal of uncommitted credit facilities, and it contributes to determining automatic interception of the monitoring and management process (Watchlist).
To proactively manage counterparties that show signs of a deterioration of credit risk, the Group utilises a specific platform to intercept, monitor and manage anomalous exposures, as well as a performance scoring model to intercept the first signs of deterioration of the counterparty, before the default event. Considering the new EBA guidelines on the definition of default, applied by the Group from 1 January 2021, the above-cited monitoring platform incorporates the new rules relating to overdue exposures, making provision, from the first few days in which the overdue event materialises, for intervention processes differentiated by counterparty type and level of exposure, according to a management approach which is as business-oriented as possible, to prevent deterioration in credit risk and the consequent restoration of the ordinary management of the relationship. More specifically, the process currently in place envisages the interception of overdue positions on a daily basis, and their subsequent management according to a structured procedure, which entails clustering the portfolio with anomalies and the subsequent definition of interventions according to a defined scale of priorities.

The methodologies underlying the risk parameters PD (Probability of Default), LGD (Loss Given Default) and EAD (Exposure at Default), are used not only to assess the counterparty when granting, monitoring and renewing credit lines, but also to collectively write down receivables in the financial statements, in compliance with IFRS 9.
The credit assessment to calculate the amount of expected losses of non-performing loans differs according to the status and size of the exposure. The expected credit losses valued analytically by the manager are periodically reviewed.
For prudential purposes, credit risk monitoring at portfolio level is also based on a default model that is applied on a monthly basis to credit exposures of Banco BPM Group. For more information on the general features of this model, please refer to the following paragraph "E. Prudential consolidation – Credit risk measurement models".
For other exposures - other than performing loans with ordinary and financial resident customers - risk is controlled through the use of supervisory regulatory metrics (Standard).

Information on the inclusion of ESG factors in credit processes

The main objective of the credit policies of Banco BPM Group is to guide the growth of volumes, with a view to optimising the risk-return ratio and to containing the future cost of credit risk, by already incorporating various clear ESG-related aspects from 2021, particularly as regards the Real Estate and Agrifood sectors. These aspects have been implemented in the loan application process through dedicated tools, which envisage acquiring information also relating to factors more linked to the environment and the climate during the proposal and approval stage.
Already last year ESG factors were included in the Group's credit processes; during the first half of 2023, the assessment of ESG factors and the impacts of potential risks linked to climate change on the economic and financial outlooks of the companies to which Banco BPM Group is exposed were integrated within the Credit Policies framework. In this regard, the assessment was extended to all Bank segments, including Small Business (through a simplified model), and the assessment of physical risk was integrated, with reference to both counterparties and collateral. The risk mitigation actions implemented by the counterparty to which the Group is exposed were also evaluated.

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

Lastly, project activities continued as part of the implementation of the "EU Taxonomy", with the aim of integrating the alignment of exposures of financed counterparties with the taxonomy into processes and products.

Starting from December 2022, in the estimate of expected credit losses (ECL) on performing credit exposures, the Group introduced a specific adjustment to factor the risks deriving from the exposure of debtor counterparties to climate and environmental factors. In particular, the impacts on the PD and LGD risk parameters of the counterparties were estimated, assuming a transition risk and a physical risk developed on the basis of the scenarios illustrated below.
With reference to transition risk, the Orderly Transition scenario prepared by the EBA for the 2022 Climate Stress Test was considered, based on the assumptions of the Net Zero 2050 scenario of the Network for Greening the Financial System (NGFS). With respect to the possible alternative scenarios (Disorderly Transition and Hot House World), the selection of the Orderly Transition scenario was the most prudent with reference to the time horizon of the credit exposures to be assessed, as it assumes an immediate and stringent intervention of climate policies, as described in more detail below.
This scenario was incorporated in the PD parameters by assessing its impact on the financial statement items of corporate customers, which are then used as input for financial models developed internally by the Group. These models deliver prospective PD values.
On the basis of the changes in PD obtained, the effects of the ecological transition are then transmitted, with a special mathematical function, also to the LGD parameter. A specific physical risk shock was also applied to the latter parameter, to consider the possible impact on mortgage collateral following a possible write-down of properties based on flood risk, as per the 2022 NGFS Flood scenario.
For further details on the methodology for calculating the adjustments in question and the relative impacts, please refer to paragraph “2.3 Measurement methods for expected losses”, and in particular the information on “Use of post-model adjustment and management overlays”.
For a better understanding of the assumptions underlying the transition scenario considered by the Group with respect to the alternative scenarios, an illustration of the main assumptions of each scenario is provided below.
The Orderly Transition scenario is based on the NGFS Net Zero 2050 scenario, which envisages a maximum increase in global temperature of 1.5°C, achieved through the immediate and gradually more stringent introduction of policies to reduce carbon dioxide emissions, which are considered zero in 2050. In this type of scenario, the transition risk and the physical risk are limited: in fact, the gradual transition ensures that the necessary costs and investments in innovation are minimised. At the same time, the increase in the maximum global temperature of 1.5°C reduces the risk of extreme events.
The Disorderly Transition scenario, which is instead based on the NGFS Delayed Transition scenario, assumes a delayed and net introduction of climate policies starting from 2030, in order to limit the increase in global temperature to below 2°C; carbon dioxide emissions are therefore higher than in the previous scenario to comply with the objectives of the Paris agreement. The scenario therefore entails a higher transition risk, due to the higher costs required by the delayed introduction of climate policies, while the increase in global temperature increases physical risk in terms of greater frequency and importance of extreme events.
Lastly, the Hot House World scenario is calibrated on the NGFS Current Policies scenario, which captures the long-term impact of physical risk on the economic and financial system resulting from the failure to introduce emission reduction measures. Although emissions at European level are gradually decreasing, global emissions continue to grow until 2080 with an increase in global temperature of around 3°C. This will lead to greater and more significant natural catastrophes, with a considerable increase in insurance and reconstruction costs linked to these events. In this scenario, there is therefore no transition risk, but the transition costs that would have occurred in previous scenarios are more than offset by the strong impact of extreme physical risk in the economy.
With regard to non-performing loans to be assessed analytically, the risks related to climate and the environment are taken into consideration in the estimate of the present value of forecasted future cash flows, on an essentially discretionary basis and together with other pieces of information.

During the second half of 2022, the aforementioned Financial Forecast Studio was also implemented, a modular platform to support the forward-looking assessment of a company by the manager. The instrument works on the platform supplied by the provider Cerved.

The elements characterising this instrument are:

1) accurate data sets:
    - At least every six months, Cerved prepares forecasts for approximately 400 sectors, which can be used as a standard basis for the prospective simulation of the financial statement figures of the individual company;
    - the historical financial statements of the last few years are made available;
    - the CeBi reclassification scheme of Cerved’s Financial Reporting Office was adopted;

2) assumptions and business simulations:
   - starting from the standard simulations proposed by the provider, an infinite number of alternative scenarios can be replicated by changing the initial assumptions;
   - more than 20 parameters (financial statement items) are available that can be used as modifiable assumptions of the model;
   - through simple data-entry, start-ups/financial statements of partnerships can also be evaluated;
   - an additional ESG module is included for the accurate estimate of the impacts on credit risk of the variables linked to environmental, social and governance risks;
   - the tool provides a wide range of forecast outputs to support the manager and the decision-maker in the evaluation and granting phase; it also makes it possible to compare multiple scenarios relating to the same company or to different companies (for example, a "best in class" or specific competitor).

The paragraphs below illustrate the changes that were introduced in 2023.
The Credit Policies framework for 2023 includes additions and updates mainly in three areas:

A) ESG:
   - evolution of the transition risk classification methodology based more on emissions;
   - introduction of physical risk;
   - extension to the large corporate segment;
   - management of priority sectors with high emission risk;
   - introduction of ESG credit policies;

B) Real Estate:
   - KRI (Key Risk Indicator) integration for the assessment of sustainability in the CRE (Commercial Real Estate) sector;
   - alignment of the requirements for the classification of green real estate investments in line with the requirements of the taxonomy;

C) Evolution of the current framework:
   - credit policies as part of "withdrawal" strategies;
   - fine-tuning of policies for the retail sectors, in particular for decision-making engines.

2.3 Measurement methods for expected losses

With regard to the calculation of expected credit losses (ECL), in 2023, the process of revising and fine-tuning the current models, which started in 2020, continued, with a view to more accurately reflecting the expected losses of performing exposures, also as a consequence of the economic disruption caused by the situation of international political instability. This process moreover envisaged a series of post model managerial adjustments, in order to factor in certain measurement elements not adequately intercepted by current models. The paragraphs below provide an illustration of the changes introduced to models and to the criteria to calculate expected credit losses following imbalances linked to the economic situation, as well as the changes introduced in 2023 as part of the continuous process of revising models, depending on the type of intervention (assessment of the SICR, reintroduction of the quantitative criterion for classification to Stage 2, based on the so-called "Threefold increase"). Note that, given the complexity and the pervasiveness of the changes made to the estimation models, it was not possible to isolate the impacts that the same generated in terms of quantifying the expected credit losses, with respect to the estimation models used previously.

Measurement of expected credit losses

According to IFRS 9, all financial assets not measured at fair value through profit and loss, represented by debt securities and loans, and off-balance sheet exposures (commitments and guarantees given) must be subject to the impairment model based on expected credit losses (ECL – Expected Credit Losses).

Specifically, the IFRS 9 impairment model is based on the concept of forward-looking valuation, i.e. on the concept of Expected Credit Loss, whether calculated at 12 months (Stage 1) or for the entire residual lifetime of the instrument (lifetime loss for Stage 2 and Stage 3). In particular, the model establishes that financial assets should be classified into three separate stages, corresponding to different measurement criteria:

- Stage 1: to be measured on the basis of expected credit loss over a time horizon of one year. Stage 1 includes performing financial assets for which no significant impairment of credit risk has been observed with respect to the date of initial recognition;

- Stage 2: to be measured on the basis of expected credit loss over the entire residual life of the financial asset. Stage 2 includes financial assets that have undergone significant impairment of credit risk with respect to initial recognition;
- Stage 3: to be measured on the basis of an estimate of expected forward-looking loss, based on a 100% probability of default. Stage 3 includes financial assets considered non-performing.

According to the Expected Credit Loss calculation model, losses must be recorded not only with reference to objective evidence of impairment losses that had already occurred at the reporting date, but also on the basis of expectations of future impairment that is not clear yet, which must reflect:
- the likelihood of different scenarios occurring;
- the effect of discounting using the effective interest rate;
- historical experience and current and future valuations.

Detailed information is provided below on the model used by the Group to verify whether there is a significant deterioration of credit risk (known as "Framework Stage Assignment") and to calculate the forward-looking expected credit loss.

Framework stage assignment

Amendments introduced in 2023 for the SICR assessment

With regard to the stage assignment framework, to draw up the 2023 consolidated financial statements, some changes were made to the criteria used to assess any Significant Increase in Credit Risk (SICR), with respect to those used last year, which consequently conditioned the classification of performing exposures into stages (Stage 1 and Stage 2).
In greater detail, in order to incorporate the ECB recommendations contained in the Follow-up Letter received in August 2023, starting from September 2023, the quantitative classification criterion was reintroduced to Stage 2, based on the so-called "Threefold increase". In fact, this rule envisages the automatic classification as Stage 2 of all loans granted to counterparties that between the date of disbursement and the date of reference recorded an increase in the annualised probability of default of 300%, with the exception of cases in which the PD on the reference date was in any event lower than 0.30%, namely than the threshold considered to represent low credit risk.

Illustration of the staging model

In order to allocate exposures to the various stages, Banco BPM Group has classified them as follows:
- performing loans in Stages 1 and 2;
- non-performing loans in Stage 3. The analyses conducted led to the conclusion that the relative scope is aligned to that of non-performing exposures, determined in accordance with the definitions contained in current supervisory provisions[1] (bad loans, unlikely to pay, past due exposures), as they are deemed to be consistent with accounting regulations in terms of objective evidence of impairment. For further details on this scope, please refer to Part "A.2 – Key financial statement items" of these Notes to the consolidated financial statements.

With regard to the loans, an illustration of the quantitative and qualitative criteria defined by the Group in order to classify a performing exposure in Stage 1 or Stage 2 are illustrated below.
With reference to quantitative criteria, the model developed by the Group uses as reference the parameter of lifetime probability of default (LPD), measured at the reference date, and the same parameter measured at the origination date. The ratio between said parameters is defined as the "Lifetime PD Ratio" (LPDR). More specifically, the chosen metric is based on the "Forward" PD concept. This approach entails identifying the forward PD curve on the Lifetime PD curve observed at the origination date, with the reference date as a node and the residual duration as holding period.

[1] Definitions contained in the Bank of Italy Circular no. 272 of 30 July 2008 and subsequent updates, on the basis of which the scope of non-performing loans corresponds to that of the Non-Performing Exposures of Implementing Regulation (EU) no. 680/2014, with which the EBA's ITS was incorporated (EBA/ITS/2013/rev1 of 24/07/2014).

The development of the model has also led to the identification of specific internal thresholds of variation between the two aforementioned probabilities, which are differentiated by the following drivers:

- risk segment;
- rating class;
- residual life;
- ageing of the position (distance between the origination date and the reporting date).

Thus, the change in credit risk is measured for all loans by comparing the parameter defined as a logarithm of the "Lifetime PD Ratio - LPDR" of individual exposures, as defined above, and the specific estimated internal thresholds. Exceeding the above thresholds, with the exception of cases in which the annualised PD observed at the reference date is lower than the threshold of 0.30% (threshold considered to express a low credit risk - Low Credit Risk Exemption), represents a significant increase in credit risk and the consequent transfer of the individual credit line from Stage 1 to Stage 2. That methodology is thus based on a relative approach, as the allocation between Stage 1 and Stage 2 is guided by the change in credit risk since the origination date.

In developing its operating model, after calculating the logarithm of the LPDR for each position included in the estimate sample, the Group selected the optimal threshold for each cluster (given by the intersection of the risk driver methods considered relevant) that would allow it to optimise the model's performance measured using the Matthews correlation coefficient (MCC). The performance aims to describe the ability of the model to correctly anticipate, with a Stage 2 classification, the positions that, within 12 months from the reference date, show signs of risk represented not only by default but also by additional elements that denote a high level of risk (the presence of a number of consecutive days past-due/overdue exceeding the 30-day threshold, the granting of a forbearance measure, the presence of the counterparty within exposures subject to strict monitoring).

With reference to exposures to banks, the methodology developed is also based on the calculation of the LPDR parameter, using the thresholds developed for the Businesses segment.

Following the changes introduced, as illustrated previously, it should be noted that exceeding of the SICR threshold - which determines a Stage 2 classification - is observed on positions that show, with respect to the origination date, a relative increase in PD Lifetime included on average in a range from +100% to +200% depending on the risk segment.

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

- the presence of a number of consecutive days past-due/overdue exceeding the 30-day threshold;
- the granting of forbearance measures. In greater detail, this includes all exposures affected by forbearance measures which have this attribute still active, regardless of whether the current probation period is regular;
- the inclusion of the counterparty in watchlist exposures subject to strict monitoring, in the presence of situations that suggest high risk (e.g. synthetic judgement of the degree of risk of the individual customer above a certain threshold, prejudicial events);
- the classification of the counterparty in the "High" risk band[1], save for the option of override by the competent company functions, which must be suitably justified;
- lack of rating at the origination date, save for the case where the counterparty was assigned a rating on the measurement date that classifies in the exposure in the "Low", "Medium-low" or "Medium" risk band[2].

With regard to the functioning of the model, Banco BPM Group has decided to adopt a symmetrical model of reclassification from Stage 2 to Stage 1: in cases in which the conditions triggering the significant deterioration of credit risk cease to exist on a later valuation date, the financial instrument returns to being measured on the basis of the expected credit loss measured on a time horizon of twelve months. It should also be noted that in the event of a return from Stage 3 to performing exposure status, there is no mandatory transfer of the counterparty's relationships to Stage 2. The classification of performing exposures into stages (Stage 1 or Stage 2) will depend on the automatic application of the stage assignment framework.

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

[2] See previous note.

In the case of forborne exposures, any return to the calculation of the expected credit loss at one year is made in accordance with the probation period, in line with the time frames set out in the supervisory provisions.

The stage allocation methodology described above is applied to all exposures to customers, excluding debt securities.

In order to implement the ECB recommendations contained in the Follow-up Letter received in August 2023, following the stage assignment process and calculation of the ECL, a Post Model Adjustment of the SICR assessment was made. The adjustment was justified by the need to incorporate the higher risk within the staging allocation process, where considered significant, which was identified and addressed at ECL level with a specific post model adjustment. Therefore, alignment is guaranteed, in terms of SICR assessment, between the staging and the overlays applied at ECL level, with particular reference to post model adjustments, the quantification of which envisaged an increase in PD. The adjustment involved a total exposure migrated to Stage 2 of 1.62 billion.

For more details, please refer to the paragraph "Use of post model adjustments and management overlays".

Regarding debt securities, the Group applies the Low Credit Risk Exemption, i.e. the practical expedient of assuming that credit risk has not increased significantly compared to the initial recognition of the instrument, classifying it at Stage 1. This exemption applies to securities rated as investment grade at the valuation date, in compliance with IFRS 9.
If on the valuation date, the securities have a rating level that is lower than investment grade - and therefore the "Low Credit Risk Exemption" is not applicable - the method developed by the Group is also based on the calculation of the LPDR[1]. More specifically, the SICR threshold values identified for this specific scope were retrieved through a distributive approach and correspond to the 95th percentile of the LPDR distribution observed in the portfolio in question as at December 2023.
Considering the presence of several purchase transactions occurring on different dates for the same fungible security (ISIN), for the purposes of the SICR, the risk at the origin is measured separately for each tranche purchased. It was thus necessary to specify a method for identifying the tranches sold and, as a result, the remaining quantities to which to assign the credit quality at the date of initial recognition, to be compared with that at the measurement date: that movement methodology is based on the FIFO method (First In - First Out).

With reference to exposures to banks and those belonging to the scope of the so-called "Structured Finance Operations - SFO" (Income Producing Real Estate, Real Estate Development and Project Financing), the methodology developed is also based on the calculation of the LPDR parameter using the same thresholds developed for the Business segment.

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

The table below shows the percentage breakdown of exposures allocated to Stage 2 on the basis of various classification triggers, which shows that the breakdown of the exposures classified therein is influenced by both quantitative criteria based on the change in the probability of default, and on qualitative criteria. Exposures classified as Stage 2 solely due to the presence of more than 30 past-due days represent a negligible percentage.

Type[1]	Stage 2	of which: Large Corporate	of which: Mid Corporate Plus	of which: Mid Corporate	of which: Small Businesses	of which: SFO	of which: Private customers	of which: Banks	of which: unrated counterparties
Quantitative criteria	68.82%	77.45%	70.73%	79.53%	63.52%	44.86%	64.51%	100.00%	7.83%
Qualitative criteria	15.90%	17.62%	15.53%	10.50%	14.01%	10.05%	32.28%	0.00%	49.04%
Exposures over 30 days past due	0.00%	0.00%	0.34%	0.11%	0.25%	0.00%	0.29%	0.00%	43.13%
Manual Adjustment (MA)	1.67%	0.00%	5.24%	0.88%	2.66%	0.00%	0.00%	0.00%	0.00%
Post Model Adjustment (PMA)	12.87%	4.92%	8.16%	8.97%	19.57%	45.09%	2.92%	0.00%	0.00%

Expected Credit Loss - Stage 1 and Stage 2

The model for calculating Expected Credit Loss (ECL) to measure the impairment of performing instruments, differentiated based on the classification of the exposure in Stage 1 or Stage 2, is based on the following formula:

$$ECL = \sum_{t=1}^{T} PD_t * EAD_t * LGD_t * (1+r)^{-t}$$

Where:

PDt	represents the probability of default at each cash flow date. This is the probability of moving from performing status to non-performing status over the course of a year (1-year PD) or over the entire lifetime of the exposure (lifetime PD)
EADt	represents the counterparty's exposure at each cash flow date
LGDt	represents the associated loss by counterparty at each cash flow date. This is the percentage of loss in the event of default on the basis of historical experience over a given observation period, as well as the forward-looking evolution over the entire lifetime of the exposure
r	represents the discount rate
t	represents the number of cash flows
T	represents the total number of cash flows, limited to the following 12 months for accounts in Stage 1, and referring to the entire residual life for those in Stage 2

The models used to estimate said parameters leverage the equivalent ones used for capital requirements for credit risk, making specific adaptations to take account of the different requirements and purposes of the IFRS 9 impairment model and the prudential impairment model.

The definition of said parameters, compared to the regulatory parameters, considered the following objectives:

- removal of the downturn component considered in calculating the regulatory LGD to take account of the adverse economic cycle;
- removal of the MoC (Margin of Conservatism) component considered in the regulatory LGD calculation to take further margins of conservatism into account as requested by the EBA Guidelines;
- adjustment of loss rates to manage the difference between the discount rate used for the regulatory LGD estimate[2] and the Effective Interest Rate (EIR) used to calculate losses at amortised cost;
- inclusion of the conditions of the current economic cycle (Point-in-Time risk measures) instead of the measurement of the parameters through the economic cycle (TTC - Through the cycle), which is required for regulatory purposes;

[1] In the case in which a position is classified as stage 2 due to different types of criteria, its exposure has been allocated to the first cluster according to the order in which the classification criteria were presented.

[2] The discount rate used for regulatory LGD estimates, in compliance with EBA Guidelines (*EBA/GL/2017/16*), corresponds to the 3-month Euribor with a prudential add-on of 5%.

- introduction of forecast information regarding future trends in macroeconomic factors (forward-looking risk) considered potentially capable of influencing the debtor's situation;
- extend risk parameters to a long-term perspective, accounting for the lifetime of the credit exposure to be assessed.

As noted, the definition of default adopted is in line with that used for regulatory purposes.

Please recall that in the course of 2020 and 2021, in response to the health crisis, to mitigate its impact, the Government implemented substantial policies to sustain the economy (for example, Heal Italy decree, Relaunch decree, Liquidity decree, etc.). In this context, the competent authorities (ECB, EBA, ESMA, BIS) invited the banks to take into consideration the mitigation measures set in place by the public authorities and to limit the impact of the macroeconomic shock when calculating provisioning containing the elements of procyclicality implied in IFRS 9.
To this end, Banco BPM included the government measure in its ECL calculation. The method adopted therefore enabled the share of exposure covered by these guarantees with relation to the total exposure of the transaction to be identified. The LGD associated with the transaction was therefore eliminated on said portion and a "Stato Italia" (Italian State) average coverage assigned.
The provisions are therefore calculated as the sum of the expected credit loss on the share of the exposure not guaranteed by the State, plus an ECL calculated through the application of the "Stato Italia" coverage to the share of the exposure guaranteed by the State.

More detailed information on the way in which the Group has determined the aforementioned IFRS 9 compliant risk parameters, with specific reference to forward-looking factors, is provided below.
In that regard, it must be noted that the update of the time series of the parameters and, as a result, their recalibration, is carried out on an annual basis. In particular, in December 2023, in line with the provisions of internal processes, the risk parameters were updated to incorporate in their estimation the effect of updating the time series on the PD, LGD, EAD risk parameters and thresholds to identify the SICR.

<u>Estimating the PD parameter</u>

The PD values are obtained on the basis of regulatory ones, which are anchored to the average level of risk observed in the long term, suitably calibrated to reflect the current conditions of the economic cycle (Point in Time approach). Subsequently, the PD values are adjusted, from a Forward Looking perspective, through the application of the sector satellite models developed by the Group. Said values must be estimated not only with reference to the time horizon of the twelve months following the reporting date, but also in the future years, for the purpose of calculating lifetime provisions. The lifetime PD curves were constructed by multiplying, using a Markov approach, the migration matrices of the rating at 12 months, separately by risk segment (Large Corporate, Mid Corporate, Mid Corporate Plus, Small Business, Private) impacted by the forward-looking macroeconomic scenarios. Each rating class assigned to the counterparties using the A-IRB internal models is associated with its related lifetime PD curve.
The main methodological steps used to estimate the lifetime PD parameter are provided below:
- the construction of historical Point in Time (PiT) migration matrices for each risk segment defined by the rating models and on the basis of the average of these matrices and the attainment of the long-term Through The Cycle (TTC) migration matrices for each risk segment;
- the determination of future PiT matrices for the first three years following the reporting date, obtained on the basis of PiT migration matrices conditioned on the basis of macroeconomic scenarios, through the application of shocks resulting from internal satellite models of PDs differentiated by sector; the latter are able to express the sensitivity of the PD levels to changes in the main income statement items;
- obtaining cumulative PDs by rating class and scenario, via a matrix product (Markov chain techniques) of the future PiT migration matrices for the first three years, as previously calculated, while from the fourth year onwards so-called smoothed matrices are used, which allow for the gradual smoothing with the TTC migration matrix;
- the generation of the cumulative lifetime PD curve as the average of the cumulative PD curves of each selected macroeconomic scenario weighted by the respective probability of occurrence.

As regards the so-called "Structured Finance operations - SFO"[1] (Income Producing Real Estate, Real Estate Development and Project Financing), the PD Lifetime values are obtained through the use of the internal model

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

developed for management purposes. The dedicated model provides for the calculation of the risk parameters related to the individual transaction to better exploit the specific characteristics deriving, for the most part, from the related business plans. The values thus obtained are then conditioned to the economic cycle in a forward-looking perspective through the use of internal PD satellite models. It should be noted that these simulation models are being phased out in line with the recent formalisation to the ECB of the regulatory model change application with the resulting transition to the slotting criteria method. In order to anticipate the effects linked to the introduction of the new modelling, a specific post model adjustment was made in the measurement of expected credit losses as at 31 December 2023, as described in the following paragraph "Use of post model adjustments and management overlays".

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

Estimating the LGD parameter

LGD values are assumed to be equal to the regulatory recovery rates calculated through the economic cycle (TTC) and suitably adjusted in order to remove some of the prudential elements established by the regulatory models, which are represented by indirect costs, the MoC (Margin of Conservatism) and the component associated with the adverse economic cycle (the downturn component), as well as to reflect the most current recovery rates (PiT), the difference between the discount rate used to estimate the regulatory parameters[1] and the Effective Interest Rate (EIR), and expectations concerning future (forward-looking) trends. In detail, the forward-looking estimate of the parameter takes account of the impact on the economic cycle of the components represented by the probability of non-performance (Psoff) and the Loss Given Non-Performance (LGNP) using specific forward-looking scaling factors to obtain point in time and forward looking LGDs. More specifically, the forward-looking effects are channelled to LGD estimates through the application of specific satellite models for the main components of the LGD model (Psoff and LGNP), which compare the changes in macro factors with the residual estimations of the two above-cited parameters on the historical horizon. It should be noted that in December 2023, under IFRS 9, the LGD models were calibrated to incorporate the update of the time series.

As regards the so-called "Structured Finance operations - SFO" (Income Producing Real Estate, Real Estate Development, Project Financing), the LGD values are obtained through the use of the internal model developed for management purposes. The dedicated model provides for the calculation of the risk parameters related to the individual transaction to better exploit the specific characteristics deriving, for the most part, from the related business plans. The values thus obtained are then conditioned by the economic cycle in a forward-looking perspective through the use of internal LGD satellite models.

EAD Estimation

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

Inclusion of forward-looking factors

In accordance with IFRS 9, when estimating expected credit losses it is necessary to take forward-looking information[2] into account, conditioning the risk parameters according to the different macroeconomic scenarios in which it is expected to operate.
With a view to overcoming potential inconsistencies in the results determined by the satellite models ordinarily used before the impact of the Covid-19 emergency, sector satellite models were adopted from 2020, with a view to evaluate the highly diverse consequences of the pandemic on the different sectors of the Italian economy.

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[1] The discount rate used for regulatory LGD estimates, in compliance with EBA Guidelines (*EBA/GL/2017/16*), corresponds to the 3-month Euribor with a prudential add-on of 5%.
[2] Conditioning of credit risk parameters (PD and LGD) calculated at a Point-in-Time, to estimate the future change based on the expected evolution of the main macroeconomic variables (e.g. GDP, rate of unemployment etc.).

Lastly, as set forth in internal regulations, to calculate the ECL as at 31 December 2023, the macroeconomic scenarios and the relative probabilities of occurrence were updated, based on the analyses conducted by the Scenario Council[1]. To this end, the macroeconomic forecasts supplied by the leading provider were considered, with reference to three different scenarios: "baseline", "adverse" and "favourable", with some fine-tuning to adapt them to the rapidly changing economic scenario.
In order to allocate probabilities of occurrence to the above-mentioned scenarios, those implicit in the construction of the same were used as a base of reference, as supplied by the provider. Considering the characteristics of the three scenarios and the uncertainty with respect to the evolution of inflation in the Eurozone and developments of the Russia-Ukraine conflict, we decided to increase the probability of occurrence of the "adverse" scenario from the 25% indicated by the provider to 30%, allocating the latter the 5% probability that the provider attributed to an additional "severe (already extreme)" negative scenario, which the Bank did not consider precisely because it considered it extreme. The probabilities of occurrence of the three macroeconomic scenarios considered are indicated below:

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

Please note that the model for the governance of the process of updating the macroeconomic scenarios for IFRS 9 purposes, establishes that the macroeconomic scenarios are updated at least every six months (for the closure at year-end and at the first half of each year). The update may be made more frequently (quarterly), if the monitoring of the forecasts relating to GDP, with respect to those implied in the scenarios utilised, indicates that a specific threshold[2] has been surpassed.

[1] The Scenario Council consists of a team responsible for defining and updating or confirming the macroeconomic scenarios adopted in the Group's strategic processes in light of external events or specific vulnerabilities of the Bank. It is also responsible for identifying the processes impacted and their potential updating. The team is comprised by the Chief Financial Officer and the heads of the Planning and Control, Risk and Administration and Budget Functions, with the participation of the Head of the Audit Function as auditor.
[2] Threshold established as a change in GDP of over 0.5%.

The following table shows the annual average values (expressed in terms of annual percentage changes/absolute values for rates of return and the unemployment rate) of the main macroeconomic indicators for the 2024-2026 period for each of the three scenarios considered in the satellite models for the conditioning of the risk parameters to be used to calculate ECL:

Scenario	Macroeconomic indicators	2024	2025	2026
adverse	GDP Italy	-0.2	0.3	0.5
baseline	**GDP Italy**	**0.6**	**0.9**	**0.9**
Favourable	GDP Italy	1.4	1.5	1.3
adverse	Unemployment rate	8.23	9.02	9.48
baseline	**Unemployment rate**	**7.69**	**7.79**	**7.69**
Favourable	Unemployment rate	7.08	6.48	5.76
adverse	Index of residential property prices	0.46	1.38	1.54
baseline	**Index of residential property prices**	**1.55**	**1.94**	**2.08**
Favourable	Index of residential property prices	1.75	2.51	2.60
adverse	Household consumption	-0.05%	0.3	0.3
baseline	**Household consumption**	**0.8**	**1.0**	**0.9**
Favourable	Household consumption	1.6	1.6	1.5
adverse	Gross fixed investments	-2.8	-2.5	-0.4
baseline	**Gross fixed investments**	**0.7**	**0.1**	**1.3**
Favourable	Gross fixed investments	3.9	1.8	2.9
adverse	Construction investments	-4.8	-5.1	-1.2
baseline	**Construction investments**	**-2.1**	**-2.6**	**0.0**
Favourable	Construction investments	0.4	-1.0	1.3
adverse	3-month Euribor	4.0	3.45	3.09
baseline	**3-month Euribor**	**4.02**	**3.47**	**3.11**
favourable	3-month Euribor	3.76	3.22	2.98
adverse	ECB rate	4.31	3.44	2.88
baseline	**ECB rate**	**4.31**	**3.44**	**2.88**
favourable	ECB rate	3.56	3.00	2.75
adverse	Return on Italian 10-year government bonds	4.83	5.12	5.27
baseline	**Return on Italian 10-year government bonds**	**4.68**	**4.96**	**5.25**
favourable	Return on Italian 10-year government bonds	4.86	5.14	5.07
adverse	BTP/Bund Spread	2.37	2.40	2.23
baseline	**BTP/Bund Spread**	**1.74**	**1.70**	**1.66**
favourable	BTP/Bund Spread	1.46	1.30	1.22
adverse	Italian consumer price index	3.0	2.4	2.2
baseline	**Italian consumer price index**	**2.2**	**2.0**	**2.1**
favourable	Italian consumer price index	1.5	1.9	1.9

The global economy performed more moderately in 2023 than in the previous year. International economic prospects have been held back by restrictive monetary policies, the effects of persistent inflation and uncertainty linked to geopolitical instability (the continuation of the Russian-Ukrainian conflict and the return of tensions between Israel and Palestine). However, inflation showed signs of gradual moderation, especially in the latter part of the year, thanks to the fall in energy prices and the effects of restrictive monetary policies. The trend of the main economies was fairly disparate, especially in the last quarter; while China and the USA accelerated, there was a notable slowdown in the Eurozone.
Employment remained solid and on the rise in many regions, and unemployment has fallen to lows, particularly in the USA and the Eurozone. The global supply chain dysfunctions that arose during the pandemic have largely subsided. The prices of energy goods decreased, thanks to stocks close to maximum levels and an abundant supply.

This economic context is the starting point for the “base” scenario, which is first and foremost based on the assumption of an international situation that is fairly unstable. The Hamas attack on Israel and the consequent

intensification of military action in the Middle East, added to the conflict in Ukraine, which seems far from being resolved soon.
Despite the ongoing tensions, the estimated energy prices are compatible with a progressive further containment of inflation. The fact that a price-wage spiral was not triggered, together with fairly weak demand, contributed to further moderating the trend in consumer prices. The FED and the ECB maintained policy rates at 5.5% and 4.5% respectively, until the second quarter of 2024 when, driven by falling prices and signs of credit shrinking, they started to downsize the same.
In addition to the delicate cyclical phase, Italy is also having to face the transition from the expansionary policies, which have characterised these last years of crisis, to a plan that is compatible with the repayment of the debt, a very important objective at a time of positive real interest rates. The period of weakness that hit the country in the last part of 2023 will subside moderately throughout the following year. The trend in investments was affected by the end of the 110% superbonus tax incentives and the partial exploitation of NRRP funds. Lower inflation and the stability of the unemployment rate are encouraging a recovery of real incomes, supporting household consumption, in a context in which fiscal policy cannot intervene in an anti-cyclical manner. The evolution of the above factors in the baseline scenario would correspond to the following:

- Italian GDP is showing modest growth of 0.6% in 2024, continuing the soft-landing phase; the outlook is slightly better in the following two years, but never exceeds 1%;
- the unemployment rate stabilises at 7.7% in 2024, a level similar to 2023; for the next two years it remains almost constant;
- inflation in 2024 returns to levels close to the target threshold of 2%, remaining stable at these levels also for 2025 and 2026;
- the yield on 10-year Italian government bonds, after the sudden and consistent rise in 2023, continues to rise in 2024, albeit at a slower pace, settling at 4.68%. The rate continues to increase in the following two years, exceeding 5% in 2026 (5.25%); on the other hand, the BTP/Bund spread narrows slightly, reaching 166 bps in 2026.

With regard to the "adverse" scenario, the global geopolitical situation is not going to show signs of improvement, with the Russian-Ukrainian conflict and the Israeli-Palestine one continuing, without suggesting a truce in the short term. The tensions are reflected in energy prices, which start to rise again at the beginning of 2024, but without reaching the levels of 2022.
Global supply chains are back in trouble, reflected in increases in producer and consumer prices. To cope with the greater uncertainty, households are forced to increase their propensity to save, reducing the demand for goods and services. Higher inflation in the winter months also reduces the purchasing power of wages, whose adjustment is partial and late.
Despite the persistence of a certain tension on prices, the tone of monetary policy in the Eurozone will ease slightly starting from the second half of 2024, in the face of clear signs of a contraction in the economy, which contribute to containing inflation in the final part of the year.
The greater uncertainty limits investments, both in terms of property and machinery. Italy, also struck by mistrust of a country with a high public debt, sees the burden of servicing the debt heavier, leaving little room for expansionary manoeuvres. The exploitation of the NRRP is not expected to compensate for the lack of growth.
In detail, the following developments are planned:

- after a 2023 characterised by weak growth, Italy enters a recession in 2024 (GDP -0.2%); in 2025, there is a slight recovery, +0.3%, which continues into the following year (+0.5%);
- after a positive 2023, the unemployment rate starts to rise again in 2024, already exceeding the level of 2022 in the same year, until reaching 9.48% in 2026;
- the cost of money and the emergence of an increasingly uncertain global economic scenario affect the Italian economy, which sees a decrease in gross fixed investments by more than 2.5% in 2024 and 2025. The situation shows no signs of improving even in 2026, when they decrease further, even though only by -0.4%;
- the economic difficulties and concerns about the stability of public accounts trigger some tension in the Italian government securities market, causing a certain flight to quality in the bond markets: 10-year BTP yields rise to 4.83% in 2024, to then exceed 5% in 2025 and reach 5.27% in 2026. The spread between BTP yields and Bund yields reaches 237 basis points in 2024, remaining stable the following year and starting to decrease slightly in 2026.

Lastly, the "favourable" scenario assumes the easing of tensions both on the Russian-Ukrainian front and the conflict in the Middle East, with positive effects on the international economy. As a result, the price level immediately benefits

from it. Inflation clearly declines initially, and then stabilises near target levels, due to greater domestic demand resulting from the improvement in the economic cycle.
Lower price tensions facilitate monetary policy: the rapid return of inflation to within target level allows for an initial significant reduction in monetary policy rates already at the beginning of the year. This results in a positive period for the Italian economy, which benefits businesses and households in particular. Improved labour market conditions, together with good financial market performance, contribute to supporting the wealth of the private sector.
Domestic demand grows at a consistent pace, favoured both by the increase in the propensity to consume by households, which, consequently, also increases the demand for loans, and higher company investment in machinery, also driven by a better implementation of the NRRP compared to the baseline scenario. However, the weakness of the real estate cycle continues to hold back investment in construction.
Specifically:

- after the modest increase in 2023, thanks to the implementation of the NRRP and a more serene international climate, Italian GDP returns to more sustained growth in the following three-year period, recording +1.4% in 2024, +1.5% in 2025, and finally +1.3% in 2026;
- the phase of improvement in the unemployment rate that began with the post-Covid period continues until 2026; the rate decreases from year to year, reaching 5.76% in 2026;
- inflation in 2024 returns below the target level, +1.5%; in the following two years, the growth in the price level increases slightly and settles around the desired threshold of 2%, also due to higher demand linked to the improvement of the economy;
- the yield on 10-year Italian government bonds continues to rise, mainly due to the maintenance of high interest rates by the central bank, with a view to curbing inflation. However, the market shows growing confidence in Italy, so much so that the BTP/Bund Spread continues to decline, down to 122 bps in 2026.

Use of post model adjustments and management overlays

In addition to the amendments illustrated above ("in-model adjustments"), when the consolidated financial statements as at 31 December 2023 were prepared, it was deemed appropriate to proceed, as in previous periods, with the application of additional top-down corrections ("post model adjustments/management overlays").

These management overlays, which in fact significantly reduce the positive economic impacts that would otherwise have been recorded by applying the models in use, are mainly justified by the fact that the aforementioned models may not capture all the phenomena considered relevant for the purpose of determining the expected losses on performing credit exposures to customers (cash loans and unsecured loans).
In greater detail, for the above-mentioned exposures, the application of the overlays in question entailed the recognition of higher value adjustments for a total of around +204 million, compared to the expected credit losses quantified on the basis of the models in use, which amount to around 252 million.
The quantification of these amounts was determined by conducting specific analyses, in a laboratory environment, based on the following interventions:

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

   To remove the distorting effects deriving from the pandemic and the consequent government support measures from the PD curves, in line with previous adjustments, it was deemed appropriate to eliminate the data relating to the defaults observed in 2020 and 2021 (so-called "Covid year removal") from the historical series. The sterilisation of the Covid years contributed to increasing the level of risk with an impact in terms of ECL of +57.5 million, against an increase in Stage 2 exposures of +1.13 billion. The reduction in the impact compared to that recorded as at 30 June 2023 is mainly explained by the fact that, following the update of the time series, the removal of the Covid-19 period now affects only one year instead of two, of the horizon underlying the estimate of the point-in-time matrix (constructed considering the three most recent years).

[1] The decision had been based on the EBA guidelines published at the end of June through which banks are asked to remove the distorting effects on risk parameters deriving from the pandemic and the ensuing government measures to support household and business liquidity.

2) consideration of the foreseeable impacts that will result from the revision of the internal A-IRB models for the calculation of the regulatory risk parameters, currently being validated by the ECB, which are used as a starting point to determine the point-in-time, lifetime and forward-looking parameters needed to calculate ECLs in full compliance with IFRS 9. Note that the new A-IRB models have been re-developed to achieve full compliance with EBA guidelines (EBA/GL/2017/16). The main effects of the new model framework as regards LGD IFRS 9 are linked to the changes made to the discounting methodology of the recovery flows that entail particular increases on mortgage and products paid by instalments. In terms of ECL, the overall impact recorded was +47.6 million, up compared to the figure as at 30 June 2023. In this regard, it should be noted that considering the limitations with add-ons reported in the Final Decision, the LGD risk parameter was prudentially adjusted to consider the effect of addressing the weaknesses of the model indicated by the ECB, where these are applied also to the accounting framework.
   In line with that stated for the LGD parameter, the effects of introducing the new A-IRB rating system used to construct the point-in-time, lifetime and forward-looking PD curves, were also quantified, with an impact in terms of ECL of +3.8 million;
3) assessment of the possible ESG effects deriving from the inclusion of physical and transition risk on the PD and LGD parameters, in compliance with the ESG operating plans communicated by the Group to the Regulator as part of the Targeted Review on Climate-related and Environmental Risks (known as the "Inclusion of ESG effects"), obtaining an impact in terms of higher ECL of +20.3 million against an increase in Stage 2 exposures of +0.12 billion. The impact in terms of ECL is down compared to the quantification of June 2023, given that with the update of the SICR thresholds, the effect of the new scenarios determines a greater presence of Stage 2 exposures and, consequently, a lower transition from Stage 1 to Stage 2 attributable to the intervention.
   In greater detail, for transition risk, the Orderly Transition scenario prepared by the EBA for the 2022 Climate Stress Test was considered, based on the assumptions of the Net Zero 2050 scenario of the Network for Greening the Financial System (NGFS); for physical risk, the impact on mortgage collateral was assessed following a possible write-down of properties based on flood risk, as per the 2022 NGFS Flood scenario. Specifically, real estate depreciation was measured through changes in residential and commercial property price indices inferred from the above-mentioned scenario, assuming a proportional impact on the recovery rates underlying the LGD calculation. For further details on the scenarios used and how they are incorporated for the purposes of calculating the PD and LGD risk parameters, please refer to the previous paragraph "Information on the inclusion of ESG factors in credit processes".
4) anticipation of the effects of the transition to the slotting criteria method with reference to the valuation of receivables attributable to specialised loans (Income Producing Real Estate, Real Estate Development and Project Financing) in line with the recent formalisation to the ECB of the regulatory model change application. Specifically, the slotting category assigned to the Real Estate and Project Finance segmented positions was remapped on the rating scale of the Mid Corporate model (segment with more similar size characteristics) relating to the new A-IRB rating system, at the same time attributing an LGD defined on the basis of specific analyses conducted on these portfolios, adopting the fixed values provided by Supervisory Regulations, obtaining an impact in terms of higher ECL of +34.2 million, against higher exposures classified as Stage 2 of +0.37 billion. The increase in the impact compared to that recorded as at 30 June 2023 is mainly the result of the increase in the PD Point in time values, due to the update of the time series to 2023.

With respect to the approach taken during the preparation of the 2022 financial statements, following the application of the post-model adjustments illustrated above, the following additional PMAs were introduced:

5) removal from the calculation of the ECL of the double counting of positions that have returned to performing in the estimate of risk parameters (PD and LGD), as requested by the ECB following the OSI-IFRS 9 inspection[1], extending the perimeter of application of the correction, up until now limited to Small Business customers, to all clusters of borrowers (known as "Double-counting removal"), obtaining an impact in terms of higher ECL of +17.8 million;
6) lastly, again following the ECB OSI-IFRS 9 inspection[2], the impacts deriving from the application of the behavioural maturity instead of the contractual maturity, on the technical forms of revolving credit (known as Behavioural Maturity Application), obtaining an impact in terms of higher ECL of +22.6 million.

[1] OSI-2022-ITBPM-0198569, finding #5, score F3.
[2] OSI-2022-ITBPM-0198569, finding #8, score F3.

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

Sensitivity analysis of expected credit losses

In accordance with the provisions of paragraph 125 of IAS 1, the Notes must provide information on the key factors of uncertainty that characterise financial statement estimates. Paragraph 129 envisages that this disclosure must be provided in a manner that helps users of financial statements to understand the judgements that management makes about the future and the relative impacts. The examples mentioned to pursue this objective include sensitivity analyses, through which the reader is able to appreciate the impacts on financial statement estimates of alternative calculation models, reasonably foreseeable changes in inputs and assumptions underlying said estimates.
The adjusting provisions of performing credit exposures (ECL) are an example of financial statements values whose estimation process is characterised by the presence of substantial factors of uncertainty.
As described in the paragraph entitled "Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated financial statements" contained in part A.1 of these Notes, the inclusion of forward-looking factors for the measurement of expected credit losses is a particularly complex exercise, insofar as it requires macroeconomic forecasts to be made, scenarios and relative probabilities of occurrence to be selected, as well as defining a model able to represent the relationship between the cited macroeconomic factors and the default rates of the exposures measured.
For this reason, to be able to appreciate the impacts on expected credit losses resulting from the selection of different macroeconomic scenarios and in compliance with ESMA recommendations, most recently set forth in the document of 13 May 2022, specific sensitivity analyses are provided below in terms of ECL as well as stage allocation. These analyses were performed by attributing 100% weighting to each individual macroeconomic scenario ("baseline", "adverse", "favourable") with respect to the multi-scenario approach adopted for the preparation of these financial statements which, as described above, consider three different alternative scenarios. Alongside the "baseline" scenario, retained the most likely - 50% is the relative probability of occurrence - an "adverse" scenario was considered, which was attributed a 30% probability of occurrence, and a "favourable" scenario with a 20% probability of occurrence.

The selection of a multi-factor sensitivity, obtained by varying more than one parameter simultaneously and implicit in the decision to consider alternative macroeconomic scenarios, is justified by the fact that there are numerous interrelations between the different macroeconomic factors so as to render a sensitivity analysis based on a single factor less representative (by way of example, a change in GDP would effectively be related to changes in many other macroeconomic variables).

The reference basis for the sensitivity analyses is represented by the ECL provision, before the application of management overlays and determined by the models in use, which amounts to approximately 300 million, referring to credit exposures to the Group's customers (cash loans and unsecured loans). However, it is believed that these adjustments have the same sensitivity to changes in the scenario and, for this reason, the results shown below can be extended to the total of the ECL including post model adjustment/management overlays.

In light of what has been described, the main results of the sensitivity analyses are summarised below:
- assignment of a 100% probability of occurrence to the adverse scenario: in this case, the ECL would increase by +116.0 million with respect to that calculated by adopting the multi-scenario approach (around +44% in percentage terms), against an increase in the percentage of exposures classified in Stage 2 of +1.42%;
- assignment of a 100% probability of occurrence to the baseline scenario: in this case, the ECL amount would decrease by -26.4 million with respect to the amount of ECLs calculated by adopting the multi-scenario approach (around -10% in percentage terms), against a decrease in the percentage of exposures classified as Stage 2 of -2.12%;
- assignment of a 100% probability of occurrence to the favourable scenario: in this case, the ECL amount would decrease by -93.9 million with respect to the amount of ECLs calculated by adopting the multi-scenario approach (around -35% in percentage terms), against a decrease in the percentage of exposures classified as Stage 2 of -3.55%.

Expected Credit Loss - Stage 3

With regard to the models used to determine the expected losses on exposures classified under Stage 3, i.e. non-performing exposures, reference should be made to the section "Methods for determining impairment losses on IFRS 9 Financial Instruments" contained in Section "A.2 - Key financial statement items" in Part A of these Notes. As illustrated in detail in the cited paragraph, the quantification of the expected losses of the aforementioned exposures, in addition to the recovery expected through ordinary operations (internal workout), considered the flows retained recoverable from sales scenarios, in line with the disposal objectives established on each occasion by the Board of Directors.

As stated in the paragraph "Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated financial statements", contained in "Section A.1 - General Part" in Part A of these Notes, the determination of the expected losses on non-performing loans entails significant judgements, with specific reference to the estimate of flows deemed recoverable and the related timing of recovery.

In greater detail, the expected losses on non-performing loans were determined analytically, based on the recovery forecasts formulated by the manager or resulting from the application of the "lump-sum" calculation method, discounted based on the original effective interest rates and the relating timing of recovery.

Considering that the recovery forecasts use the debtor's specific situation as reference, it is deemed impossible to prove any reasonable sensitivity analysis of the expected credit losses.

2.4 Credit risk mitigation techniques

The Group has always kept a watchful eye on the acquisition of loan collaterals and securities, i.e. the use of applications and techniques that mitigate credit risk. When deemed necessary, the typical bank guarantees are acquired, namely mortgages on properties, collaterals on securities in addition to personal guarantees issued by the guarantors.
In general, the decision on the acquisition of a guarantee is based on the customer's creditworthiness and on the characteristics of the transaction. Following this analysis, it may be deemed appropriate to obtain additional guarantees to mitigate credit risk, considering the estimated recoverable value offered by the collateral.
The system for the recording of collateral property used to guarantee lending transactions enables an automatic periodic assessment of the property's value and identifies which properties require updated appraisals, in line with the criteria established by current legislation.
The value of the financial collaterals is constantly and automatically monitored, enabling a comparison between the present value of the collateral and the initial one, and to allow the manager to act promptly in the event that the collateral incurs a significant impairment loss.
As regards collateral represented by a pledge on securities, an automatic warning system is in place, which is triggered when impairment goes beyond a certain threshold value, reporting the same to the customer relationship manager so that the same may take prompt action.
With regard to derivative transactions with market counterparties, we favour entities with which we have entered into agreements requiring the provision of collateral, especially ISDA - Credit Support Annex, to obtain a significant credit risk mitigation.

3. Non-performing credit exposures

3.1 Management strategies and policies

The classification of non-performing exposures is conducted in line with the criteria established by the EBA. More specifically, the classification as non-performing is made:

- automatically, for exposures that reach the thresholds envisaged by the provisions of the Supervisory Authority as regards Past Due;
- by means of a decision taken by an authorised Body (i) on a proposal generated automatically by the IT system, for exposures that reach the envisaged thresholds, on each occasion, by internal credit monitoring and management processes, or (ii) on the proposal of a proponent Body, for exposures that indicate the occurrence of events that may prejudice the "performing" status of the same.

The management of non-performing loans in Banco BPM Group is based, to a great extent, on a model that assigns the management of a specific set of loans (portfolio) to specialist resources. During 2023, the project to reorganise the management of the Group's non-performing loans continued for the fifth consecutive year, which in 2019 had seen the completion of the transfer of a business segment focused on bad loan collection to a specialised partner, with the subsequent assignment of a management mandate for most of the new flows of bad loans for the following ten years. From the finalisation of this agreement, the management of bad loans has mainly been conducted by a leading player in the sector, while the management of the remaining non-performing exposures has been handled by specialised internal personnel. Following the transfer of the business segment mentioned above, it was also agreed that the management of all the non-performing exposures would be unified within the unit reporting to the Chief Lending Officer (CLO).
Management responsibility changes depending on the classification status of the exposure:

- the management of exposures classified as Past Due and Unlikely to Pay is assigned, with the sole exception of exposures under a certain threshold, to specialist managers located in the CLO area. For these exposures, the managers of non-performing loans are responsible for the operating decisions relating to the loans assigned to the respective portfolios, in accordance with their decision making authority, and are assisted, as regards the administrative part, by (business) managers from the Network, where the portfolio containing the exposure is placed;
- management of exposures classified as Bad Loans is conducted by the specialised internal structures of the CLO, assisted (as part of the agreement mentioned above) for most of this, by Gardant Liberty Servicing coordinating with the structures of the CLO.

In addition to the recovery process, the managers are responsible for assessing loans with a view to calculating the amount of expected losses for individual positions that have an overall exposure exceeding the threshold defined for collective provisioning. Since 2019, this threshold has been raised from the previous 300 thousand euro to 1 million euro. When making said assessment, the manager must take the following into account:

- overall risk of the customer and of related accounts, as well as any Economic Group it belongs to;
- situation in the Italian Central Credit Register, with specific attention to any loans guaranteeing third parties;
- equity standing of the borrower and of any guarantors;
- value of the asset used as collateral;
- time needed to recover the debt.

To support the activities relating to the last two points, the Bank has estimated Haircut parameters on a statistical basis, defined as the difference to apply to the market value of the assets used as collateral, to align them to the amount that the Bank is likely to collect after their forced sale, and the timeframe that the manager has to consider in order to make an analytical assessment of the single position. The expected credit losses obtained in this way are periodically reviewed and continuously monitored.
The process described above is not applied to exposures classified as Unlikely to pay (UTP) and bad loans with a total exposure equal to or less than the materiality threshold of 1 million euro, and for all Past-due positions regardless of the exposure, for which the automatic valuation model is used, aimed at replicating the methodology applied by managers above the materiality threshold. This model, developed and maintained by Risk Models and Methodologies, is subject to validation by the Internal Validation and Risk Control Functions.

The expected credit losses valued analytically by the manager are periodically reviewed.

Strategy for disposal of non-performing credit exposures

The strategy to manage non-performing loans - in addition to the recovery activities carried out by the specific departments (known as internal work-out) as illustrated above - may envisage large-scale disposals to Group third-party counterparties, with a view to achieving specific derisking objectives, as resolved by the Board of Directors.
Given the forward-looking nature of the impairment model envisaged by IFRS 9, the presence of approved disposal targets must be adequately factored into the models that calculate expected credit losses, as illustrated in more detail in the paragraph entitled "Methods for determining impairment losses on IFRS 9 Financial Instruments" in "Section A.2 - Key financial statement items" in Part A of these Notes.

With regard to the derisking exercise undertaken by the Group in 2023, and in particular the objectives of the large-scale disposal of non-performing loans outstanding as at 31 December 2023, please refer to that illustrated in "Derisking activities" contained in the significant events during the year in the Report on operations.

Derisking activities

System of controls for credit processes

The structure of the control system relating to credit processes is based on:
- 1st level controls (or line controls), addressed to ensuring that the processes are correctly carried out. First level controls include so-called "automatic" controls, namely performed directly by application procedures, controls performed directly by operating structures and hierarchical controls, performed within the same chain of responsibility. Second level controls are also implemented, through the CLO structures of Monitoring and Control and Credit Governance;
- 2nd level controls (or controls on risks and compliance), under the "Credit Risk Controls" unit located within the Risk - Enterprise Risk Management Function. The controls are conducted constantly via immense analysis of the Group's credit portfolios and through the review of individual positions - statistically sampled or based on the specific risk profile, independent of the functions responsible for carrying out the activities subject to verification - are aimed at ensuring the correct implementation of the risk management process (set up by the operating structures) by verifying performance monitoring for individual exposures, especially non-performing loans, and the assessment of the consistency of classifications, the congruity of provisions and the adequacy of the recovery process, in line with internal and external regulations. The unit also provides opinions on the MST/ST in the credit area, extended in 2023 to the assessments relating to "Project Finance" transactions, the assessments relating to the review of the credit facility of the top 10 Groups of connected customers and the assessments relating to the granting of "multiple forbearances".

3.2 Write-offs

For all positions classified as bad loans, the Group assesses whether it is appropriate to continue to maintain the non-performing loan because the out-of-court or judicial actions underway allow a reasonable expectation of recovery, even partial, or whether it is appropriate to proceed with a derecognition or write-off, total or partial, by virtue, respectively, of the conclusion of the recovery process or the circumstance that there is no reasonable prospect of recovery.
The write-off, in compliance with IFRS 9, and the "Guidelines for Banks on Non-Performing Loans (NPL)" issued by the ECB, is the reduction in the gross book value of the loan following the acknowledgement that there are no reasonable expectations of its recovery for amounts exceeding those considered collectable or already received.
It does not imply a waiver by the Bank of its legal right to recover the debt and must be carried out if all the information available indicates that the debtor is unable to repay all or part of the amount of the debt.
For further details on the definition of write-off, please refer to that illustrated in "Section A.2 – Key financial statement items" in Part A of these Notes.
The Group's credit monitoring processes envisage that, to supplement and support the decisions adopted by management, positions that require attention for write-off purposes are identified on a quarterly basis, with a view to making an operational assessment of the single positions and deciding whether or not to pursue the necessary approval procedures to finalise the write-off. Said list relates to exposures whose adjusting provisions are equal to or higher than a specific threshold and which have been classified as bad loans for longer than a certain number of years, differentiated by the type of guarantee and by the presence or otherwise of insolvency proceedings.

3.3 Acquired or originated impaired financial assets

With regard to the accounting treatment of these assets and the related presentation methods, reference should be made to that illustrated in "Section A.2 - Key financial statement items - Other information" in Part A of these Notes.

4. Financial assets subject to commercial renegotiations and forborne exposures

An analysis of forborne exposures is provided below, on the basis of seniority, distinguishing between non-performing and performing exposures.

Year of last forbearance	Performing exposures	Non-performing exposures	Total
2023	455,286	240,474	695,760
2022	437,103	589,748	1,026,851
2021	597,250	389,566	986,816
2020	106,062	157,815	263,876
2019	48,258	104,021	152,279
2018	33,417	134,284	167,701
2017	27,049	75,114	102,163
2016	13,368	64,901	78,269
2015	6,393	49,347	55,740
2014	15,893	29,850	45,743
2013	575	5,300	5,875
2012	469	1,502	1,972
previous years	2,269	4,642	6,910
Total	**1,743,391**	**1,846,565**	**3,589,956**

The above exposures, related to the scope of prudential consolidation, are broken down in the following table according to the number of forbearance measures granted to the counterparty (one measure, two measures, more than two measures).

Number of forbearance measures	Performing exposures	Non-performing exposures	Total
1	1,113,848	1,184,572	2,298,420
2	412,257	283,508	695,766
>2	217,286	378,485	595,771
Total	**1,743,391**	**1,846,565**	**3,589,956**

QUANTITATIVE INFORMATION

A. Credit quality

In this part, for the purposes of quantitative information on credit quality, the term "on-balance sheet credit exposures" means all financial assets held on-balance sheet with banks or customers, regardless of their portfolio of accounting allocations (at fair value through profit and loss, at fair value through other comprehensive income, at amortised cost, financial assets held for sale), but excludes equity instruments and UCIT units.

A.1 Non-performing and performing credit exposures: outstanding amounts, value adjustments, changes and economic distribution

A.1.1 Prudential consolidation – Distribution of financial assets by past due bands (book values)

Portfolios/risk stages	Stage 1			Stage 2			Stage 3			Acquired or originated impaired		
	From 1 day to 30 days	From more than 30 days to 90 days	Over 90 days	From 1 day to 30 days	From more than 30 days to 90 days	Over 90 days	From 1 day to 30 days	From more than 30 days to 90 days	Over 90 days	From 1 day to 30 days	From more than 30 days to 90 days	Over 90 days
1. Financial assets at amortised cost	398,715	20,433	4,717	407,420	126,835	17,363	78,152	72,549	1,157,868	1,683	467	8,340
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-	13,677	2,930	39,025	-	-	998
Total 31/12/2023	**398,715**	**20,433**	**4,717**	**407,420**	**126,835**	**17,363**	**91,829**	**75,479**	**1,196,893**	**1,683**	**467**	**9,338**
Total 31/12/2022	**710,357**	**43,709**	**4,452**	**275,829**	**154,216**	**18,321**	**48,690**	**114,339**	**1,253,463**	**104**	**2,195**	**17,186**

A.1.2 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees given: changes in total value adjustments and total provisions

Causes/risk stages	Total value adjustments											
	Stage 1 assets						Stage 2 assets					
	Demand loans to banks and Central Banks	Financial assets at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	Demand loans to banks and Central Banks	Financial assets at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs
Total value adjustments - opening balance	**22**	**160,375**	**3,814**	**-**	**-**	**164,211**	**-**	**258,812**	**850**	**-**	**-**	**259,662**
Increases in financial assets acquired or originated	-	-	-	-	-	-	-	-	-	-	-	-
Derecognitions other than write-offs	-	(21)	(1,164)	-	-	(1,185)	-	-	(551)	-	-	(551)
Net credit impairment losses/recoveries (+/-)	(3)	(46,056)	49	-	-	(46,010)	-	73,727	216	-	-	73,943
Contractual modification without derecognition	-	(410)	-	-	-	(410)	-	(109)	-	-	-	(109)
Changes in estimation methodology	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly in the income statement	-	-	-	-	-	-	-	(14,898)	-	-	-	(14,898)
Other changes	(1)	410	-	-	-	409	-	109	-	-	-	109
Total value adjustments - closing balance	**18**	**114,298**	**2,699**	**-**	**-**	**117,015**	**-**	**317,641**	**515**	**-**	**-**	**318,156**
Recoveries from collections on financial assets subject to write-off	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs recorded directly in the income statement	-	-	-	-	-	-	-	-	-	-	-	-

Causes/risk stages	Total value adjustments											Total provisions for commitments to disburse funds and financial guarantees given				Tot.
	Stage 3 assets						Acquired or originated impaired financial assets									
	Demand loans to banks and Central Banks	Financial assets at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	Financial assets at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	Stage 1	Stage 2	Stage 3	Commitments to disburse funds and financial guarantees given acquired and/or originated impaired	
Total value adjustments - opening balance	**-**	**2,317,754**	**-**	**-**	**2,317,754**	**-**	**138,813**	**-**	**-**	**128,850**	**9,963**	**22,565**	**11,185**	**21,892**	**299**	**2,936,381**
Increases in financial assets acquired or originated	-	-	-	-	-	-	X	X	X	X	X	-	-	-	-	**-**
Derecognitions other than write-offs	-	(559,838)	-	-	(559,838)	-	(78,903)	-	-	(78,903)	-	-	-	-	-	**(640,477)**
Net credit impairment losses/recoveries (+/-)	-	445,813	-	-	445,813	-	(3,388)	-	-	2,516	(5,904)	(9,355)	(995)	(3,862)	(41)	**456,105**
Contractual modification without derecognition	-	54	-	-	54	-	-	-	-	-	-	-	-	-	-	**(465)**
Changes in estimation methodology	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Write-offs not recognised directly in the income statement	-	(268,539)	-	-	(268,539)	-	(4,854)	-	-	(4,854)	-	-	-	-	-	**(288,291)**
Other changes	-	(42,441)	-	103,915	61,474	-	(15,453)	-	-	(15,453)	-	-	-	-	-	**46,539**
Total value adjustments - closing balance	**-**	**1,892,803**	**-**	**103,915**	**1,996,718**	**-**	**36,215**	**-**	**-**	**32,156**	**4,059**	**13,210**	**10,190**	**18,030**	**258**	**2,509,792**
Recoveries from collections on financial assets subject to write-off	-	12,278	-	-	12,278	-	-	-	-	-	-	-	-	-	-	**12,278**
Write-offs recorded directly in the income statement	-	(30,942)	-	-	(30,942)	-	(304)	-	-	(304)	-	-	-	-	-	**(31,246)**

A.1.3 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees given: transfers between the different credit risk stages (gross and nominal values)

Portfolios/risk stages	Gross amounts/nominal value					
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
	From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
1. Financial assets at amortised cost	5,733,244	3,009,075	508,163	107,701	372,566	28,902
2. Financial assets measured at fair value through other comprehensive income	63,538	4,614	-	-	-	-
3. Financial assets held for sale	-	-	15,973	-	-	-
4. Commitments to disburse funds and financial guarantees given	955,440	2,210,765	39,872	1,980	62,780	2,628
Total 31/12/2023	**6,752,222**	**5,224,454**	**564,008**	**109,681**	**435,346**	**31,530**
Total 31/12/2022	**5,392,486**	**4,911,931**	**524,602**	**127,855**	**352,979**	**32,192**

A.1.4 Prudential consolidation - On-balance sheet and off-balance sheet credit exposures to banks: gross and net values

Type of exposure/value	Gross exposure					Total value adjustments and total provisions					Net Exposure	Total partial write-offs*
		Stage 1	Stage 2	Stage 3	Acquired or originated impaired		Stage 1	Stage 2	Stage 3	Acquired or originated impaired		
A. On-balance sheet credit exposures												
A.1 On demand	**17,729,333**	**17,729,333**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**17,729,333**	**-**
a) Non-performing	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	17,729,333	17,729,333	-	X	-	-	-	-	X	-	17,729,333	-
A.2 Other	**7,128,183**	**6,708,822**	**183,212**	**-**	**-**	**(19,611)**	**(3,752)**	**(565)**	**-**	**-**	**7,108,572**	**-**
a) Bad loans	-	X	-	-	-	-	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
b) Unlikely to pay	15,294	X	-	-	-	(15,294)	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
c) Non-performing past-due exposures	-	X	-	-	-	-	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
d) Performing past-due exposures	-	-	-	X	-	-	-	-	X	-	-	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-
e) Other performing exposures	7,112,889	6,708,822	183,212	X	-	(4,317)	(3,752)	(565)	X	-	7,108,572	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-
Total (A)	**24,857,516**	**24,438,155**	**183,212**	**-**	**-**	**(19,611)**	**(3,752)**	**(565)**	**-**	**-**	**24,837,905**	**-**
B. Off-balance sheet credit exposures												
a) Non-performing	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	4,983,088	1,774,187	111,668	X	-	(370)	(156)	(97)	X	-	4,982,718	-
Total (B)	**4,983,088**	**1,774,187**	**111,668**	**-**	**-**	**(370)**	**(156)**	**(97)**	**-**	**-**	**4,982,718**	**-**
Total (A+B)	**29,840,604**	**26,212,342**	**294,880**	**-**	**-**	**(19,981)**	**(3,908)**	**(662)**	**-**	**-**	**29,820,623**	**-**

(*) Value to be shown for disclosure purposes

A.1.5 Prudential consolidation - On-balance sheet and off-balance sheet credit exposures to customers: gross and net values

Type of exposure/value	Gross exposure				Total value adjustments and total provisions					Net Exposure	Total partial write-offs*
		Stage 1	Stage 2	Stage 3	Acquired or originated impaired		Stage 1	Stage 2	Stage 3	Acquired or originated impaired		
A. On-balance sheet credit exposures											
a) Bad loans	1,669,067	X	-	1,632,670	30,305	(1,027,598)	X	-	(998,190)	(24,025)	641,469	139,339
- of which: forborne exposures	258,175	X	-	250,104	7,681	(135,454)	X	-	(128,762)	(6,637)	122,721	27,558
b) Unlikely to pay	2,495,038	X	-	2,168,705	61,780	(994,755)	X	-	(957,823)	(22,513)	1,500,283	-
- of which: forborne exposures	1,568,095	X	-	1,251,362	59,440	(588,002)	X	-	(556,837)	(21,637)	980,093	-
c) Non-performing past-due exposures	93,469	X	-	93,297	170	(26,323)	X	-	(26,290)	(32)	67,146	-
- of which: forborne exposures	20,295	X	-	20,267	28	(6,442)	X	-	(6,438)	(4)	13,853	-
d) Performing past-due exposures	1,003,450	425,532	576,889	X	759	(27,013)	(1,667)	(25,270)	X	(76)	976,437	-
- of which: forborne exposures	77,230	-	76,867	X	273	(5,184)	-	(5,168)	X	(16)	72,046	-
e) Other performing exposures	137,125,903	124,825,170	11,635,808	X	107,569	(407,932)	(111,626)	(292,320)	X	(3,985)	136,717,971	-
- of which: forborne exposures	1,666,161	23	1,638,923	X	20,283	(60,273)	(3)	(59,180)	X	(1,090)	1,605,888	-
Total (A)	**142,386,927**	**125,250,702**	**12,212,697**	**3,894,672**	**200,583**	**(2,483,621)**	**(113,293)**	**(317,590)**	**(1,982,303)**	**(50,631)**	**139,903,306**	**139,339**
B. Off-balance sheet credit exposures											
a) Non-performing	699,674	X	-	349,103	4,482	(98,977)	X	-	(18,030)	(230)	600,697	-
b) Performing	63,899,148	45,830,868	1,942,705	X	16,652	(34,469)	(13,053)	(10,100)	X	(28)	63,864,679	-
Total (B)	**64,598,822**	**45,830,868**	**1,942,705**	**349,103**	**21,134**	**(133,446)**	**(13,053)**	**(10,100)**	**(18,030)**	**(258)**	**64,465,376**	**-**
Total (A+B)	**206,985,749**	**171,081,570**	**14,155,402**	**4,243,775**	**221,717**	**(2,617,067)**	**(126,346)**	**(327,690)**	**(2,000,333)**	**(50,889)**	**204,368,682**	**139,339**

(*) Value to be shown for disclosure purposes

A.1.6 Prudential consolidation - On-balance sheet credit exposures to banks: changes in gross non-performing exposures

Causes/Categories	Bad loans	Unlikely to pay	Non-performing past-due exposures
A. Gross exposure: opening balance	**-**	**15,294**	**-**
- of which: exposures transferred but not derecognised	-	-	-
B. Increases	**-**	**-**	**-**
B.1 entries from performing exposures	-	-	-
B.2 entries from acquired or originated impaired financial assets	-	-	-
B.3 transfers from other categories of non-performing loans	-	-	-
B.4 contractual modification without derecognition	-	-	-
B.5 other increases	-	-	-
C. Decreases	**-**	**-**	**-**
C.1 exits to performing exposures	-	-	-
C.2 write-offs	-	-	-
C.3 collections	-	-	-
C.4 gains on disposal	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other categories of non-performing loans	-	-	-
C.7 contractual modification without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Gross exposure: closing balance	**-**	**15,294**	**-**
- of which: exposures transferred but not derecognised	-	-	-

A.1.6 bis Prudential consolidation - On-balance sheet credit exposures to banks: changes in gross forborne exposures, broken down by credit quality

As at 31 December 2023, as in the previous year, there were no forborne exposures to banks. The related table is therefore omitted.

A.1.7 Prudential consolidation - On-balance sheet credit exposures to customers: changes in gross non-performing exposures

Causes/Categories	Bad loans	Unlikely to pay	Non-performing past-due exposures
A. Gross exposure: opening balance	**2,053,276**	**2,777,201**	**82,205**
- of which: exposures transferred but not derecognised	14,383	5,985	259
B. Increases	**548,909**	**1,172,684**	**94,240**
B.1 entries from performing exposures	183,237	710,781	89,544
B.2 entries from acquired or originated impaired financial assets	-	-	-
B.3 transfers from other categories of non-performing loans	286,732	45,216	1,310
B.4 contractual modification without derecognition	187	1,570	9
B.5 other increases	78,753	415,117	3,377
C. Decreases	**(933,118)**	**(1,454,847)**	**(82,976)**
C.1 exits to performing exposures	(111)	(134,002)	(5,417)
C.2 write-offs	(198,888)	(104,548)	(1,478)
C.3 collections	(205,499)	(462,721)	(14,806)
C.4 gains on disposal	(64,368)	(230,395)	-
C.5 losses on disposal	(51,660)	(54,210)	-
C.6 transfers to other categories of non-performing loans	-	(272,069)	(61,189)
C.7 contractual modification without derecognition	(113)	(1,702)	(6)
C.8 other decreases	(412,479)	(195,200)	(80)
D. Gross exposure: closing balance	**1,669,067**	**2,495,038**	**93,469**
- of which: exposures transferred but not derecognised	-	222,251	-

The trend in non-performing exposures is influenced by the derisking strategy pursued by the Group, both through portfolio sales, as described in the significant events during the year in the Group Report on operations, and through single name sales; the effects of the aforementioned transactions are shown in items C.4 “Gains on disposal”, C.5 “Losses on disposal” and C.8 “Other decreases”.

Item B.5 “Other increases” refers for 219 million to the reclassification under “unlikely to pay” of exposures that in December 2022 had been classified as performing, following a complex restructuring transaction of non-performing loans (known as the “Wolf” transaction), for which the prudential regulations envisaged for the granting of forbearance measures were deemed not applicable. For further details on the restructuring in question and the related implications on credit quality, please refer to the previous table “A.1.1 Breakdown of financial assets by portfolio and credit quality (book values)”.

A.1.7 bis Prudential consolidation - On-balance sheet credit exposures to customers: changes in gross forborne exposures broken down by credit quality

Causes/Quality	**Forborne exposures: non-performing**	**Forborne exposures: performing**
A. Gross exposure: opening balance	**2,205,669**	**2,839,148**
- of which: exposures transferred but not derecognised	4,680	6,478
B. Increases	**664,021**	**494,601**
B.1 entries from non-forborne performing exposures	118,179	386,796
B.2 entries from forborne performing exposures	416,848	X
B.3 entries from forborne non-performing exposures	X	103,647
B.4 entries from non-forborne non-performing exposures	-	-
B.5 other increases	128,994	4,158
C. Decreases	**(1,023,125)**	**(1,590,358)**
C.1 exits to non-forborne performing exposures	X	(1,034,737)
C.2 exits to forborne performing exposures	(103,647)	X
C.3 exits to forborne non-performing exposures	X	(416,848)
C.4 write-offs	(88,150)	-
C.5 collections	(236,722)	(138,773)
C.6 gains on disposal	(211,189)	-
C.7 losses on disposal	(59,836)	-
C.8 other decreases	(323,581)	-
D. Gross exposure: closing balance	**1,846,565**	**1,743,391**
- of which: exposures transferred but not derecognised	222,251	-

A.1.8 Prudential consolidation - Non-performing on-balance sheet credit exposures to banks: changes in total value adjustments

Causes/Categories	Bad loans		Unlikely to pay		Non-performing past-due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Total value adjustments - opening balance	**-**	**-**	**15,294**	**-**	**-**	**-**
- of which: exposures transferred but not derecognised	-	-	-	-	-	-
B. Increases	**-**	**-**	**-**	**-**	**-**	**-**
B.1 value adjustments of acquired or originated impaired financial assets	-	X	-	X	-	X
B.2 other value adjustments	-	-	-	-	-	-
B.3 losses on disposal	-	-	-	-	-	-
B.4 transfers from other categories of non-performing exposures	-	-	-	-	-	-
B.5 contractual modification without derecognition	-	-	-	-	-	-
B.6 other increases	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**-**	**-**	**-**
C.1 recoveries from valuation	-	-	-	-	-	-
C.2 recoveries from collection	-	-	-	-	-	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 transfers to other categories of non-performing exposures	-	-	-	-	-	-
C.6 contractual modification without derecognition	-	-	-	-	-	-
C.7 other decreases	-	-	-	-	-	-
D. Total value adjustments - closing balance	**-**	**-**	**15,294**	**-**	**-**	**-**
- of which: exposures transferred but not derecognised	-	-	-	-	-	-

A.1.9 Prudential consolidation - Non-performing on-balance sheet credit exposures to customers: changes in total value adjustments

Causes/Categories	Bad loans		Unlikely to pay		Non-performing past-due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Total value adjustments - opening balance	**1,331,948**	**222,762**	**1,147,214**	**728,950**	**22,108**	**3,275**
- of which: exposures transferred but not derecognised	5,598	485	858	445	51	-
B. Increases	**504,227**	**83,298**	**594,957**	**352,412**	**22,460**	**6,683**
B.1 value adjustments from acquired or originated impaired financial assets	-	X	-	X	-	X
B.2 other value adjustments	295,714	46,611	500,336	258,660	21,810	6,327
B.3 losses on disposal	51,660	16,127	54,210	43,710	-	-
B.4 transfers from other categories of non-performing exposures	122,296	20,447	9,823	2,940	310	91
B.5 contractual modification without derecognition	113	113	1,702	1,702	6	6
B.6 other increases	34,444	-	28,886	45,400	334	259
C. Decreases	**(808,577)**	**(170,606)**	**(747,416)**	**(493,360)**	**(18,245)**	**(3,516)**
C.1 recoveries from valuation	(44,490)	(9,021)	(194,097)	(135,849)	(3,040)	(324)
C.2 recoveries from collection	(54,234)	(6,906)	(37,706)	(20,806)	(53)	(4)
C.3 gains on disposal	(19,022)	(3,491)	(40,605)	(33,501)	-	-
C.4 write-offs	(198,888)	(26,827)	(104,548)	(61,322)	(1,478)	(1)
C.5 transfers to other categories of non-performing exposures	(10)	-	(118,769)	(20,300)	(13,650)	(3,178)
C.6 contractual modification without derecognition	(187)	(187)	(1,570)	(1,570)	(9)	(9)
C.7 other decreases	(491,746)	(124,174)	(250,121)	(220,012)	(15)	-
D. Total value adjustments - closing balance	**1,027,598**	**135,454**	**994,755**	**588,002**	**26,323**	**6,442**
- of which: exposures transferred but not derecognised	-	-	3,251	3,251	-	-

With regard to sales of non-performing loans, the item "Other decreases" includes the total amount of derecognitions other than accounting write-offs, resulting from sales.

A.2 Classification of exposures according to external and internal ratings

A.2.1 Prudential consolidation - Distribution of financial assets, commitments to disburse funds and financial guarantees given by external rating classes (gross values)

Exposures	External rating classes						Unrated	Total
	AAA/AA-	A+/A-	BBB+/BBB-	BB+/BB-	B+/B-	below B-		
A. Financial assets at amortised cost	**10,113,860**	**7,862,978**	**10,955,159**	**2,642,276**	**776,674**	**238,782**	**105,242,919**	**137,832,648**
- Stage 1	10,113,860	7,819,051	10,746,618	1,983,924	605,310	101,908	90,243,677	121,614,348
- Stage 2	-	43,927	208,541	646,125	170,731	77,275	11,175,115	12,321,714
- Stage 3	-	-	-	-	-	3,799	3,714,682	3,718,481
- Acquired or originated impaired	-	-	-	12,227	633	55,800	109,445	178,105
B. Financial assets measured at fair value through other comprehensive income	**4,401,568**	**2,468,065**	**3,168,135**	**152,272**	**21,659**	**-**	**207,614**	**10,419,313**
- Stage 1	4,401,568	2,430,209	3,142,612	152,272	16,162	-	202,183	10,345,006
- Stage 2	-	37,856	25,523	-	5,497	-	5,431	74,307
- Stage 3	-	-	-	-	-	-	-	-
- Acquired or originated impaired	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**198,678**	**198,678**
- Stage 1	-	-	-	-	-	-	7	7
- Stage 2	-	-	-	-	-	-	2	2
- Stage 3	-	-	-	-	-	-	176,191	176,191
- Acquired or originated impaired	-	-	-	-	-	-	22,478	22,478
Total (A+B+C)	**14,515,428**	**10,331,043**	**14,123,294**	**2,794,548**	**798,333**	**238,782**	**105,649,211**	**148,450,639**
D. Commitments to disburse funds and financial guarantees given	**139,501**	**989,547**	**4,344,678**	**1,165,992**	**513,341**	**62,444**	**42,820,020**	**50,035,523**
- Stage 1	139,501	982,008	4,319,891	910,730	492,975	59,140	40,706,668	47,610,913
- Stage 2	-	7,539	24,787	255,262	20,366	1,513	1,744,906	2,054,373
- Stage 3	-	-	-	-	-	-	349,102	349,102
- Acquired or originated impaired	-	-	-	-	-	1,791	19,344	21,135
Total (D)	**139,501**	**989,547**	**4,344,678**	**1,165,992**	**513,341**	**62,444**	**42,820,020**	**50,035,523**
Total (A+B+C+D)	**14,654,929**	**11,320,590**	**18,467,972**	**3,960,540**	**1,311,674**	**301,226**	**148,469,231**	**198,486,162**

Banco BPM Group adopts the credit risk assessments issued by the following external credit assessment agencies (ECAIs): Standard & Poor's ratings Services, Moody's Investors Service, Fitch Ratings and Cerved Rating Agency S.p.A..

These agencies apply to all banks belonging to the Group. On the perimeter of securitisations, credit risk assessments can also be issued by the following external agencies: DBRS, Scope and AM Rating Services. Within this scope, the valuation of the individual transaction is requested by Banco BPM from one of the previous agencies. It should be noted that, where there are two assessments of the same customer, the most prudent one is adopted; in the presence of more than one assessment, the two assessments

corresponding to the two lowest weight factors are selected. If the two lowest weight factors are different, the highest factor is applied. If the two lowest weight factors are identical, said factor is applied (Art. 138 of Regulation (EU) no. 575/2013).
The table below shows the reconciliation between the risk classes and ratings of the agencies used.

CLASS	Fitch Ratings	Moody's	Standard & Poor's	Cerved Rating Agency SpA
AAA/AA-	*AAA to AA-*	*Aaa to Aa3*	*AAA to AA-*	*A1.1 to A1.3*
A+/A-	*A+ to A-*	*A1 to A3*	*A+ to A-*	*A2.1 to A3.1*
BBB+/BBB-	*BBB+ to BBB-*	*Baa1 to Baa3*	*BBB+ to BBB-*	*B1.1 to B1.2*
BB+/BB-	*BB+ to BB-*	*Ba1 to Ba3*	*BB+ to BB-*	*B2.1 to B2.2*
B+/B-	*B+ to B-*	*B1 to B3*	*B+ to B-*	*C1.1*
Below B-	*CCC+ and below*	*Caa1 and below*	*CCC+ and below*	*C1.2 and below*

A.2.2 Prudential consolidation - Distribution of financial assets, commitments to disburse funds and financial guarantees given by internal rating classes (gross values)

With the exception of the bank prospectus, the exposures shown in tables A.2.2 are associated with ratings also used to determine capital requirements for credit risks, limited to what can be traced back to the Business and Retail regulatory portfolios.
In particular, with regard to business customers, four separate rating models have been developed, based on the following customer segments: Large Corporate, Mid Corporate Plus, Mid Corporate and Small Business – and one for private customers. The counterparty rating system provides, at the level of each segment, twelve rating classes (eleven performing and one default) grouped below by risk category.

Exposures to banks	Internal rating classes								Unrated	Total
	AAA	AA	A	BBB	BB	B	CCC	Default		
A. Financial assets at amortised cost	**15,569**	**1,101,824**	**1,970,366**	**1,499,476**	**156,659**	**66**	**-**	**-**	**1,185,075**	**5,929,035**
- Stage 1	15,569	1,101,824	1,956,198	1,473,983	73,553	-	-	-	1,184,145	5,805,272
- Stage 2	-	-	14,168	25,493	83,106	66	-	-	930	123,763
- Stage 3	-	-	-	-	-	-	-	-	-	-
- Acquired or originated impaired	-	-	-	-	-	-	-	-	-	-
B. Financial assets measured at fair value through other comprehensive income	**54,594**	**104,868**	**357,513**	**338,446**	**96,796**	**-**	**-**	**-**	**-**	**952,217**
- Stage 1	54,594	104,868	341,777	294,650	96,796	-	-	-	-	892,685
- Stage 2	-	-	15,736	43,796	-	-	-	-	-	59,532
- Stage 3	-	-	-	-	-	-	-	-	-	-
- Acquired or originated impaired	-	-	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Stage 1	-	-	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-	-	-
- Acquired or originated impaired	-	-	-	-	-	-	-	-	-	-
Total (A + B + C)	**70,163**	**1,206,692**	**2,327,879**	**1,837,922**	**253,455**	**66**	**-**	**-**	**1,185,075**	**6,881,252**
D. Commitments to disburse funds and financial guarantees given										
- Stage 1	11,183	237,967	660,442	588,004	149,551	150	-	-	126,905	1,774,202
- Stage 2	-	-	-	36,197	63,132	932	-	-	11,407	111,668
- Stage 3	-	-	-	-	-	-	-	-	-	-
- Acquired or originated impaired	-	-	-	-	-	-	-	-	-	-
Total (D)	**11,183**	**237,967**	**660,442**	**624,201**	**212,683**	**1,082**	**-**	**-**	**138,312**	**1,885,870**
Total (A + B + C + D)	**81,346**	**1,444,659**	**2,988,321**	**2,462,123**	**466,138**	**1,148**	**-**	**-**	**1,323,387**	**8,767,122**

Exposures to customers	Internal rating classes							Total
	LOW	MEDIUM-LOW	MEDIUM	MEDIUM-HIGH	HIGH	Default	Unrated	
A. Financial assets at amortised cost	**29,146,240**	**32,604,776**	**16,396,033**	**4,766,369**	**1,879,642**	**3,204,722**	**324,984**	**88,322,766**
- Stage 1	28,442,284	30,591,994	12,792,315	1,712,111	140,846	-	290,315	73,969,865
- Stage 2	702,112	1,998,836	3,592,691	3,035,866	1,731,974	-	34,669	11,096,148
- Stage 3	-	-	-	-	36	3,138,114	-	3,138,150
- Acquired or originated impaired	1,844	13,946	11,027	18,392	6,786	66,608	-	118,603
B. Financial assets measured at fair value through other comprehensive income	**222,890**	**13,735**	**21,659**	**-**	**-**	**-**	**-**	**258,284**
- Stage 1	222,890	13,735	16,162	-	-	-	-	252,787
- Stage 2	-	-	5,497	-	-	-	-	5,497
- Stage 3	-	-	-	-	-	-	-	-
- Acquired or originated impaired	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**2**	**2**	**-**	**1**	**167,530**	**-**	**167,535**
- Stage 1	-	2	2	-	-	-	-	4
- Stage 2	-	-	-	-	1	-	-	1
- Stage 3	-	-	-	-	-	145,781	-	145,781
- Acquired or originated impaired	-	-	-	-	-	21,749	-	21,749
Total (A + B + C)	**29,369,130**	**32,618,513**	**16,417,694**	**4,766,369**	**1,879,643**	**3,372,252**	**324,984**	**88,748,585**
D. Commitments to disburse funds and financial guarantees given								
- Stage 1	25,350,031	8,912,860	4,717,481	379,075	27,005	-	436,746	39,823,198
- Stage 2	153,592	266,520	603,660	488,490	117,124	-	6,245	1,635,631
- Stage 3	-	-	-	-	-	342,084	-	342,084
- Acquired or originated impaired	30	2,174	28	12,603	3	4,482	-	19,320
Total (D)	**25,503,653**	**9,181,554**	**5,321,169**	**880,168**	**144,132**	**346,566**	**442,991**	**41,820,233**
Total (A+B+C+D) by segment	**54,872,783**	**41,800,067**	**21,738,863**	**5,646,537**	**2,023,775**	**3,718,818**	**767,975**	**130,568,818**
Grand total	**-**	**-**	**-**	**-**	**-**	**620,508**	**58,529,714**	**59,150,222**
Total	**54,872,783**	**41,800,067**	**21,738,863**	**5,646,537**	**2,023,775**	**4,339,326**	**59,297,689**	**189,719,040**

Exposures	Internal rating classes							Total
	LOW	MEDIUM-LOW	MEDIUM	MEDIUM-HIGH	HIGH	Default	Unrated	
Large Corporate	15,617,954	3,757,008	3,324,404	561,631	2,384	56,715	5,806	23,325,902
Mid Corporate Plus	10,157,104	8,081,160	3,553,491	931,941	199,535	615,088	12,537	23,550,856
Mid Corporate	12,248,180	7,904,373	4,922,518	1,760,816	508,129	968,231	110,443	28,422,690
Small Businesses	6,967,279	5,642,656	7,590,642	1,843,775	614,185	1,472,606	589,658	24,720,801
Private customers	9,882,266	16,414,870	2,347,808	548,374	699,542	606,178	49,531	30,548,569
Total Exposures by segment	**54,872,783**	**41,800,067**	**21,738,863**	**5,646,537**	**2,023,775**	**3,718,818**	**767,975**	**130,568,818**

A.3 Distribution of secured credit exposures by type of guarantee

A.3.1 Prudential consolidation - On-balance sheet and off-balance sheet secured credit exposures to banks

	Gross exposure	Net exposure	Collateral (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Unsecured loans				
								Other derivatives								
			Real estate - Mortgages	Real estate - Loans for leases	Securities	Other collateral	CLN	Central counterparties	Banks	Other financial companies	Other entities	Public Administrations	Banks	Other financial companies	Other entities	
1. Secured on-balance sheet credit exposures:	**847,983**	**847,981**	**-**	**-**	**843,935**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**720**	**844,655**
1.1. fully secured	847,704	847,702	-	-	843,935	-	-	-	-	-	-	-	-	-	673	844,608
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2. partially secured	279	279	-	-	-	-	-	-	-	-	-	-	-	-	47	47
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured off-balance sheet credit exposures:	**150,669**	**150,654**	**-**	**-**	**117,197**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,110**	**7,707**	**128,014**
2.1. fully secured	123,579	123,577	-	-	117,197	-	-	-	-	-	-	-	-	1,149	5,192	123,538
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2. partially secured	27,090	27,077	-	-	-	-	-	-	-	-	-	-	-	1,961	2,515	4,476
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.3.2 Prudential consolidation - On-balance sheet and off-balance sheet secured credit exposures to customers

			Collateral (1)				Personal guarantees (2)										Total (1)+(2)
							Credit derivatives					Unsecured loans					
								Other derivatives									
	Gross exposure	Net exposure	Real estate - Mortgages	Real estate - Finance leases	Securities	Other collateral	CLN	Central counterparties	Banks	Other financial companies	Other entities	Public Administrations	Banks	Other financial companies	Other entities	
1. Secured on-balance sheet credit exposures:	**80,648,575**	**78,663,145**	**40,519,245**	**505,156**	**6,192,786**	**1,871,577**	**300,448**	**-**	**-**	**11,404**	**7,729**	**13,358,584**	**27,818**	**390,615**	**7,119,355**	**70,304,717**
1.1. fully secured	64,636,706	62,936,037	40,503,590	505,156	6,048,851	1,797,899	46,658	-	-	4,027	2,537	6,327,182	13,418	365,605	6,762,765	62,377,688
- of which non-performing	2,945,616	1,554,224	1,046,248	114,335	3,513	6,089	34	-	-	34	-	268,183	492	4,513	94,533	1,537,974
1.2. partially secured	16,011,869	15,727,108	15,655	-	143,935	73,678	253,790	-	-	7,377	5,192	7,031,402	14,400	25,010	356,590	7,927,029
- of which non-performing	518,434	272,658	1,721	-	1,573	460	423	-	-	146	-	208,151	211	579	12,762	226,026
2. Secured off-balance sheet credit exposures:	**13,357,188**	**13,322,589**	**709,896**	**-**	**1,745,236**	**1,097,180**	**-**	**-**	**-**	**-**	**-**	**1,214,682**	**245,602**	**451,616**	**6,132,336**	**11,596,548**
2.1. fully secured	10,048,538	10,020,005	705,199	-	1,611,734	590,929	-	-	-	-	-	676,505	236,058	370,213	5,443,424	9,634,062
- of which non-performing	85,361	69,009	3,756	-	1,545	2,655	-	-	-	-	-	1,142	-	73	59,610	68,781
2.2. partially secured	3,308,650	3,302,584	4,697	-	133,502	506,251	-	-	-	-	-	538,177	9,544	81,403	688,912	1,962,486
- of which non-performing	29,431	25,331	-	-	673	5,198	-	-	-	-	-	1,716	-	9	5,659	13,255

Note that this table does not show the risk mitigations represented by CSA contracts on derivative instruments, as well as forms of support relating to synthetic securitisation transactions.

A.4 Prudential consolidation - Financial and non-financial assets obtained through the enforcement of guarantees received

	Derecognised credit exposure	Gross value	Total value adjustments	Book value	
					of which obtained during the year
A. Property, plant and equipment	**868,673**	**927,417**	**(493,689)**	**433,728**	**23,314**
A.1. Used in operations	53,648	62,697	(42,990)	19,707	-
A.2. For investment purposes	815,025	864,720	(450,699)	414,021	23,314
A.3. Inventories	-	-	-	-	-
B. Equity instruments and debt securities	**15,554**	**15,554**	**(6,703)**	**8,851**	**-**
C. Other assets	**-**	**-**	**-**	**-**	**-**
D. Non-current assets and disposal groups held for sale	**168,438**	**166,622**	**(61,878)**	**104,744**	**3,100**
D.1. Property, plant and equipment	168,438	166,622	(61,878)	104,744	3,100
D.2. Other assets	-	-	-	-	-
Total 31/12/2023	**1,052,665**	**1,109,593**	**(562,270)**	**547,323**	**26,414**
Total 31/12/2022	**1,067,747**	**1,141,488**	**(557,901)**	**583,587**	**35,716**

B. Breakdown and concentration of exposures

B.1 Prudential consolidation - Breakdown by sector of on- and off-balance-sheet credit exposures to customers

Exposures/Counterparties	Public Administrations		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance sheet credit exposures										
A.1 Bad loans	8	(37)	3,258	(10,321)	30	(2,618)	438,693	(856,257)	199,510	(160,983)
- of which: forborne exposures	-	-	466	(1,057)	-	-	81,553	(111,735)	40,702	(22,662)
A.2 Unlikely to pay	475	(835)	69,301	(62,029)	-	-	1,085,052	(792,480)	345,455	(139,411)
- of which: forborne exposures	-	-	4,955	(9,809)	-	-	784,121	(507,503)	191,017	(70,690)
A.3 Non-performing past-due exposures	1	-	40	(11)	-	-	31,431	(14,507)	35,674	(11,805)
- of which: forborne exposures	-	-	11	-	-	-	7,666	(4,665)	6,176	(1,777)
A.4 Performing exposures	32,171,511	(6,781)	17,122,310	(39,252)	184,808	(163)	55,463,803	(268,196)	32,936,784	(120,716)
- of which: forborne exposures	2,605	(51)	12,974	(456)	-	-	1,218,404	(45,289)	443,951	(19,661)
Total (A)	**32,171,995**	**(7,653)**	**17,194,909**	**(111,613)**	**184,838**	**(2,781)**	**57,018,979**	**(1,931,440)**	**33,517,423**	**(432,915)**
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	1,676	(117)	3,955	(372)	-	-	587,146	(97,391)	7,920	(1,097)
B.2 Performing exposures	5,536,297	(581)	5,979,293	(3,616)	469,289	(188)	47,888,788	(26,817)	4,309,798	(3,455)
Total (B)	**5,537,973**	**(698)**	**5,983,248**	**(3,988)**	**469,289**	**(188)**	**48,475,934**	**(124,208)**	**4,317,718**	**(4,552)**
Total (A+B) 31/12/2023	**37,709,968**	**(8,351)**	**23,178,157**	**(115,601)**	**654,127**	**(2,969)**	**105,494,913**	**(2,055,648)**	**37,835,141**	**(437,467)**
Total (A+B) 31/12/2022	**34,640,664**	**(8,280)**	**19,482,836**	**(84,587)**	**384,137**	**(188)**	**106,413,635**	**(2,454,446)**	**39,434,909**	**(526,866)**

B.2 Prudential consolidation - Breakdown by geographic area of on- and off-balance sheet credit exposures to customers

Exposures/Geographic areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance sheet credit exposures										
A.1 Bad loans	640,229	(1,020,557)	1,097	(5,455)	-	(618)	-	(675)	143	(293)
A.2 Unlikely to pay	1,493,670	(975,655)	6,070	(17,635)	542	(1,461)	-	(2)	1	(2)
A.3 Non-performing past-due exposures	67,048	(26,308)	98	(15)	-	-	-	-	-	-
A.4 Performing exposures	114,446,509	(431,075)	17,936,616	(2,180)	4,717,689	(1,395)	433,127	(264)	160,467	(31)
Total (A)	**116,647,456**	**(2,453,595)**	**17,943,881**	**(25,285)**	**4,718,231**	**(3,474)**	**433,127**	**(941)**	**160,611**	**(326)**
B. Off-balance sheet credit exposures	-	-	-	-	-	-	-	-	-	-
B.1 Non-performing exposures	600,571	(98,974)	126	(3)	-	-	-	-	-	-
B.2 Performing exposures	58,728,056	(34,269)	4,240,339	(185)	339,699	(4)	46,787	(7)	359,295	(4)
Total (B)	**59,328,627**	**(133,243)**	**4,240,465**	**(188)**	**339,699**	**(4)**	**46,787**	**(7)**	**359,295**	**(4)**
Total (A+B) 31/12/2023	**175,976,083**	**(2,586,838)**	**22,184,346**	**(25,473)**	**5,057,930**	**(3,478)**	**479,914**	**(948)**	**519,906**	**(330)**
Total (A+B) 31/12/2022	**173,917,417**	**(3,029,050)**	**20,268,390**	**(37,950)**	**4,843,920**	**(3,410)**	**561,437**	**(3,446)**	**380,880**	**(323)**

In greater detail the exposures of Italy are broken down by geographic area as shown in the following table:

Exposures/Geographic areas	North West Italy		North East Italy		Central Italy		South Italy and Islands	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance sheet credit exposures								
A.1 Bad loans	304,619	(442,540)	116,240	(150,738)	137,895	(259,556)	81,475	(167,723)
A.2 Unlikely to pay	844,829	(532,774)	228,495	(180,649)	319,163	(195,283)	101,183	(66,949)
A.3 Non-performing past-due exposures	28,310	(11,577)	17,276	(8,301)	16,007	(4,549)	5,455	(1,881)
A.4 Performing exposures	52,108,595	(228,618)	22,996,708	(83,026)	33,412,946	(91,657)	5,928,260	(27,774)
Total (A)	**53,286,353**	**(1,215,509)**	**23,358,719**	**(422,714)**	**33,886,011**	**(551,045)**	**6,116,373**	**(264,327)**
B. Off-balance sheet credit exposures								
B.1 Non-performing exposures	289,256	(61,256)	155,154	(16,939)	141,461	(18,829)	14,700	(1,950)
B.2 Performing exposures	29,153,799	(19,217)	13,943,669	(6,836)	13,078,950	(6,389)	2,551,638	(1,827)
Total (B)	29,443,055	(80,473)	14,098,823	(23,775)	13,220,411	(25,218)	2,566,338	(3,777)
Total (A+B) 31/12/2023	**82,729,408**	**(1,295,982)**	**37,457,542**	**(446,489)**	**47,106,422**	**(576,263)**	**8,682,711**	**(268,104)**
Total (A+B) 31/12/2022	**84,402,944**	**(1,444,347)**	**39,066,152**	**(525,963)**	**41,957,151**	**(704,571)**	**8,491,170**	**(354,169)**

B.3 Prudential consolidation - Breakdown by geographic area of on- and off-balance sheet credit exposures to banks

Exposures/Geographic areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance sheet credit exposures										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	(15,294)	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	20,886,158	(2,131)	3,611,611	(1,824)	252,811	(213)	29,429	(39)	57,896	(110)
Total (A)	**20,886,158**	**(17,425)**	**3,611,611**	**(1,824)**	**252,811**	**(213)**	**29,429**	**(39)**	**57,896**	**(110)**
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	605,580	(42)	2,715,247	(77)	138,417	(64)	557,090	(99)	235,328	(88)
Total (B)	**605,580**	**(42)**	**2,715,247**	**(77)**	**138,417**	**(64)**	**557,090**	**(99)**	**235,328**	**(88)**
Total (A+B) 31/12/2023	**21,491,738**	**(17,467)**	**6,326,858**	**(1,901)**	**391,228**	**(277)**	**586,519**	**(138)**	**293,224**	**(198)**
Total (A+B) 31/12/2022	**16,589,089**	**(17,900)**	**6,815,244**	**(1,747)**	**370,057**	**(332)**	**587,557**	**(154)**	**313,412**	**(234)**

B.4 Large exposures

From 30 June 2021, the prudential requirements for banks and investment firms contained in Regulation (EU) no. 575/2013, as updated by Regulation (EU) no. 876/2019 (CRR 2), later amended by Regulation (EU) no. 873/2020 and in Directive no. 2013/36/EU, as updated by Regulation (EU) 878/2019 (CRD V) came into force. These transpose the standards defined by the Basel Committee on Banking Supervision.
In July 2022, Delegated Regulation no. 1011/2022, which regulates the recognition of indirect exposures in derivatives for contracts which, even if not directly entered into with a customer, are in any case traced back to the customer as the issuer of the underlying debt or equity instrument. Where the multi-underlying instruments are involved and it is not possible or excessively burdensome to identify the individual underlying instruments, the exposure must be attributed to the unknown client.
This item shows the amount ("non-weighted value" and "weighted value") and the number of the "risk positions" that represent a "large exposure" according to the provisions of Art. 14 of Implementing Regulation (EU) no. 451/2021, laying down implementing technical standards with regard to supervisory reporting of institutions.

An entity's exposure to a customer or a group of related customers is considered a large exposure if the value is equal to or more than 10% of the entity's eligible capital ("CRR 2", Art. 392). In any event, customers or groups of customers with an exposure exceeding 300 million, even if not considered large exposures must be disclosed in the consolidated financial statements.
Taking into account the effect of the exemptions and the credit risk mitigation, large exposures must, in any case, individually respect the limit of 25% of the entity's eligible capital: for entities, said limit may be set at 150 million if the 25% of the eligible capital is lower.

In addition to the implementing technical standards for the supervisory reporting of entities, the reporting of Large Exposures was produced, applying the EBA Guidelines (EBA/GL/2017/15) on connected clients, limited to the alternative approach to Central Governments.

As at 31 December 2023, the eligible capital coincides with the amount of Tier 1 capital.
On the basis of the new combined provisions, at said date there were 34 risk positions classified as "large exposures" for a total ("non-weighted") amount of 750,347.0 million corresponding to a net ("weighted") exposure of 17,387.8 million.

The main Groups identified as "large exposures" have the following risk assets:

- the Ministry of Economy and Finance for 37,255.2 million (411.1 million considering the weight factors and the exemptions pursuant to Art. 400 of the CRR), mainly consisting of the government bonds in the portfolio, the guarantees issued and tax assets. The exposures of this Central Government are in turn included in each group of connected clients, identified separately for directly-controlled or directly-related legal entities, as better specified in paragraph 5 (Alternative approach for exposures to central governments) of the previously-cited EBA guidelines;
- Euronext for 28,228.2 million (14.3 million considering the weight factors and the exemptions pursuant to Art. 400 of the CRR), mainly consisting of repurchase agreements with Cassa Compensazione e Garanzia;
- four Central Governments of foreign countries for a total of 21,093.5 million (0 million considering the weight factors and the exemptions pursuant to Art. 400 of the CRR), consisting exclusively of the government bonds in the portfolio;
- the Bank of Italy for 18,578.4 million (123.6 million considering the weight factors and the exemptions pursuant to Art. 400 of the CRR), mainly consisting of demand deposits and for the minimum reserve.

The remaining 27 positions are those of leading banking, financial and industrial groups, both national and foreign. Each of the positions reported respects the limit of 25% of the eligible capital.

	31/12/2023	**31/12/2022**
a) Amount (book value) (*)	750,347,023	724,285,739
b) Amount (weighted value) (*)	**17,387,764**	**25,593,425**
c) Number	34	33

(*) figures in thousands of euro

C. Securitisation transactions

This section illustrates the Group's exposure in terms of securitisations, both those in which the Group acts as the Originator of the receivables, and those in which the Group acts as an investor.

Traditional securitisations acting as originator

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).

In greater detail, for securitisations used for funding purposes, for which the Group also acts as Servicer, the structuring is followed by a Finance function of Banco BPM, which also monitors the transaction, through specific monthly and quarterly reports containing the trend in principal and interest collections and the status of receivables.

For securitisations used for derisking purposes, the structuring is carried out by a function belonging to the Chief Lending Officer area of Banco BPM, which conducts monitoring on the basis of monthly and quarterly reports provided by the Servicers outside the Group.

Information is provided below on the main events that took place during the year and on transactions in progress. In line with the instructions of the Bank of Italy Circular no. 262, for "self-securitisation" transactions in which the Group has fully subscribed the securities issued by the SPE, please refer to paragraph "1.4 - Liquidity risk", contained in "Section 2 - Risks of prudential consolidation" of Part E of these Notes to the consolidated financial statements.

QUALITATIVE INFORMATION

The following table lists the securitisation transactions in place as at 31 December 2023, showing the relative accounting treatment - derecognition or not from the financial statements of the assets sold to the SPE - depending on the significant transfer of the risks and rewards, as illustrated in the Part A - Accounting policies of these Notes.

SPE	Originator	Securities issue date	Transaction	Type of securitisation
Securitisations not derecognised from the financial statements				
BP Mortgages S.r.l.	Banco BPM	June 2007	BP Mortgages 2	Performing residential mortgage loans
Lilium SPV S.r.l.	Banco BPM	December 2022	Project Wolf	UTP loans
Securitisations fully derecognised from the financial statements				
Red Sea SPV S.r.l.	Banco BPM	June 2018	Project Exodus	Bad loans
Leviticus SPV S.r.l.	Banco BPM	February 2019	Project Ace	Bad loans
Tiberina SPV S.r.l.	Banco BPM	December 2020	Project Django	UTP and Bad loans
Titan SPV S.r.l.	Banco BPM and Release	December 2020	Project Titan	Bad loans
Aurelia SPV S.r.l.	Banco BPM	June 2021	Project Rockets	Bad loans
Tevere SPV S.r.l.	Banco BPM	June 2022	Project Argo	UTP and Bad loans

The transactions in place as at 31 December 2023 and those closed during the year are illustrated below.

Existing and significant securitisation transactions during 2023

BP Mortgages 2 (June 2007)

In 2023, early repayment of the securities issued as part of the securitisation transaction completed by the SPV BP Mortgages S.r.l. in June 2007 ("BP Mortgages 2") concerning a portfolio of residential mortgage and landed loans disbursed to private individuals. More specifically, (i) on 28 September 2023, with the signing of the relative contracts, Banco BPM repurchased the entire residual portfolio of mortgage loans underlying the transaction and (ii) on the interest payment date of 20 October 2023, the SPE dismantled the transaction and repaid the outstanding securities in advance. With the signing of the Termination Agreement, which will take place in 2024, the contracts signed and accounts opened within the context of the transaction will be closed.

Lilium SPV S.r.l (Project Wolf)

In December 2022, the Group had completed a complex transaction for the restructuring of credit exposures classified as unlikely to pay for a nominal value of 495.8 million (including default interest), carried out through the sale without recourse to a securitisation SPE (Lilium SPV S.r.l.).

The following table shows the securities issued by the SPE Lilium SPV S.r.l. and the share held by the Group as at 31 December 2023; unchanged from the previous year.

Class	Partly paid	Nominal value	Notes subscribed and retained by Banco BPM	Notes initially subscribed by Banco BPM, and then transferred to third parties	Notes subscribed by third parties
AS - Senior	Yes	142,500			11,829
AJ – Mezzanine	Yes	7,125			591
AX – Mezzanine	Yes	375			31
B1 – Mezzanine	Yes	17,680	17,680		
B2 – Mezzanine	No	3,120		3,120	
C1 – Mezzanine	No	31,790	31,790		
C2– Mezzanine	No	5,610		5,610	
D1 – Mezzanine	No	24,735	24,735		
D2 – Mezzanine	No	4,365		4,365	
E1 - Junior	No	326,804	326,804		
E2 - Junior	No	81,701		81,701	
TOTAL		**645,805**	**401,009**	**94,796**	**12,452**

In greater detail, Banco BPM had fully subscribed the notes of the B, C, D and E classes, for a total nominal value equal to that of the loans sold; the relative payment obligation for Banco BPM had been offset against the payment obligations of the SPE for the loans purchased.
Following the agreement for the restructuring of the credit exposures sold to the SPE, sub-classes B2, C2, D2, E2 had subsequently been sold to third-party investors.
The transaction had also envisaged the issue of Class A notes (subscribed by third party investors to Banco BPM) to finance work on properties to guarantee credit exposures (so-called capex), in execution of the provisions of the restructuring agreements.

The following table shows the nominal value of the notes held by the Group as at 31 December 2023, the relative remuneration and the recognition value (fair value) on the basis of the recoverable cash flows expected as a result of the restructuring agreement:

Class	Type	Nominal value	Fair value as at 31/12/2023	Maturing	Rating	Interest rate
Class B1 Asset-Backed Floating Rate Notes due December 2032	Mezzanine	17,680	17,770	31/12/2032	Unrated	Fixed @3.00%
Class C1 Asset-Backed Floating Rate Notes due December 2032	Mezzanine	31,790	32,113	31/12/2032	Unrated	Fixed @6.00%
Class D1 Asset-Backed Floating Rate Notes due December 2032	Mezzanine	24,735	25,049	31/12/2032	Unrated	Fixed @7.50%
Class E1 Asset-Backed Floating Rate Notes due December 2032	Junior	326,804	126,500	31/12/2032	Unrated	n.a.
Total		**401,009**	**201,432**			

Since this is a transaction without derecognition, note that the aforementioned securities are not included in the assets, but are shown as a reduction of the liability recorded against the loans sold and not derecognised. In fact, for the transaction in question, it was deemed that the Group substantially retains the risks and benefits of the assets sold. As at 31 December 2023, the fair value of the exposures sold and not derecognised amounted to 219.0 million; while the corresponding liabilities, already stated net of the fair value of the above-cited Lilium SPV securities, amounted to 18.3 million.

Lastly, the transaction also envisaged the release by Banco BPM of a credit line of 10 million to the SPE, the repayment of which must precede the more senior tranches; the 4.8 million drawdown made during the year was fully repaid and remunerated at an annual fixed interest rate of 4.5%. As at 31 December 2023, the credit limit was fully replenished.

Tevere SPV S.r.l (Project Argo)

In June 2022, the sale without recourse, against payment and en bloc of a portfolio of loans classified as UTP (unlikely to pay) and bad loans, originated by Banco BPM S.p.A. (hereinafter also the "Transferor" or "Originator") had been finalised for a total gross value of 656.0 million.
More specifically, the transaction had been finalised through the sale of the loans to Tevere SPV S.r.l., the securitisation SPE specifically established and not belonging to Banco BPM Group, pursuant to Italian Law 130/99.

The purchase of the loans by the SPE had been settled in part in cash for 24 million and in part through the issue of 4 tranches of securities (Senior, Mezzanine, Mezzanine Lower and Junior notes), which were subscribed by the Originator and by third-party investors belonging to the Elliott Fund, for a nominal value effectively subscribed and paid of 149.5 million. The Senior, Mezzanine and Lower Mezzanine notes were fully subscribed. Only the Junior note was partly paid with respect to the nominal value at the time of issue, as illustrated in the table below.

In compliance with the regulations on the retention rule, the Bank had originally subscribed 100% of the Senior notes and 5% of the other categories of notes subscribed and paid.
The companies of the Elliott fund had directly subscribed 95% of the Mezzanine and Junior notes.

Class	Partly paid	Nominal issue value	Nominal value subscribed	% Retention Banco BPM
A - Senior	No	104,658	104,658	100%
B1 - Mezzanine	No	22,427	22,427	5%
B2 - Lower Mezzanine	No	11,214	11,214	5%
J - Junior	Yes	18,684	11,214	5%
Total		**156,983**	**149,513**	

In January 2023, the sale to the SPE Tevere SPV of a further three revolving credit facilities had been completed, which concerned a total amount of approximately 0.7 million.
The sale was financed by the reserves that the SPE had already set up and there was no need to revise the structure of the notes.

The finalisation of this sale had resulted in the significant transfer of the risks and rewards of the loans sold, which were, therefore, derecognised from the financial statements, based on the regulations set out in the accounting standard IFRS 9.

The situation at the date of the subscription and as at 31 December 2023, of the securities subscribed by the Parent Company is summed up below:

Class	Type	Nominal value	Nominal value subscribed by Banco BPM	Outstanding nominal value as at 31/12/2023	Value as at 31/12/2023	Maturing	Rating	Interest rate
Class A Asset-Backed Fixed Rate Notes due December 2041	Senior	104,658	104,658	55,517	55,542	05/12/2041	Unrated	Fixed @2%
Class B1 Asset-Backed Floating Rate Notes due December 2041	Mezzanine	22,427	1,122	682	689	05/12/2041	Unrated	Euribor 3M (floor 0%) + 6% + Detachable coupon @3%
Class B2 Asset-Backed Floating Rate Notes due December 2041	Mezzanine	11,214	561	525	530	05/12/2041	Unrated	Euribor 3M (floor 0%) + 9% + Detachable coupon @3%
Class J Partly Paid Asset-Backed Variable Return Notes due December 2041	Junior	18,684	935	525	525	05/12/2041	Unrated	n.a.
Total		**156,983**	**107,276**	**57,248**	**57,286**			

Aurelia SPV S.r.l. (Project Rockets)

In June 2021, the sale without recourse, against payment and en bloc of a portfolio of loans classified as bad loans, originated by Banco BPM S.p.A. (hereinafter also the "Transferor" or "Originator") had been finalised for a total gross value of 1,509.5 million.
More specifically, the transaction was finalised through the sale of the loans to Aurelia SPV S.r.l., the securitisation SPE specifically established and not belonging to Banco BPM Group, pursuant to Italian Law 130/99.

The purchase of the loans by the SPE had been funded through the issue of three tranches of securities (Senior, Mezzanine and Junior notes), which had been fully subscribed pro-rata by the Originator, for a total nominal amount of 394 million, as illustrated in the following table.

Class - Type	Issue value
Class A - Senior, for which the State Guarantee on the Securitisation of Bad Loans ("GACS") has been obtained	342,000
Class B - Mezzanine	40,000
Class J - Junior	12,000
Total	**394,000**

For the sake of completeness, note that the transaction had also envisaged the granting of a Limited Recourse Loan disbursed by Banco BPM to the special purpose entity Aurelia SPV, for an initial value of 15.6 million, remunerated on the basis of a fixed annual interest rate of 1.75%.
This loan does not represent any form of credit support to the securitisation and had been addressed to covering the running costs of the SPE in the initial phase of the securitisation; in fact, in the waterfall payments, the repayment of the loan in question is antedated with respect to the payment of the principal and interest of the Senior and Mezzanine notes. As at 31 December 2023, the residual debt amounted to 10.5 million.

The securities fully subscribed by Banco BPM, had been subsequently sold, specifically a share of 95% of the Mezzanine and Junior notes, to a third-party investor.
The finalisation of this sale resulted in the significant transfer of the risks and rewards of the loans sold, which were, therefore, derecognised from the financial statements, based on the regulations set out in the accounting standard IFRS 9.

The situation at the date of the subscription and as at 31 December 2023, of the securities subscribed by the Parent Company is summed up below:

Type	Type	Nominal value subscribed by Banco BPM on the issue date	Outstanding nominal value of Banco BPM as at 31/12/2023	Value as at 31/12/2023	Maturing	Rating	Interest rate
Class A Asset Backed Floating Rate Notes due July 2047	Senior	342,000	200,923	202,341	30/07/2047	DBRS: BBB Scope: BBB	Euribor 6M + 0.5%
Class B1 Asset Backed Floating Rate Notes due July 2047	Mezzanine	2,000	2,000	682	30/07/2047	Unrated	Euribor 6M + 8%
Class J Asset Backed Floating Rate and Variable Return Notes due July 2047	Junior	600	600	-	30/07/2047	Unrated	Euribor 6M + 10%
Total		**344,600**	**203,523**	**203,023**			

Tiberina SPV S.r.l (Project Django)

In December 2020, the contract for the sale of loans between Banco BPM and Tiberina SPV had been signed, as part of the securitisation transaction, pursuant to Italian Law 130/99. The sale had regarded a portfolio of 40 positions classified as Unlikely to Pay and 1 position classified as Bad Loan, for a total gross value of 288 million.
The purchase of the loans portfolio had been funded by the SPV through the issue of the following asset backed securities for a total nominal value of 120.0 million:

- Class A Senior for a nominal value of 84.0 million;
- Class B1 Mezzanine for a nominal value of 18.0 million;
- Class B1 Mezzanine for a nominal value of 9.0 million;
- Class J Junior for a nominal value of 9.0 million.

The Senior tranche had been entirely subscribed by Banco BPM, together with 5% of the Mezzanine tranche and of the Junior tranche - in accordance with the retention rule envisaged by regulatory provisions - for a total nominal value of 85.8 million.
The remaining 95% of the Mezzanine and Junior tranches had instead been subscribed by Credito Fondiario.
The finalisation of this sale had resulted in the significant transfer of the risks and rewards of the loans sold, which had, therefore, been derecognised from the financial statements, based on the regulations set out in the accounting standard IFRS 9.

During 2023, the Senior tranche was fully repaid.

The situation of the securities subscribed by the Parent Company as at 31 December 2023, is summarised below:

Type	Type	Nominal value subscribed by Banco BPM on the issue date	Outstanding nominal value of Banco BPM as at 31/12/2023	Value as at 31/12/2023	Maturing	Rating	Interest rate
Class A Asset Backed Floating Rate Notes due October 2040	Senior	84,037	-	reimbursed	01/10/2040	Unrated	Euribor (floor @0%) +2%
Class B1 Asset Backed Floating Rate Notes due October 2040	Mezzanine	901	60	62	01/10/2040	Unrated	Euribor (floor @0%) +9%
Class B2 Asset Backed Floating Rate Notes due October 2040	Mezzanine	451	451	469	01/10/2040	Unrated	Euribor (floor @0%) +12%
Class J Asset Backed Variable Return Notes due October 2040	Junior	451	451	451	01/10/2040	Unrated	n.a.
Total		**85,840**	**962**	**982**			

It should also be noted that on the payment date of January 2024, the Mezzanine B1 tranche was also fully repaid.

Titan SPV S.r.l. (Project Titan)

In December 2020, a multi-originator securitisation transaction had been stipulated (Banco BPM S.p.A., Release S.p.A. and Alba Leasing S.p.A.), where the underlying was a portfolio of Lease NPL with a gross contractual value totalling 335.4 million (value referred to the valuation date, which under the contract was 31 December 2019).

The purchase of the loans portfolio sold had been funded by the SPE through the issue of the following asset backed securities for a nominal value of 115.6 million, including the issue to fund Alba Leasing:

- Class A Senior for a nominal value of 90.5 million, for which the State Guarantee on the Securitisation of Bad Loans ("GACS") has been obtained;
- Class B Mezzanine for a nominal value of 15.0 million;
- Class J Junior for a nominal value of 10.1 million. The issue of the tranche in question, in addition to funding the purchase of the loans, was allocated to cover the 6.5 million initial expenses of the securitisation.

On the issue date, the securities had been entirely subscribed pro-rata by the originators; more specifically, the share of the securities issued to fund the Group's portfolio amounted to 41.7 million (22.3 million relating to the Parent Company and 19.4 million to Release). Subsequently, 95% of the Group's Mezzanine and Junior tranches had been placed with a third-party investor and Release had sold the Parent Company the tranches of the securities it had subscribed.
The finalisation of this sale had resulted in the significant transfer of the risks and rewards of the loans sold, which had, therefore, been derecognised from the financial statements, based on the regulations set out in the accounting standard IFRS 9.

The situation of the securities subscribed by the Parent Company as at 31 December 2023, is summarised below:

Type	Type	Nominal value subscribed by Banco BPM on the issue date	Outstanding nominal value Banco BPM as at 31/12/2023	Value as at 31/12/2023	Maturing	Rating as at 31 December 2022	Interest rate
Class A Asset Backed Floating Rate Notes due January 2041	Senior	32,343	13,982	13,968	01/01/2041	DBRS: BBB Scope: BBB	Euribor 6M + 0.5%
Class B1 Asset Backed Floating Rate Notes due January 2041	Mezzanine	269	269	73	01/01/2041	Unrated	Euribor 6M + 8%
Class J Asset Backed Variable Return Notes due January 2041	Junior	200	200	-	01/01/2041	Unrated	n.a.
Total		**32,812**	**14,451**	**14,042**			

Said reserve was established by means of a Limited Recourse Loan disbursed by Banco BPM to the special purpose entity Titan SPV, for an initial value of 7.6 million, remunerated on the basis of a fixed annual interest rate of 1.50%, antedated with respect to the Senior note.
This loan does not represent any form of credit support to the securitisation and had been addressed to covering the running costs of the SPE in the initial phase of the securitisation; in fact, in the waterfall payments, the repayment of the loan in question is antedated with respect to the payment of the principal and interest of the Senior and Mezzanine notes. As at 31 December 2023, the residual debt amounted to 5.9 million.

Leviticus SPV S.r.l. (Project Ace)

In December 2018, a transaction to sell a portfolio of bad loans had been set in motion, pursuant to the law on securitisation (Italian Law no. 130/99). On the sale date, the gross value of the portfolio sold amounted to around 6 billion, net of write-offs of around 1.1 billion (the nominal value was 7.4 billion, before write-offs, related to the date of accrual established in the contract as at 30 June 2018).

The transaction had been finalised on 6 February 2019 through the issue, by Leviticus SPV S.r.l., of the following classes of securities, fully subscribed by Banco BPM:

- Class A Senior corresponding to 1,440.0 million, for which the guarantee from the Italian State was obtained pursuant to Italian Decree Law 18/2016 ("GACS");

- Class B - Mezzanine for 221.5 million;
- Class J - Junior for around 248.8 million.

Subsequently, the sale to a third party of 95% of the Mezzanine tranche and 95% of the Junior tranche had been completed. In compliance with the retention rule set out in the supervisory provisions, Banco BPM had retained ownership of 5% of those securities. Banco BPM had also retained ownership of 100% of the Senior notes.

The finalisation of this sale had resulted in the significant transfer of the risks and rewards of the loans sold, which had, therefore, been derecognised from the financial statements, based on the regulations set out in the accounting standard IFRS 9.

The situation of the securities subscribed by the Parent Company as at 31 December 2023, is summarised below:

Type	Type	Nominal value subscribed by Banco BPM on the issue date	Outstanding nominal value Banco BPM as at 31/12/2023	Value as at 31/12/2023	Maturing	Rating as at 31 December 2022	Interest rate
Class A Asset Backed Floating Rate Notes due July 2040	Senior	1,440,033	545,920	550,236	31/07/2040	DBRS: BB; Scope: BB+	6M Euribor +0.6%
Class B Asset Backed Floating Rate Notes due July 2040	Mezzanine	11,078	11,078	4,667	31/07/2040	Unrated	6M Euribor +8%
Class J Asset Backed Variable Return Notes due July 2040	Junior	12,443	12,443	-	31/07/2040	Unrated	n.a.
Total		**1,463,554**	**569,441**	**554,903**			

For the sake of completeness, note that the transaction had also envisaged the granting of a Limited Recourse Loan disbursed by Banco BPM to the special purpose entity Leviticus SPV, for an initial value of 66.5 million, remunerated on the basis of a fixed annual interest rate of 1.50%.
This loan does not represent any form of credit support to the securitisation and had been addressed to covering the running costs of the SPE in the initial phase of the securitisation; in fact, in the waterfall payments, the repayment of the loan in question is antedated with respect to the payment of the principal and interest of the Senior and Mezzanine notes. As at 31 December 2023, the residual debt amounted to 33.2 million.

Red Sea SPV S.r.l. (Project Exodus)

In June 2018, Banco BPM had finalised the sale of a portfolio of bad loans for a gross nominal value of around 5.1 billion to Red Sea SPV S.r.l.

The transaction had been carried out through the issue, by the special purpose entity, of securities totalling around 1.9 billion, broken down as follows:

- Class A Senior corresponding to 1,656.5 million, for which the guarantee from the Italian State was obtained pursuant to Italian Decree Law 18/2016 ("GACS");
- Class B Mezzanine for 152.9 million;
- Class J Junior for 51 million.

The securities fully subscribed by Banco BPM, had been subsequently sold, specifically a share of 95% of the Mezzanine and Junior notes, to a third-party investor. With the placement of the Mezzanine and Junior notes, the requirements had been met for the derecognition of the bad loans sold to the SPE.

The situation of the securities subscribed by the Parent Company as at 31 December 2023, is summarised below:

Type	Type	Nominal value subscribed by Banco BPM on the issue date	Outstanding nominal value Banco BPM as at 31/12/2023	Value as at 31/12/2023	Maturing	Rating as at 31 December 2023	Interest rate
Class B Asset Backed Floating Rate Notes due October 2038	Senior	1,656,504	588,714	591,987	29/10/2038	Moody's: Baa2; Scope: BBB-	6M Euribor +0.6%
Class B Asset Backed Floating Rate Notes due October 2038	Mezzanine	7,646	7,646	2,994	29/10/2038	Unrated	6M Euribor +6%
Class J Asset Backed Variable Return Notes due October 2038	Junior	2,549	2,549	-	29/10/2038	Unrated	n.a.
		1,666,699	**598,909**	**594,981**			

For the sake of completeness, note that the transaction had also envisaged the granting of a Limited Recourse Loan disbursed by Banco BPM to the special purpose entity Red Sea SPV, for an initial value of 72.4 million, remunerated on the basis of a fixed annual interest rate of 1.50%.
This loan does not represent any form of credit support to the securitisation and had been addressed to covering the running costs of the SPE in the initial phase of the securitisation; in fact, in the waterfall payments, the repayment of the loan in question is antedated with respect to the payment of the principal and interest of the Senior and Mezzanine notes. As at 31 December 2023, the residual debt amounted to 32.4 million.

Synthetic securitisations acting as originator

Synthetic securitisations envisage, through the contracting of collateral arrangements, the purchase of protection from the credit risk underlying a portfolio of loans, of which the Originator retains full ownership. Thus, the purpose of those transactions is to transfer the credit risk from the Originator to an external counterparty, without derecognising the assets, which are therefore kept in the Originator's financial statements.
The characteristics of these transactions allow regulatory and economic capital to be freed up due to the reduction in the level of risk of the underlying portfolio ("Significant Risk Transfer" pursuant to prudential regulations), thereby contributing to creating value by optimising the use of capital.
The reference regulation for those transactions is EU Regulation no. 575/2013 (Capital Requirements Regulation, "CRR"). Art. 245 of the CRR establishes the conditions at which the Significant Risk Transfer (SRT) criterion is met, i.e. the significant transfer of risk to third parties using collateral or personal guarantees as credit protection. Those conditions must be constantly monitored for the entire duration of the transaction.

QUALITATIVE INFORMATION

The following table shows synthetic securitisation transactions in place as at 31 December 2023.

Guarantor	Originator	Transaction date	Type of securitisation
European Investment Fund	Banco BPM	December 2021	Performing loans
Market investor	Banco BPM	December 2021	Performing loans
Market investors and insurance company	Banco BPM	December 2022	Performing loans
Market investor	Banco BPM	December 2022	Performing loans
Market investor	Banco BPM	June 2023	Performing loans
Market investor	Banco BPM	December 2023	Performing loans
Guarantee Fund for Small and Medium Enterprises	Banco BPM	December 2023	Performing loans

New synthetic securitisation transactions in the year

Synthetic securitisation Large 2023 - Project Grace

In June 2023, Banco BPM concluded a synthetic securitisation transaction with the involvement of two market investors.

The securitised portfolio consists of approximately 3.3 billion in performing loans granted to 226 Corporate companies.
The structure of the transaction envisages, net of retention, the risk of which remains with the Bank in order to meet the requirement of maintaining a net economic interest of at least 5% (retention rule), the subdivision of the portfolio into two tranches with an increasing level of risk, with the junior risk hedged by the investors.
As at 31 December 2023, the portfolio involved in the transaction, including retention, amounted to 2.8 billion euro and the net exposure of Banco BPM was 2.1 billion.

Synthetic securitisation SME 2023 - Project Marlene

In December 2023, Banco BPM concluded a synthetic securitisation transaction with the involvement of three market investors.
The securitised portfolio consists of approximately 2.1 billion in performing loans granted to 7,000 Mid Corporate Plus, Mid Corporate and Small Business companies.
The structure of the transaction envisages, net of retention, the risk of which remains with the Bank in order to meet the requirement of maintaining a net economic interest of at least 5% (retention rule), the subdivision of the portfolio into three tranches with an increasing level of risk, with the mezzanine risk hedged by three market investors.
As at 31 December 2023, the portfolio involved in the transaction, including retention, amounted to 1.9 billion euro and the net exposure of Banco BPM was 1.8 billion.

Synthetic securitisation Tranched Cover - 2001

In December 2023, Banco BPM concluded a Tranched Cover synthetic securitisation transaction, characterised by the release by the Guarantee Fund for small and medium enterprises of a direct personal guarantee to cover the initial losses of a portfolio of around 300 million in new disbursements to SMEs and Mid Caps.
As at 31 December 2023, the portfolio involved in the transaction, including retention, amounted to 283 million and the net exposure of Banco BPM was 226 million.

Outstanding synthetic securitisation transactions

The synthetic securitisation transactions in place as at December 2023 are shown below:
- European Investment Fund 2021 - Project Audrey: transaction completed in December 2021 that provides for the hedging of junior risk by the European Investment Fund. As at 31 December 2023, the portfolio involved in the transaction, including retention, amounted to approximately 800 million in loans to SMEs and Corporate customers and the net exposure of Banco BPM was around 700 million;
- Large Corporate 2021- Project Brigitte: in December 2021, Banco BPM finalised the first transaction concluded with the involvement of a market investor for the hedging of the Junior tranche. As at 31 December 2023, the portfolio involved in the transaction, including retention, amounted to approximately 950 million in loans to Corporate customers and the net exposure of Banco BPM was approximately 750 million;
- Specialized Lending 2022 - Project Sofia: transaction completed in December 2022, which provides for the hedging of junior risk by market investors and mezzanine risk through an insurance policy. As at 31 December 2023, the portfolio involved in the transaction, including retention, amounted to approximately 1.2 billion in Project Finance and Real Estate loans and the net exposure of Banco BPM was approximately 800 million;
- SME 2022 - Project Greta: transaction finalised in December 2022, which provides for the hedging of the Mezzanine tranche by a market investor. As at 31 December 2023, the portfolio involved in the transaction, including retention, amounted to approximately 1.2 billion in loans to SMEs and Corporate customers and the net exposure of Banco BPM was approximately 1 billion.

Transactions closed during the year

As part of the synthetic securitisations finalised in previous years with the European Investment Fund (EIF), concerning loans disbursed to Italian SMEs, in 2023 the transaction finalised in 2020 was closed, with the Bank exercising the early termination option.

Investments in traditional securitisations acting as sponsor

The Group is also active in the market of financing the receivables of its corporate customers through the securitisation of trade receivables in which the Group acts as sponsor, pursuant to Art. 6, paragraph 3 (a) of Regulation (EU) no. 2017/2402, and as senior investor.

QUALITATIVE INFORMATION

New transactions of the period

Securitisation in the energy sector - Sun SPV - lot 3

The securitisation programme concerns trade receivables for a maximum revolving amount of 25 million, 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 21.2 million, 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. The securitisation is currently in the revolving phase.
The Junior class was subscribed by the originator.

The table below shows the total securities issued by the SPE and the part subscribed by Banco BPM.

Class – Type	Nominal issue value	Banco BPM		
		Nominal value subscribed by Banco BPM on the issue date	Outstanding nominal value as at 31/12/2023	Value as at 31/12/2023
Senior security	21,250	21,250	21,202	21,234
Junior security	3,850	-	-	-
Total	**25,100**	**21,250**	**21,202**	**21,234**

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 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. The securitisation is currently in the revolving phase, and the investment as at 31 December 2023 is equal to 16.6 million.

The table below shows the total securities issued by the SPE and the part subscribed by Banco BPM.

Class – Type	Nominal issue value	Banco BPM		
		Nominal value subscribed by Banco BPM on the issue date	Outstanding nominal value as at 31/12/2023	Value as at 31/12/2023
Senior security	16,535	16,535	16,376	16,379
Mezzanine security	2,864	144	143	143
Junior security	736	37	37	37
Total	**20,135**	**16,716**	**16,556**	**16,559**

Outstanding transactions

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, increased to a total of 80 million during 2022, 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, which was then increased to 67.0 million during 2022. The securitisation is currently in the revolving phase, and the investment as at 31 December 2023 is equal to 29.2 million.

The table below shows the total securities issued by the SPE and the part subscribed by Banco BPM.

Class – Type	Nominal issue value	Banco BPM		
		Nominal value subscribed by Banco BPM on the issue date	Outstanding nominal value as at 31/12/2023	Value as at 31/12/2023
Senior security (*)	66,304	66,304	28,845	28,848
Mezzanine security (*)	10,860	545	238	237
Junior security	2,400	120	120	120
Total	**79,564**	**66,969**	**29,203**	**29,205**

(*) The Senior and the Mezzanine Securities are classified as partly paid variable funding.

Investments in traditional securitisations

QUALITATIVE INFORMATION

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 SPEs established pursuant to Italian Law 130/99.
Banco BPM intervened by purchasing all or part of the Senior tranche alone.

New transactions of the period

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 9.57% of the nominal value of the Senior A1 class for a total value of 50.0 million. The transaction is static in nature (i.e. there is no progressive investment - known as the ramp-up period), so Banco BPM's investment as at 31 December 2023 amounted to 36.0 million.

The table below shows the total securities issued by the SPE and the part subscribed by Banco BPM.

Class – Type	Nominal issue value	Banco BPM		
		Nominal value subscribed by Banco BPM on the issue date	Outstanding nominal value as at 31/12/2023	Value as at 31/12/2023
Senior A1 – A2 security	785,700	50,000	35,994	35,977
Mezzanine security	267,600	-	-	-
Junior security	196,407	-	-	-
Total	**1,249,707**	**50,000**	**35,994**	**35,977**

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 the Guarantee Fund 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 Senior A2 class for a total value of 50 million euro. The transaction envisages a progressive investment phase (known as the ramp-up phase) of 12 months, and Banco BPM's investment as at 31 December 2023 amounted to 20.9 million.

The table below shows the total securities issued by the SPE and the part subscribed by Banco BPM.

Class – Type	Nominal issue value	Banco BPM		
		Nominal value subscribed by Banco BPM on the issue date	Outstanding nominal value as at 31/12/2023	Value as at 31/12/2023
Senior A1 security	130,000	-	-	-
Senior A2 security	50,000	50,000	20,872	20,864
Mezzanine security	45,000	-	-	-
Junior security	65,000	-	-	-
Total	**290,000**	**50,000**	**20,872**	**20,864**

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. The transaction does not envisage a progressive investment phase (known as the ramp-up phase), and Banco BPM's investment as at 31 December 2023 amounted to 101.4 million.

The table below shows the total securities issued by the SPE and the part subscribed by Banco BPM.

Class – Type	Nominal issue value	Banco BPM		
		Nominal value subscribed by Banco BPM on the issue date	Outstanding nominal value as at 31/12/2023	Value as at 31/12/2023
Senior security	100,000	100,000	100,000	101,392
Junior security	25,000	-	-	-
Total	**125,000**	**100,000**	**100,000**	**101,392**

<u>San Felice Finance S.r.l.</u>

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. The transaction does not envisage a progressive investment phase (known as the ramp-up phase), and Banco BPM's investment as at 31 December 2023 amounted to 66.1 million.

The table below shows the total securities issued by the SPE and the part subscribed by Banco BPM.

Class – Type	Nominal issue value	Banco BPM		
		Nominal value subscribed by Banco BPM on the issue date	Outstanding nominal value as at 31/12/2023	Value as at 31/12/2023
Senior security	66,120	66,120	66,120	67,008
Junior security	29,681	-	-	-
Total	**95,801**	**66,120**	**66,120**	**67,008**

<u>Golem SPV S.r.l.</u>

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. The transaction does not envisage a progressive investment phase (known as the ramp-up phase), and Banco BPM's investment as at 31 December 2023 amounted to 100.3 million.

The table below shows the total securities issued by the SPE and the part subscribed by Banco BPM.

Class – Type	Nominal issue value	Banco BPM		
		Nominal value subscribed by Banco BPM on the issue date	Outstanding nominal value as at 31/12/2023	Value as at 31/12/2023
Senior security	100,000	100,000	100,000	100,260
Junior security	27,257	-	-	-
Total	**127,257**	**100,000**	**100,000**	**100,260**

Securitisation in the energy sector - Sun SPV – lot 5

The securitisation programme regards trade receivables for a maximum revolving amount of 24.2 million, 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. The securities were issued on 22 December 2023 and Banco BPM's investment as at 31 December 2023 is equal to 0.3 million. The securitisation is currently in the revolving phase.
The Junior class was subscribed by the originator.

The table below shows the total securities issued by the SPE and the part subscribed by Banco BPM.

Class – Type	Nominal issue value	Banco BPM		
		Nominal value subscribed by Banco BPM on the issue date	Outstanding nominal value as at 31/12/2023	Value as at 31/12/2023
Senior security (*)	24,193	24,193	283	283
Total	**24,193**	**24,193**	**283**	**283**

(*) *The Security is classified as partly paid.*

Outstanding transactions

General SPV securitisation

The securitisation programme concerns the sale without recourse of loans to General SPV S.r.l., 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 (corresponding to the maximum credit line commitment) for a class with a nominal value of 100 million, 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 36.4 million.

The table below shows the total securities issued by the SPE and the share subscribed by Banco BPM.

Class – Type	Nominal issue value	Banco BPM		
		Nominal value subscribed by Banco BPM on the issue date	Outstanding nominal value as at 31/12/2022	Value as at 31/12/2022
Senior Security – Class A1, A2(*)	400,000	-	-	-
Senior Security – Class A3(*)	100,000	50,000	36,323	36,393
Mezzanine Security – Class B1, B2, B3	53,000	-	-	-
Junior Security(**)	37,000	-	-	-
Total	**590,000**	**50,000**	**36,323**	**36,393**

(*) *The Senior Security is classified as partly paid variable funding.*

SPV Project 2011 S.r.l.

The transaction regards 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 of the Senior tranche. The securitisation is currently in the security repayment phase and the residual investment as at 31 December 2023 amounts to 3.7 million.

The table below shows the total securities issued by the SPE and the part subscribed by Banco BPM.

Class – Type	Nominal issue value	Banco BPM		
		Nominal value subscribed by Banco BPM on the issue date	Outstanding nominal value as at 31/12/2023	Value as at 31/12/2023
Senior security (*)	16,500	15,675	3,589	3,669
Junior security	9,068	-	-	-
Total	**25,568**	**15,675**	**3,589**	**3,669**

(*) The Senior Security is classified as partly paid.

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 so-called 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.

The table below shows the total securities issued by the SPE and the part subscribed by Banco BPM.

Class – Type	Nominal issue value	Banco BPM		
		Nominal value subscribed by Banco BPM on the issue date	Outstanding nominal value as at 31/12/2023	Value as at 31/12/2023
Class A - Senior (*)	285,000	51,600	42,701	41,010
Class B - Mezzanine (*)	28,000	-	-	
Class C - Junior	35,000	-	-	-
Total	**348,000**	**51,600**	**42,701**	**41,010**

(*) The Senior and the Mezzanine securities are classified as partly paid.

Igloo SPV S.r.l.

The transaction regards a portfolio of loans granted to SMEs and Mid-Caps, secured by a guarantee of the Central Guarantee Fund for SMEs or by SACE, as envisaged by the provisions of the law issued following the Covid-19 emergency.

Banco BPM subscribed a nominal amount of 35 million 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 21.9 million.

The table below shows the total securities issued by the SPE and the part subscribed by Banco BPM.

Class – Type	Nominal issue value	Banco BPM		
		Nominal value subscribed by Banco BPM on the issue date	Outstanding nominal value as at 31/12/2023	Value as at 31/12/2023
Class A1, A2 – Senior	134,700	35,000	22,768	21,901
Class B – Upper Mezzanine	23,300	-	-	
Class Y – Lower Mezzanine	7,800	-	-	
Class J – Junior	4,200	-	-	-
Total	**170,000**	**35,000**	**22,768**	**21,901**

(*) The Senior and the Mezzanine securities are classified as partly paid.

Transactions closed during the year

As part of the investments in third-party securitisations completed in previous years, it should be noted that in 2023 the "Steel Sector Securitisation - SPV Project 2104" transaction was closed, following the redemption of the securities in June.

QUANTITATIVE INFORMATION

C.1 Prudential consolidation - Exposures deriving from the main "own" securitisation transactions broken down by type of securitised asset and by type of exposure

On-balance sheet exposures

Type of securitised assets/Exposures	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
	Book value	Losses/ Recoveries	Book value	Losses/ Recoveries	Book value	Losses/ Recoveries
A. Fully derecognised	**1,496,319**	**(2,569)**	**10,168**	**-**	**976**	**-**
Non-performing assets:						
A.1 Bad loans	1,496,319	(2,569)	10,168	-	976	-
Performing assets:						
A.2 Leases	-	-	-	-	-	-
B. Partially derecognised	**-**	**-**	**-**	**-**	**-**	**-**
C. Not derecognised	**6,898,752**	**(8,572)**	**74,932**	**-**	**142,134**	**(65)**
Non-performing assets:						
C.1 Loans	**-**	**-**	74,932	**-**	**126,500**	**-**
Performing assets:						
C.2 Residential mortgage loans	-	-	-	-	188	-
C.3 Loans to businesses (*)	6,898,752	(8,572)	-	-	15,446	(65)

(*) The sub-item "Loans to businesses" relates to the synthetic securitisation transaction. As at 31 December 2023, the value of the retention withheld by Banco BPM is equal to 1,735.7 million.

Credit lines

Type of securitised assets/Exposures	Credit lines					
	Senior		Mezzanine		Junior	
	Book value	Losses/ Recoveries	Book value	Losses/ Recoveries	Book value	Losses/ Recoveries
A. Fully derecognised	**-**	**-**	**-**	**-**	**-**	**-**
Non-performing assets:						
A.1 Bad loans	-	-	-	-	-	-
Performing assets:						
A.2 Leases	-	-	-	-	-	-
B. Partially derecognised	**-**	**-**	**-**	**-**	**-**	**-**
C. Not derecognised	**9,995**	**(5)**	**-**	**-**	**-**	**-**
Non-performing assets:						
C.1 Loans	9,995	(5)	-	-	-	-
Performing assets:						
C.2 Residential mortgage loans	-	-	-	-	-	-
C.3 Loans to businesses	-	-	-	-	-	-

The part of the table relative to the guarantees issued is omitted inasmuch as there are none.

C.2 Prudential consolidation - Exposures deriving from the main "third party" securitisation transactions broken down by type of securitised asset and by type of exposure

Type of securitised assets/Exposures	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
	Book value	Losses/ Recoveries	Book value	Losses/ Recoveries	Book value	Losses/ Recoveries
A.1 BNT PORT 14-42 TV					15,099	
Mortgage loans FV						
A.2 PHARMA FIN.SRL TV 28	153		4,521			
Other FV						
A.3 FAW3 SPV 23 A-1-S 2% (*)	12,516	(5)				
Loans						
A.4 SUN SPV 21-28 TV A	28,848	(4)	237		120	
Loans						
A.5 SUN SPV 23-30 TV A	21,234	(11)				
Loans						
A.6 GENER. SPV TV 22-31A3	36,393	(28)				
Loans						
A.7 PERSEVER. 21-31 TV A	41,010	(2,172)				
Loans						
A.8 IGLOO 21-31 TV A1	21,901	(876)				
Loans						
A.9 SPV PROJ 21-28 TV A	3,669	(6)				
Loans						
A.10 TRICOLORE 19 SPV A2	20,864	(20)				
Loans						
A.11 ALBA 13 SPV TV 22 A1	35,977	(35)				
Loans						
A.12 LUMEN SR ABS 20-26TV	2,396	(2)				
Loans						
A.13 SUN SPV 23-30 TV A	16,379	(2)	143		37	
Loans						
A.14 SUN SPV 23-31 TV J	283					
Loans						
A.15 PONTORMO A 43 TV	101,392	(21)				
Loans						
A.16 SANFELICE F. TV 63 A	67,008	(51)				
Loans						
A.17 GOLEM CL A 63 TV	100,260	(98)				
Loans						

(*) This was a single tranche, typically indicated as a Senior security.

Type of securitised assets/Exposures	Credit lines					
	Senior		Mezzanine		Junior	
	Book value	Losses/ Recoveries	Book value	Losses/ Recoveries	Book value	Losses/ Recoveries
A.5 FAW3 SPV 23 A-1-S 2% (*)	1,250					
Loans						

(*) This was a single tranche, typically indicated as a Senior security.

The part of the table relative to the guarantees issued is omitted inasmuch as there are none.

Exposures deriving from third party securitisation transactions amounted to 530.4 million, of which 20.3 million is classified in the portfolio of "Financial assets at fair value through profit and loss c) other financial assets mandatorily measured at fair value", and the remaining 510.1 million in the portfolio of "Financial assets at amortised cost". For the main exposures, please refer to the previous paragraphs "Investments in traditional securitisations acting as sponsor" and "Investments in traditional securitisations".

The exposure relative to "BNT Port 14-42 TV", classified under "Financial assets at fair value through profit and loss: c) other financial assets mandatorily measured at fair value" is referred to instead in the following paragraph.

C.3 Prudential consolidation - Shareholdings in securitisation SPEs

The SPEs in which the Banking Group companies have been involved in the structuring activity and in which a shareholding is held are illustrated below.
They are, in particular, SPEs created to finalise their own securitisation transactions, as described in "Part A – Accounting policies", "3. Scope of consolidation and methods", the separate capital is consolidated inasmuch as the Group holds contractual rights for the management of the entity's relevant assets and is exposed to the variable returns of the same, regardless of the voting rights.
In addition, the shareholding in the company "BNT Portfolio SPV" is worth mentioning. This is an SPE established in 2014 for the securitisation of agricultural loans of Banca della Nuova Terra, financed by the issue of a single tranche of securities for a nominal value of 397.8 million subscribed by the member banks of Banca della Nuova Terra, including the former Banco Popolare. Under the agreements entered into, the former Banco Popolare had subscribed the said security for a nominal value of 84.6 million; as at 31 December 2023, the fair value of the security, posted under the "Financial assets at fair value through profit and loss: c) other financial assets mandatorily measured at fair value" came to 15.1 million net of collections.

The following table shows all the assets and liabilities of the separate capital of the SPE.

Name of Securitisation/ Name of SPE	Registered office	Consolidation	Assets			Liabilities		
			Loans	Debt securities	Other	Senior	Mezzanine	Junior
BNT Portfolio SPV S.r.l.	Milan	no	106,524	-	9,436	-	-	231,625
BP Mortgages Jun 2007	Milan	accounting	-	-	227,516	-	-	-

C.4 Prudential consolidation - Non-consolidated SPEs for securitisation

Non-consolidated SPEs for securitisation are those in which the Group does not hold any equity interest. For each of these SPEs, used for transactions in which the Group acts as originator, the table below shows the Group's assets and liabilities due to and from those SPEs, mainly attributable to the Senior securities subscribed by the Group, classified in the portfolio of "Loans to customers".

In this regard, it is noted that these companies have no off-balance sheet exposures, non-revocable credit facilities or financial guarantees; therefore the maximum exposure to the risk of loss corresponds to the difference between the assets and liabilities held in respect of the SPE. The only exception was the SPE Lilium, to which a credit line of 10 million was granted, which had not been drawn down as at 31 December.

(thousands of euro)	Red Sea SPV	Leviticus SPV	Tiberina SPV	Titan SPV	Aurelia SPV	Tevere SPV	Lilium SPV (*)
Total assets	**627,384**	**588,337**	**982**	**19,951**	**213,547**	**57,286**	**-**
Other financial assets mandatorily measured at fair value	2,994	4,667	982	74	682	1,745	-
Loans to customers	624,378	583,656	-	19,877	212,865	55,542	-
Other asset items	12	13	-		-	-	-
Total liabilities	**4,621**	**-**	**-**	**-**	**38**	**-**	**18,295**
Guarantees given and commitments	4,621	-	-	-	38	-	-

(thousands of euro)	Red Sea SPV	Leviticus SPV	Tiberina SPV	Titan SPV	Aurelia SPV	Tevere SPV	Lilium SPV *
Net interest income	26,941	13,776	603	379	3,915	1,691	224

(*) The liability towards Lilium SPV of 18.3 million is represented by the payable recognised against the loans sold to the SPE but not derecognised from the financial statements to substantially maintain the risks and benefits, net of the securities held by Banco BPM as at 31 December 2023. In light of the above, in the assets portfolio, no exposure in securities towards the SPV is reported.

C.5 Prudential consolidation - Servicer activities – own securitisations: collections of securitised loans and redemptions of securities issued by the SPE for the securitisation

In 2023, the Group did not act as a servicer for its own securitisation transactions in which the assets sold were derecognised from the financial statements.

C.6 Prudential consolidation - Consolidated SPEs for securitisation

There are no SPEs for securitisation that are part of the Banking Group.

D. Sale transactions

A. Financial assets sold and not fully derecognised

QUALITATIVE INFORMATION

As at 31 December 2023, the following sale transactions did not involve the derecognition from the financial statements of the underlying financial assets:

- securitisation transactions of credit exposures to customers (219 million);
- repurchase agreements payable on treasury securities mainly classified in the portfolio of “Financial assets measured at fair value through other comprehensive income” and “Financial assets at amortised cost”.

For repurchase agreements, the non-derecognition of the security of the repurchase agreement derives from the fact that the Bank substantially holds the risks and rewards linked to the security, having the obligation of the forward repurchase at a contractually established price. Therefore the securities transferred continue to be represented in the relative accounting portfolio; the payment for the sale is posted under the “Financial liabilities at amortised cost: a) due to banks or b) due to customers”, according to the type of counterparty. To this regard, it must be noted that the following table does not include the repurchase agreements payable on securities not posted in the financial statements, if its availability is consequent to reverse repurchase agreements (see the paragraph “Other information” in Part B of these Notes).

The securitisation transactions described in the preceding paragraph “C. Securitisation transactions” are not derecognised due to the Group’s subscription of the tranches of Junior securities or similar exposures which involve the first loss risk for the Group and, similarly, the reward linked to the yield of the portfolio of the transferred assets. The payment collected for the transfer is posted as a balancing entry of a payable due to the SPE, net of the tranches of the underlying securities subscribed or the use of forms of liquidity support for the SPE for the payment of the principal. The loan to the SPE, thus posted, will decrease by effect of the sums collected from the originator and transferred to said SPE.

QUANTITATIVE INFORMATION

D.1 Prudential consolidation - Fully recognised financial assets sold and associated financial liabilities: book values

	Fully recognised financial assets sold				Associated financial liabilities		
	Book value	of which: subject to securitisation transactions	of which: subject to repurchase agreements	of which non-performing	Book value	of which: subject to securitisation transactions	of which: subject to repurchase agreements
A. Financial assets held for trading	**638,648**	**-**	**638,648**	**X**	**610,651**	**-**	**610,471**
1. Debt securities	78,964	-	78,964	X	79,004	-	79,004
2. Equity instruments	559,684	-	559,684	X	531,647	-	531,467
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value	**219,000**	**219,000**	**-**	**219,000**	**18,295**	**18,295**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	219,000	219,000	-	219,000	18,295	18,295	-
C. Financial assets designated at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**5,053,727**	**-**	**5,053,727**	**-**	**5,017,774**	**-**	**5,017,774**
1. Debt securities	5,053,727	-	5,053,727	-	5,017,774	-	5,017,774
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets at amortised cost	**15,858,000**	**-**	**15,858,000**	**-**	**15,567,330**	**-**	**15,567,330**
1. Debt securities	15,858,000	-	15,858,000	-	15,567,330	-	15,567,330
2. Loans	-	-	-	-	-	-	-
Total 31/12/2023	**21,769,375**	**219,000**	**21,550,375**	**219,000**	**21,214,050**	**18,295**	**21,195,575**
Total 31/12/2022	**10,412,297**	**364,709**	**10,047,588**	**14,120**	**9,897,656**	**49,554**	**9,848,102**

D.2 Prudential consolidation - Partly recognised financial assets sold and associated financial liabilities: book values

As at 31 December 2023 there were no partly recognised financial assets sold or associated financial liabilities.

D.3 Prudential consolidation - Sale transactions with liabilities with recourse only against the assets sold and not fully derecognised: fair value

This table shows the fair value of assets and related liabilities resulting exclusively from securitisation transactions, inasmuch as they are considered the only types existing for the Group in which the transferor, i.e. the SPE, has exclusive recourse against the transferred assets, being in fact the only cash flows available for the payment of the securities issued.

	Fully recognised	Partly recognised	Total	
			31/12/2023	31/12/2022
A. Financial assets held for trading	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-
2. Equity instruments	-	-	-	-
3. Loans	-	-	-	-
4. Derivatives	-	-	-	-
B. Other financial assets mandatorily measured at fair value	**219,000**	**-**	**219,000**	**222,219**
1. Debt securities	-	-	-	-
2. Equity instruments	-	-	-	-
3. Loans	219,000	-	219,000	222,219
C. Financial assets designated at fair value	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-
2. Loans	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-
2. Equity instruments	-	-	-	-
3. Loans	-	-	-	-
E. Financial assets at amortised cost (fair value)	**-**	**-**	**-**	**135,631**
1. Debt securities	-	-	-	-
2. Loans	-	-	-	135,631
Total financial assets	**219,000**	**-**	**219,000**	**357,850**
Total associated financial liabilities	**18,295**	**-**	**X**	**X**
Net value as at 31/12/2023	**200,705**	**-**	**219,000**	**X**
Net value as at 31/12/2022	**308,296**	**-**	**X**	**357,850**

B. Financial assets sold and fully derecognised with recognition of continuing involvement

The Group has none of this type at the reporting date.

C. Financial assets sold and fully derecognised

Multi-originator sales of loans to mutual investment funds

This Section provides the qualitative and quantitative information relating to multi-originator sales of loan portfolios made by the Group during 2023 and in previous years, attributable to the scheme of sale to a mutual investment fund with allocation of the relative units to Group itself.

QUALITATIVE INFORMATION

Main objectives

In general, the business and strategic objective in this case is to assign the management of several exposures classified as high risk to specialist, independent operators (i.e. represented by asset management companies, hereinafter also "SGR"), which, through changes in management, should enable more effective company turnaround than what the Bank could achieve by continuing to manage its own exposure. The strategies pursued by the asset management company specifically focus on managerial leverage that is difficult for single banks to activate, such as, merely by way of example: converting the loans into equity, joining the management bodies of the companies to carry out effective operational turnaround, developing distressed M&A operations to safeguard the value of the companies through business partnerships, directly repossessing the property in the case of real estate operators and, lastly, third party investors contributing new financing to relaunch the companies.
In that view, the intervention of an asset management company enables the creation of suitable mechanisms to safeguard the rights of the contributing banks, through the powers assigned to specific investor committees. In addition, in order to align the interests of the asset management company with those of the contributing banks, the structure of fees to the asset management company generally entails management fees consistent with the net assets of the fund, as well as performance fees or a carried interest on the extra yield of the transaction.

Accounting treatment

In accounting terms, pursuant to the accounting standard IFRS 9, the above sale transactions resulted in the derecognition of the loans sold, as the Group did not substantially retain the risks or rewards of the transferred assets, and also did not retain any substantial control over the assets, as the control was instead assumed by the fund management company. In particular, the risks and rewards that the Group may obtain from the units held in exchange for the loans are not anchored to the occurrence, amount or timing of the events that involve the loans sold, given that the economic and financial dynamics linked to the single loans will not automatically or directly influence the returns of individual unitholders (including Banco BPM) which, instead, will depend on the general performance of the fund managed by the asset management company. In that regard, it must be noted that, as these are multi-originator transactions, the loans contributed by the single participants may differ from those contributed by other participants and, where these concern the same debtor, may also change the percentage of exposure contributed by each participant.
In relation to said derecognition, the fund units obtained as a conversion from the sale were recognised in the accounting portfolio of "Other financial assets mandatorily measured at fair value". The difference between these derecognised loans and the recognition value of the fund units was recognised in the income statement as an effect of the loans, based on the regulations set out in paragraph 3.2.12 of the accounting standard IFRS 9.
With regard to the need to consolidate the mutual funds subscribed - in line with that illustrated in "Part A – Accounting policies" with regard to the requirements of the accounting standard IFRS 10 for holding control over an entity - no funds were identified that required consolidation. Based on the powers assigned to the bodies establishing the fund (Board of Directors, Investors Committee, Investors' Meeting) and the majorities required to pass the related resolutions, no funds were identified in which the Group is deemed to hold the power to manage significant activities.

New transactions of the period

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

Project Starfighter is a transaction aimed at the development of real estate in the Milan Santa Giulia area owned by Risanamento S.p.A. (hereinafter Risanamento), in view of the upcoming 2026 Winter Olympics, while also deconsolidating Risanamento's cash exposure to the banking sector.
This transaction is part of a recovery plan pursuant to Art. 56 of Decree Law no. 14 of 12/01/2019 (Corporate Crisis Code).
In particular, through a complex corporate transaction, on 30 June 2023 the sale was finalised of the Milan Santa Giulia area to a closed-end real estate mutual investment fund in the establishment phase, "Lendlease Msg Heartbeat", managed by Lendlease Italy Sgr, for total consideration of 648 million, through the discharge by the fund of Risanamento payables to banks for 528 million (566 million including a shareholder loan of 38 million).

The transaction therefore called for the transfer by the banks of their receivables due from Risanamento to the above-mentioned fund, and the simultaneous subscription of the shares issued.

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

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

<u>Accounting treatment</u>

To estimate the fair value of the units, the simple equity method or Net Asset Value method was used, which reduces the value of a company to the market value of the assets held net of liabilities. The decision to adopt this approach is based on the consideration that in the valuation of the assets making up the equity, all the value components of the company are already present: market value and expectations of income flows.
According to the provisions of IFRS 13 and the accounting policies adopted by BBPM, with reference to real estate funds, the NAV indicates the fair value of the fund.
In light of the balance sheet as at 30 September 2023 provided by the Fund's asset management company, the NAV is equal to 631 million.
In order to determine the value of the individual Fund units, the NAV was allocated among the various classes of units, taking into account the characteristics of the real estate development project in the area and the contractual characteristics of the units. In particular, the allocation of the NAV was carried out as follows:

- Step 1: allocation of the NAV on class A1 units which, based on the characteristics of the cash waterfall envisaged in the contract, are the most senior unit class entitled to receive the repayment of capital and an annual remuneration of 7.2%;
- Step 2: subsequently, the residual NAV was allocated to the class A2 units, which, based on the cash waterfall, are entitled to the repayment of the principal and a return calculated as the higher between IRR of 18% and MoM of 1.35x (at the reference date a return calculated on MoM of 1.35x is higher than the calculation based on an annual IRR of 18%);
- Step 3: lastly, 65% of the residual NAV (after steps 1 and 2) was allocated to class B2 units and 35% to class A2 units.

For the sole purpose of determining the fair value of the class B2 units, in consideration of the risk factors underlying the real estate development project reported in the IBR and given the characteristics of the class B2 units, which on the basis of the cash waterfall are subordinated to class A1 and A2 units, a sensitivity analysis was conducted with respect to their fair value. For this purpose, the Guarantee Value1 of the Area was used as reference, reported in the appraisal issued by CBRE Valuation S.p.A. (CBRE) with reference to the date of 30 June 2023.
Taking into account the nature of the valuation method described, the fair value as at 31 December 2023 of the class B2 units held by Banco BPM is 59 million.

City Regeneration Fund - Class B (Redo SGR Benefit Corporation)

The holding of the fund in question represents the contribution made by Banco BPM against the non-recourse sale of credit exposures to MilanoSesto SpA (hereinafter also MilanoSesto or the company).
The aforementioned sale is part of a broader and more complex transaction - which involves a number of leading Italian banks financing MilanoSesto, including Banco BPM - with a view to unfreezing the implementation of the urban regeneration project of the former industrial areas "ex Falck", with a surface area of over 1 million square metres, and allowing the company, substantially discharged from debt, to meet the commitments undertaken with

public and private entities, guaranteeing operational continuity for the realisation of the project in this area. The transaction envisages both a financial manoeuvre, through the discharge of MilanoSesto, and an industrial manoeuvre carried out through the change of control of the company and the acquisition of the portion of residential construction affiliated with the Unione Zero Fund.
More specifically, from an industrial perspective, the transaction envisages the entry into the share capital of MilanoSesto - through its parent company Hines Iron MilanoSesto Associates LLC - of the new shareholders Redo SGR Società benefit (Redo) and COIMA SGR (COIMA) through SPEs managed by them, respectively the Redo Sesto Fund (RSF Fund) and COIMA Sesto Fund (CSF Fund), with a view to recapitalising the company and relaunching the aforementioned urban regeneration project.
From a financial perspective, the manoeuvre envisages the conversion into equity of the total credit exposure held by the lending banks, amounting to approximately 900 million.
More specifically, the transaction envisages that the lending banks subscribe to the RSF and CSF Funds, through the contribution of the receivables due from MilanoSesto totalling approximately 500 million, equally divided between the two funds. The latter are qualified as real estate funds, in consideration of the subsequent conversion of the receivables acquired into equity instruments of MilanoSesto, subject to the transformation of MilanoSesto into a fixed capital investment company ("SICAF").
It is also envisaged that the units of the RSF Fund will be contributed to the City Regeneration Fund (hereinafter also "Re-City Fund"), again managed by Redo and the units of the CSF Fund will be contributed to the COIMA ESG City Impact Fund (CECIF Fund), again managed by COIMA, with the subscription by the lending banks of a dedicated class of newly issued units.
Lastly, the financial manoeuvre envisages that the remaining credit exposure held by another leading bank, amounting to approximately 400 million, is converted into participating financial instruments of MilanoSesto.
In the context of the complex transaction illustrated above, Banco BPM's intervention was carried out through the sale of the credit exposure towards MilanoSesto, amounting to 45.6 million, to the RSF fund with subsequent contribution to the Re-City fund. The transfer value of the shares, supported by the fairness opinion drawn up by the expert appointed by the asset management company, was equal to the nominal value of the receivables, taking into account that the value of the real estate complex constituted as collateral for the receivables was considered more than sufficient with respect to the value of the receivables sold.
This is an alternative closed-end real estate investment fund reserved to qualified investors, whose operations were launched in December 2021. The purpose of the Fund is to make sustainable investments pursuant to Art. 9 of Regulation (EU) 2019/2088 (so-called "Fund pursuant to Art. 9 SFDR"), in real estate initiatives aimed at urban regeneration and which have a social impact, in order to promote adequate living conditions for independent elderly people and to promote the availability and accessibility of apartments, to be rented or sold, at lower prices than those of the market.

Accounting treatment

On 10 November 2023, the receivables sold were derecognised from the financial statements, as a balancing entry to the recognition of the units of the Fund.
The estimate of the fair value of the fund units, based on the provisions of IFRS 13, was carried out on the basis of the Net Asset Value Method, which aligns the value of a company to the market value of the underlying assets held or attributable to the same. The reasons for the choice of this method are based on the conviction that in the valuation of the assets making up the fund's equity, all the value components of the company are already present: market value and expected income flows.
In this case, the NAV of the fund allocated to the unit class held by Banco BPM (class B), based on the waterfall envisaged by the Regulation, was in line with the nominal value of the receivable contributed, equal to 45.6 million. The aforementioned initial recognition value was also confirmed for 31 December 2023, in the absence of new information in the short period of time with respect to the completion of the transaction.

Eleuteria Fund (Prelios SGR)

On 18 November 2023, the closing of the "Project Eleuteria" transaction was completed through the sale, as part of a broader process, of a portfolio of UTP receivables due from SMEs to a closed-end credit fund, the "Eleuteria Fund", managed by Prelios Italy SGR S.p.A. and the simultaneous subscription of the fund units.
Project Eleuteria is a multi-originator Platform promoted by Prelios to manage "Corporate Small & Medium Size" loans classified as unlikely to pay (UTP), and deriving from loans and credit lines of different technical forms granted

to companies (including those not fully disbursed/used at the time of sale, unless revoked) that present different risk profiles in terms of reference industrial sector and geographical distribution.

Following the sale of the above-mentioned loans, Banco BPM received 15.77 units with a nominal value of 420 thousand each, with a share of the portfolio, at the subscription date of 7.7% and a fair value of 5.5 million.

Accounting treatment

Based on the Discounted Cash Flow method, the fair value is obtained by analysing the expected cash flows from the recovery of the overall exposures held by the fund at a discount rate determined using the Weighted Average Cost of Capital ("WACC") method.
In detail, the WACC is the calculation procedure that identifies the rate representing the weighted average cost of capital, and expresses the remuneration requested by investors for a purchase at normal market conditions of a similar asset to the one being valued.

In particular, the WACC was calculated by applying the following formula:

$$WACC=Ke * (E/(D+E)) + Kd * (1-t) * (D/(D+E)) + IRP$$

where:

Ke = β*(Mrp)+Rf : represents the cost of capital, calculated using the Capital Asset Pricing Model (CAPM), based on which the return on a risk asset is equal to the sum of a risk-free rate (Rf) and an adequate risk premium, determined based on the indicator β, as illustrated in greater detail below;
β: Beta ratio, which indicates the risk of a specific equity instrument out of the stock market as a whole. To that end, the unlevered adjusted β for the sector in which the single companies subject to sale operate was considered, weighting the result obtained based on the weight of each credit exposure out of the total;
Mrp: represents the premium, i.e. the differential yield requested by investors for an investment in equity securities with respect to a risk-free investment. To that end, the implied equity risk premium is considered (source: Damodaran);
Rf: represents the risk-free rate, i.e. the yield on risk-free assets identified based on the yield of 10-year Italian government securities (source: Bloomberg);
Kd: represents the cost of debt, determined based on the rate of the new financing envisaged in the individual transactions. Where there are numerous rates, an average weighted rate was calculated;
t: represents the tax rate;
(E/(D+E) and (D/(D+E): represents the financial structure of each operation, in terms of the combination of capital (E: Equity) and debt (D: Debt);
IRP: represents the illiquidity discount depending on the maturity of the Fund.

The fair value determined this way is classified in level 3 of the fair value hierarchy envisaged by the accounting standard IFRS 13, as it is significantly influenced by discretionary parameters not observable on the market.

Based on the DCF method, the table below sets out a sensitivity analysis of the fair value of the Eleuteria Fund in relation to changes in the most significant non-observable input, which, in this case, is represented by cash flows of the fund from recovery (a positive or negative change of 5% was considered) and the cost of capital Ke (a positive or negative change of 1% was considered).

Eleuteria Fund
Change in fair value in absolute value (and percentage) as a result of changes of +1%/-1% and of +5%/-5%, respectively, in expected cash flows

(in thousands of euro)		Ke -1%	Ke%	Ke +1%
Change in cash flows	**+5%**	+654 (+9%)	+318 (+5%)	+5 (+0%)
	0	+320 (+5%)	-	-298 (-5%)
	-5%	-14 (-0%)	-318 (-5%)	-601 (-9%)

QUANTITATIVE INFORMATION

Breakdown of units of mutual investment funds held as at 31 December 2023

As at 31 December 2023, the value of mutual investment funds in the financial statements deriving from the transactions in question totalled 313.7 million (211.4 million as at 31 December 2022), fully referring to the Parent Company.

The change in 2023 is attributable to the net balance between new subscriptions of 156.9 million, to distributions received by the SGRs for (-37.4 million), as well as valuation effects, which overall were a negative 17.2 million.

The table below provides the breakdown of funds held, indicating the fund management company, the first closing date and the subsequent contributions, as well as the investment policy followed by the fund.

Fund name	Book value as at 31/12/2023 (*)	Asset Management Company	First closing date/subsequent contributions	Fund investment policy
IDeA Corporate Credit Recovery I	1,308	Dea Capital Alternative Funds SGR	23 June 2016 27 June 2017 4 July 2019	Past due loans, unlikely to pay or corresponding or similar categories of loans and/or loans subject to restructuring disbursed to target companies, participating financial instruments or shares issued by the above and, possibly, short-term loans deriving from self-liquidating credit lines granted to said target companies
IDeA Corporate Credit Recovery II	24,777	Dea Capital Alternative Funds SGR	28 December 2017 18 February 2019 4 April 2023	Past due loans, unlikely to pay or corresponding or similar categories of loans and/or loans subject to restructuring disbursed to target companies, from participating financial instruments or shares issued by the above and, possibly, short-term loans deriving from self-liquidating credit lines granted to said target companies
IDeA Corporate Credit Recovery II – USD Shipping segment	6,070	Dea Capital Alternative Funds SGR	21 December 2018	Past due loans, unlikely to pay or corresponding or similar categories of loans and/or loans subject to restructuring disbursed to target companies operating in the field of shipping and maritime transport, without specific sector restrictions, from participating financial instruments or shares issued by the above and, possibly, short-term loans deriving from self-liquidating credit lines granted to said target companies
Clessidra Restructuring Fund	19,893	Clessidra SGR	25 September 2019	Past due loans, unlikely to pay, forborne performing and non-performing loans, performing high risk loans disbursed to target companies, from participating financial instruments/shares/convertible bonds issued by said companies, loans disbursed in the form of debtor in possession financing transactions to support the target companies in restructuring the debt disbursed
Back2bonis	58,358	Prelios SGR	23 December 2019 20 December 2021 27 December 2023	Untranched asset backed securities issued as part of securitisation transactions carried out pursuant to Law 130/99, whose underlying is represented by receivables mainly classifiable as "unlikely to pay" loans, not due from consumer debtors, as well as loans disbursed to those debtors as part of debt restructuring transactions, recovery and/or turnaround and/or similar operations or as part of repossessions and similar actions on collateral
iCCT Fund	29,193	Illimity SGR	3 October 2022 24 March 2023 18 December 2023	Unlikely to Pay loans disbursed to "Corporate Large & Medium Size" customers deriving from loans granted to companies in financial distress. The purpose of the transaction is to ensure a more proactive and effective management of secured loans, through i) the disbursement of new loans where deemed necessary to develop the business and/or rebalance the corporate debt, ii) the possibility of intervening directly in the equity of the target companies, changing their governance and guiding restructuring processes, and iii) a better and more effective restructuring of the company, exploiting the specific skills of the Group of the assignee SGR.
Efesto Fund	33,053	FinInt SGR	6 July 2022 16 November 2022 22 December 2023	Unlikely to Pay and non-performing loans disbursed to "Corporate Large & Medium Size" customers deriving from loans granted to companies in financial distress. The purpose of the transaction is to ensure a more proactive and effective management of secured loans, through i) turn-around activities and extraordinary distressed M&A transactions, disbursement of new finance and private equity-style management, ii) settlement activities out-of-court and in the structuring of composition procedures.

Fund name	Book value as at 31/12/2023 (*)	Asset Management Company	First closing date/subsequent contributions	Fund investment policy
UTP Italia Fund	30,068	Sagitta SGR	11 November 2022	Unlikely to Pay and, to a lesser extent, non-performing loans disbursed to "Small-Medium" customers deriving from loans granted to retail entities and SMEs in financial distress. The aim of the transaction is to ensure a more proactive and effective management of secured loans, through i) the disbursement of new loans where deemed necessary to develop the business and/or rebalance the counterparty's indebtedness, ii) a better and more effective restructuring of the borrower, taking advantage of the specific skills of the Group of the assignee SGR and iii) proactive management of the loan portfolio according to the principles of ethical management of exposures inspired by the ESG framework.
Lendlease Msg Heartbeat (**)	59,000	Lendlease Italy Sgr	30 June 2023	Unlikely to Pay loans disbursed to the Risanamento group. The purpose of the transaction is to unblock the implementation of the real estate project in the Santa Giulia area owned by Risanamento. The MSG project promoted by Risanamento is one of the main urban redevelopment initiatives and involves the development of buildings for different uses, with the involvement of the Lendlease Group (LL).
Eleuteria Fund	6,366	Prelios SGR	18 November 2023	Unlikely to Pay loans disbursed to "Small-Medium" customers deriving from loans granted to retail entities and SMEs in financial distress. The aim of the transaction is to ensure a more proactive and effective management of secured loans, through i) the disbursement of new loans where deemed necessary to develop the business and/or rebalance the counterparty's indebtedness, ii) a better and more effective restructuring of the borrower, taking advantage of the specific skills of the Group of the assignee SGR and iii) remediation of the economic conditions, thanks to support in the turnaround of the company.
City Regeneration Fund - Class B (**)	45,621	Redo SGR Società benefit	10 November 2023	This is an alternative closed-end real estate investment fund reserved to qualified investors, with the aim of making sustainable investments pursuant to Art. 9 of Regulation (EU) 2019/2088 (so-called "Fund pursuant to Art. 9 SFDR"), in real estate initiatives aimed at urban regeneration and which have a social impact. The management is entrusted to Redo SGR Società benefit (benefit corporation), a leading company in affordable housing and in urban regeneration with a social impact.

(*) Assets included in the financial statement item "20 c. Financial assets at fair value through profit and loss - other financial assets mandatorily measured at fair value".
(**) Real estate funds based on the real estate development underlying the completion of the transaction

It is also specified that the fund units held represent the Group's maximum exposure to risk; with regard to the above transactions, there are no guarantees or irrevocable credit lines issued to the fund, nor are there commitments to subscribe additional units of the fund.

Lastly, for the transactions carried out through the scheme of the sale of receivables to a securitisation SPE pursuant to Law 130/99 and the concurrent subscription of ABS by the originators, refer to that illustrated in "C. Securitisation transactions" above.

Significant events during the year

Credit & Corporate Turnaround Fund (Illimity SGR)

On 24 March 2023, Banco BPM made a marginal contribution for an equivalent value of 0.9 million against a total gross value transferred of 1.9 million relating to a receivable classified as UTP.
The initial recognition value is 0.9 million against a value recorded in units of 1.1 million.
On 18 December 2023, Banco BPM made a further marginal contribution for an equivalent value of around 4 million against a total gross value transferred of 10.5 million relating to a receivable classified as UTP.
The initial recognition value is 4.0 million against a value recorded in units of 5.6 million.
The contributions illustrated are part of a broader system transaction, which allowed the entire company to be restructured against the contribution to the Fund of the majority of the exposure.
As at 31 December 2023, the total fair value of the fund was 29.2 million.

IDeA Corporate Credit Recovery II

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

Efesto Fund (Finint SGR)

On 22 December 2023, Banco BPM sold two receivables (a lease receivable and a pool loan), to be used for the restructuring of the underlying debtors. The carrying amount of the units was 23.9 million, compared to a fair value initially recognised of 20.1 million.

Back2Bonis Fund

On 27 December 2023, Banco BPM sold a pool loan, in order to consolidate the exposure and to restructure the underlying debtor. The carrying amount of the units was 9.6 million, compared to a fair value initially recognised of 8.3 million.

D. Covered bond transactions

Covered bond issue programmes

QUALITATIVE INFORMATION

Strategic goals

The Covered Bonds ("CB") issue is part of Banco BPM Group's strategic plan, and represents a tool to diversify sources of funding, to reduce the relative cost and to extend the maturities of liabilities.

Banco BPM Group has three Covered Bond issue programmes in place: specifically, the "BP CB1", "BPM CB1" and "BPM CB2" programmes.

For the former Banco Popolare Group, during 2010 the first programme of CB issues concerning residential mortgages ("Residential CB" or "BP CB1") was launched. The maximum amount of CB that may be issued under the programme was extended from the initial 5 billion to 10 billion in February 2011.
At the former BPM Group level, on 13 November 2007, the Board of Directors of Banca Popolare di Milano authorised a CB issue programme ("BPM CB1"), for a maximum amount of 10 billion, relative to only residential landed and mortgage loans, structured, however, to also include commercial mortgages. Subsequently, on 10 March 2015, the Board of Directors of the former BPM Group approved a second CB programme ("BPM CB2") structured to only include the sale of residential landed and mortgage loans for a maximum amount of 10 billion.

Structure of the Programmes

Following the merger by incorporation of BPM S.p.A. into Banco BPM, which was completed in November 2018, Banco BPM acted as sole Originator Bank for the assets pursuant to Art. 7-bis of Italian Law no. 130 of 30 April 1999, as well as Issuer Bank for the Group's CB programmes.

With reference to the "BP CB1" Programme, Banco BPM provided for without-recourse transfers to the SPE BP Covered Bond S.r.l. (60%-owned by Banco BPM) of the related monetary receivables deriving from mortgage loans having the characteristics set forth in Art. 2, paragraph 1, letter a) of the MEF Decree (Mortgage Loans), as subsequently replaced by Article 7-novies "Eligible Assets" of Italian Law 130/99 and relative implementing provisions of the Bank of Italy.

With reference to the "BPM CB1" and "BPM CB2" Programmes, the monetary receivables deriving from residential landed and mortgage loans having the characteristics set forth in Art. 2 of the MEF Decree (Mortgage Loans), as subsequently replaced by Article 7-novies "Eligible Assets" of Italian Law 130/99 and relative implementing provisions of the Bank of Italy, together with the commercial loans of only the BPM CB1 Programme, were transferred to the SPE BPM Covered Bond S.r.l. (80%-owned by Banco BPM) within the sphere of the "BPM CB1" Programme and to the SPE BPM Covered Bond 2 S.r.l. (80%-owned by Banco BPM) within the sphere of the "BPM CB2" Programme.

Amendments to the Supervisory Provisions on Covered Bonds and adjustment of the CB Programmes to the new regulatory framework

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-bis 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 in terms of:

- set and characteristics of the "eligible assets" that can be used as collateral for the securities;
- minimum requirements for overcollateralisation at 5% (to be calculated with specific limits on the computability of the SPE's current accounts) and liquidity requirements that must be respected at the level of the issuance programme;
- introduction of an ad hoc supervisory regime for issuance programmes, whose responsibility for the Italian legal system is assigned to the Bank of Italy with: (i) new authorisation procedures, including the need for banks to internally define operating limits on the sale of eligible assets, consistent with the risk objectives and tolerance thresholds established as part of the "Risk Appetite Framework" (the previous limits were established by the Bank of Italy on the basis of the CET1 ratio and T1 ratio) and (ii) organisational and risk management requirements deriving from the programme, including the need to carry out controls at least every six months and to report them to the corporate bodies.

In addition, for the pre-existing CB Programmes, the Bank of Italy has introduced a regime of transitional provisions in order to ensure that the Covered Bonds issued after the date of entry into force of the aforementioned implementing provisions, even if within the scope of pre-existing programmes, are compliant with the new regulatory framework. This compliance is a necessary condition for the newly issued securities to be marketed under the "European Covered Bond (Premium)" brand and to benefit from preferential prudential treatment.

With reference to the Group's CB programmes, it should be noted that for the "BPM CB1" and "BPM CB2" programmes, in September and June 2023, respectively, as part of the annual update, the necessary changes to the contractual documentation were made to align the programmes with the new reference regulatory framework; therefore, the covered bonds issued during the year under the two programmes are marketed under the "European guaranteed bond (premium)" brand. As no new issues are envisaged under the "BP CB1" programme, the contractual documentation has not been adapted to the new regulatory framework for this programme.

Subordinated loan

For all Banco BPM Group's CB programmes, the Originator Banks (now only Banco BPM) granted a Subordinated Loan to the SPEs on the sale of assets to provide them with the financial resources required to acquire the related receivables (except when the SPE provided for the direct payment of the assets purchased). The SPEs must repay the subordinated loans on the final repayment date, also taking into account the extension of the deferral of the repayment date in the event of the Issuer's default, in accordance with the applicable priority of payments and within the limits of the funds available. In any event, at each interest payment date, there is an option to repay the subordinate loans in advance provided that the residual principal amount of the loans is equal to or higher than the residual debt of the Covered Bonds outstanding and that the tests contemplated by the regulations and by contract are complied with. Interest is paid on subordinated loans at a fixed rate or at a rate equal to the average interest rate of the CB Series issued, plus any excess spread generated by the structure.

Derivative Contracts

With reference to the CB programmes of Banco BPM Group, none of these have hedging derivatives in place on the cover pool (so-called "Mortgages Pool Swap"), while the "BPM CB2" Issue Programme has one derivative contract in place called "Covered Bond Swap" subscribed by the SPE and a market counterparty; said swap is an interest rate swap that hedges, at consolidated level and also in the case of the Issuer's default, the interest rate risk deriving from the misalignment between the interest flows of the portfolio of assets sold to the SPE and the interest flows on the CBs issued. The derivative in question complies with the requirements of the new supervisory regulations to be qualified as eligible assets. Instead, no "Covered Bond Swap" contracts are in place for the "BPM CB1" and "BP CB1" Programmes.

Guarantees

In order to guarantee the repayment of the Covered Bonds should the Issuer not fulfil its obligations to pay, the SPEs have issued an unconditional and irrevocable primary guarantee valid for separate assets for the benefit of the investors that will subscribe the Covered Bonds. The guaranteed amount is equal to total interest and principal that must be paid to the investors on each class of Covered Bond. The regulations require that the integrity of the guarantee should be ensured during the life of the Covered Bonds and to this end, specific tests are envisaged that take the amount and the characteristics of both the assets assigned and the CB issued into account. The tests are carried out quarterly by the Group's Finance department and are checked by the risk control unit. The accuracy of the tests carried out when the individual CB series are issued and then on a quarterly basis is also checked by an external party, the Asset Monitor, which, in accordance with the Supervisory Provisions, must be an audit firm other than that assigned to audit the financial statements. The Asset Monitor must also check the quality and integrity of the assets sold and draw up an annual report containing the results of the checks carried out. The control system also avails of the Internal Audit department, which verifies the adequacy of the internal checks, also on the basis of the annual report drawn up by the Asset Monitor.

The new provisions confirm the current control system envisaged for covered bond transactions, appropriately updated to provide for the new control mechanisms relating to the new framework on transfers, the new minimum coverage requirement of 5%, liquidity requirements, limits on liquid assets in segregated assets and on the liquidity reserve.

Regulatory and contractual tests (coverage requirements)

Regulatory tests, conducted quarterly on the portfolios of each of the issue programmes, and updated to comply with the new supervisory provisions, are as follows:

- the Nominal Value Test, which verifies that the nominal value of the residual loans in the portfolio sold is higher than the nominal value of the outstanding CB;
- the NPV Test, which checks that the present value of the residual credit portfolio is greater than the present value of the outstanding CBs;
- the Interest Coverage Test, which verifies that the interest collected and to be collected, net of the costs of the SPE, is higher than the interest to be paid to the holders of CBs.

If the requirements of all of the tests are met, payments may be made in accordance with the "order of payment". In accordance with the contractual documentation of the programmes, the Asset Coverage Test on the portfolio should also be respected, which checks that the nominal value of the loans, weighted on the basis of any delays in the payment of the latter and the level of over-collateralisation envisaged by the contracts, is higher than the nominal value of the outstanding CBs. The infringement of the regulatory and contractual tests leads to an obligation for the originator banks to add to the portfolio.

The new implementing provisions provide for a minimum level (equal to 5%) of coverage of liabilities (so-called Overcollateralisation Test), measured by the ratio between the assets included in the cover pool and the bonds issued. It should be noted that, during the year, the contractual documentation of the "BPM CB1" and "BPM CB2" programmes, which already establishes a minimum level of excess collateral of 7.5%, was updated in order to provide for the possibility of using an over-collateralisation level lower than 7.5%, but in any case not lower than the 5% coverage requirement.

Liquidity requirements: liquid assets and new liquidity reserve

In addition to residential and commercial mortgages and derivative contracts that meet the conditions envisaged by Law, segregated assets may also include liquid assets that meet the requirements of the supervisory provisions. These

liquid assets can be calculated according to predetermined percentages, which depend on the creditworthiness class of the bank that holds them, and are calculated with respect to the nominal value of the outstanding covered bonds.
As part of the aforementioned requirements for liquid assets, the new provisions require the Bank to hold a Liquidity Buffer, in order to continuously ensure, for the entire duration of the programme, that the assets forming part of the segregated assets include a buffer of liquid assets and exposures to banks (the latter in compliance with the limits and rating requirements envisaged by the regulations) that is at least equal to the maximum cumulative net liquidity outflow for the next 180 days.

Integration of eligible assets

With regard to the control activities envisaged for the sales, whether they are supplementary or aimed at supporting new issues, the maximum sale percentages of eligible assets referring to the CET1 and Tier 1 capital limits of the originator bank are no longer referred to. The new provisions require banks to set internal operating limits on the amount of eligible assets that can be committed to covered bond programmes and that these limits are consistent with the risk objectives and tolerance thresholds defined in the RAF (Risk Appetite Framework), with particular reference to those relating to liquidity risk (LCR Liquidity Coverage Requirement, NSFR Net Stable Funding Requirement), the overall level of encumbered assets and non-performing loans (NPL ratio).
With reference to the sales carried out during the year, the risk control function of Banco BPM has shown that these sales are consistent with the proposed operating limits and the tolerance thresholds envisaged by the Risk Appetite Framework approved by the Board of Directors of Banco BPM for 2023. In addition, the Compliance function also issued an opinion on the compliance of the aforementioned sales with the new reference regulatory framework.

CB issues

In compliance with the transitional regime envisaged by the new supervisory provisions on "covered bonds", with reference to the "BPM CB1" and "BPM CB2" programmes, (i) the first issue following the entry into force of the new provisions was carried out after the 30 days that the Bank of Italy established in the transitional regime, starting from the date on which the notice of intention to make the first issue was sent and (ii) the Statement was issued, by the Body with strategic supervision functions of the issuer bank, having consulted the Board of Statutory Auditors, confirming the compliance of the programme with the new regulatory framework contained in Title I-bis of Italian Law no. 130/1999 and related implementing provisions, envisaged by Bank of Italy Circular 285, chapter 3, third part. Compliance with this framework is a necessary condition for the newly issued securities to be marketed under the trademarks envisaged by Art. 7-viciesbis of Italian Law no. 130/1999.
The obligation of prior notification to the Bank of Italy, including the Statement of Compliance, must be fulfilled only as part of the first issue of new covered bonds under an existing programme after the date of entry into force of the Bank of Italy's Provisions and the content of the Statement of Compliance is limited only to the elements subject to change with respect to the previous regime.

Collection and administrative management services

For each Group CB Programme, the collection and management of the receivables sold is carried out by Banco BPM, which acts as the sole Servicer.

In particular, with reference to each CB Programme of the Group, the amounts collected are paid into the accounts held in the name of the respective SPEs (BP Covered Bond S.r.l. for the "BP CB1" Programme, BPM Covered Bond S.r.l. for the "BPM CB1" Programme and BPM Covered Bond 2 S.r.l. for the "BPM CB2" Programme) opened at Banco BPM and, on a daily basis, are transferred to the accounts of the respective SPEs opened at Banco BPM. Banco BPM also acts as Administrative Servicer, namely it provides administrative services and fulfils tax-related requirements on behalf of all three SPEs.

QUANTITATIVE INFORMATION

Existing and significant programmes during 2023

Banco Residential CB Programme ("BP CB1")

During previous years, Banco BPM, in its capacity as the Originator Bank, sold a total of twelve mortgage portfolios to the SPE BP Covered Bond S.r.l. for a total residual debt of 16.8 billion; the SPE paid the purchase prices of the various portfolios using the revolving Subordinated Loan granted by the same originator bank and the available liquidity deriving from the amortisation of the loan portfolio deposited in its current accounts held at Banco BPM. Banco BPM acted as Servicer, managing the collection of the receivables.

The table below shows the overall value of the loans sold to the SPE as at 31 December 2023:

Bank	Value as at 31/12/2023	Value as at 31/12/2022
Banco BPM	2,494,912	2,960,175

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

The table below shows non-performing loans:

Bank	Value as at 31/12/2023	Value as at 31/12/2022
Banco BPM	90,594	102,496

In 2023, the mortgage loans portfolio generated collections totalling 550.7 million, of which 435.5 million represented principal and 115.2 million represented interest.

Bonds issued by Banco BPM

As part of the "BP CB1" Programme, Banco BPM issued twelve series of CBs, listed on the Luxembourg Stock Exchange, and an unlisted Registered Covered Bond. These securities were subscribed to by institutional investors or by Banco BPM.

Overall, the securities issued by Banco BPM amounted to 14,950 million, of which 12,850 million was repaid and 100 million relates to the Registered Covered Bond transferred to another programme. Therefore, as at 31 December 2023, the securities issued and outstanding amounted to 2,000 million, and break down as follows:

Date of issue	Series/Tranche	Notional value	Coupon	Maturity	Issue Price (flat quotation)	Moody's Rating (***)
08/01/2014	7th Series 1st tranche (1)(2)	1,000,000	Eur 3M + 100 bps	31/03/2023(*)	100.000	Aa3
28/03/2018	12th Series 1st Tranche (1)	1,000,000	Eur 1M + 30 bps	30/06/2025 (**)	100.000	Aa3
		2,000,000				

(1) The securities were fully subscribed by Banco BPM and used as collateral in monetary policy operations with the Eurosystem.
(2) On 27 March 2019, partial early redemption was carried out for 500 million.
(*) In March 2016, the maturity date was extended from 31 March 2016 to 31 March 2019. In March 2019, the maturity date was extended from 31 March 2019 to 31 March 2023. In March 2023, the maturity date was extended to 31 March 2024.
(**) In April 2021, the maturity date was extended from 30 June 2021 to 30 June 2025.
(***) Rating as at 31 December 2023.

Other information

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

In April 2023, with the approval by the Meeting of Registered Covered Bondholders of the transfer of the 100 million liability of the Registered Covered Bond, subscribed by German investors, to the "BPM CB2" Programme, the contractual documentation was signed to finalise the change of Guarantor from the SPE BP Covered Bond S.r.l. to the SPE BPM Covered Bond 2 S.r.l.
In August 2023, the withdrawal of the DBRS rating from the two outstanding CB Series (Seventh and Twelfth) was finalised.
In May and December 2023, Banco BPM arranged for the repurchase en bloc, inter alia, of (i) the positions classified as bad loans as at 30 April 2023 and 30 November 2023 respectively and (ii) of a portion of mortgages previously sold to the SPE and no longer classifiable as eligible. The considerations for these repurchases were paid to the SPE in May and December 2023 respectively.

On the Guarantor Payment Dates of 31 March, 30 June and 2 October 2023, the SPE repaid part of the subordinated loan granted by Banco BPM for a total amount of 445 million in advance.

<u>Events occurring after the end of the year</u>

The subordinated loan granted by Banco BPM to the SPE was repaid in advance for 100 million on the Guarantor Payment Date of 2 January 2024.

BPM Covered Bond Programme ("BPM CB1")

In previous years, a total of eleven portfolios of eligible assets were sold to the SPE BPM Covered Bond S.r.l., with total residual debt of 13 billion.

With the signature of the relative contracts, Banco BPM sold the SPE BPM Covered Bond S.r.l. (i) in May 2023, a new portfolio of residential mortgage loans, including disbursements to Group employees, and of commercial mortgage loans, for a total residual debt of 1,614 million ("Fifth Banco BPM Portfolio", twelfth sale to the SPE) and (ii) in December 2023, another new portfolio of residential mortgage loans, including disbursements to Group employees, and of commercial mortgage loans, for a total residual debt of 2,091 million ("Sixth Banco BPM Portfolio", thirteenth sale to the SPE).

The SPE paid the purchase prices of the various portfolios using the Subordinated Loans granted by the Originator Banks, now Banco BPM, and the available liquidity deriving from the amortisation of the loan portfolio deposited in its current accounts held at Banco BPM. The Originator Banks, now Banco BPM, acted as Servicer, managing the collection of the receivables.

The table below shows the overall value of the loans sold to the SPE as at 31 December 2023:

Bank	**Value as at 31/12/2023**	**Value as at 31/12/2022**
Banco BPM	*7,478,355*	*4,675,223*

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

The table below shows non-performing loans:

Bank	**Value as at 31/12/2023**	**Value as at 31/12/2022**
Banco BPM	82,174	90,281

In 2023, the mortgage loans portfolio generated collections totalling 1,034.5 million, of which 845.5 million represented principal and 189 million represented interest.

<u>Bonds issued by Banco BPM</u>

As part of the "BPM CB1" Programme, Banco BPM issued twelve CB Series, listed on the Luxembourg Stock Exchange, for a total of 11,750 million, originally subscribed by institutional investors or by Banco BPM itself. These have been redeemed for a total of 6,700 million.

As at 31 December 2023, there are five Series of covered bonds outstanding, fully repurchased by Banco BPM, and used for refinancing operations with the ECB or for Repo transactions with market counterparties, for a total of 5,050 million, broken down as follows:

Date of issue	Series/Tranche	Notional value	Coupon	Maturity	Issue Price (flat quotation)	Moody's Rating (*)
19/11/2015	7th Series	900,000	3-month Euribor + 60 bps	19/11/2027 (1)	100.00	Aa3
07/11/2016	8th Series	1,000,000	3-month Euribor + 30 bps	07/11/2025 (2)	100.00	Aa3
26/04/2018	9th Series	1,900,000	3-month Euribor + 30 bps	26/04/2025 (3)	100.00	Aa3
25/09/2019	11th Series	650,000	3-month Euribor + 80 bps	25/03/2025	100.00	Aa3
21/12/2023	12th Series (Premium)	600,000	3-month Euribor + 75 bps	21/12/2027	100.00	Aa3
Total		**5,050,000**				

(1) In November 2022, the maturity date was extended from 19 November 2022 to 19 November 2027.
(2) In October 2021, the maturity date was extended from 7 November 2021 to 7 November 2025.
(3) In April 2021, the maturity date was extended from 26 April 2021 to 26 April 2025.
(*) Rating as at 31 December 2023.

Other information

In May and December 2023, Banco BPM arranged for the repurchase en bloc, inter alia, of (i) the positions which as at 30 April 2023 and 30 November 2023 respectively were classified as bad loans and (ii) the repurchase of a portion of mortgages previously sold to the SPE and no longer classifiable as eligible. The considerations for these repurchases were paid to the SPE in May and December 2023 respectively.

As part of the programme, on 21 December 2023, Banco BPM issued the Twelfth Series retained of CBs for a nominal value of 600 million (first issue of European Covered Bonds (Premium) as part of the BPM CB1 programme).

On the Guarantor Payment Dates of 16 January, 17 April, 17 July and 16 October 2023, the subordinated loan granted by Banco BPM to the SPE was repaid for a total of 1,450 million.

Events occurring after the end of the year

The subordinated loan granted by Banco BPM to the SPE was repaid for 200 million on the Guarantor Payment Date of 15 January 2024.

BPM Covered Bond 2 Programme ("BPM CB2")

During previous years, twelve residential and landed mortgage loan portfolios were sold to the SPE BPM Covered Bond 2 S.r.l. for a total value of approximately 13.5 billion.

To pay the purchase price of the portfolios, the SPE used a subordinated credit facility granted by the Originator Banks. The Originator Banks, now Banco BPM, acted as Servicer, managing the collection of the receivables.

The table below shows the overall value of the loans sold to the SPE as at 31 December 2023:

Bank	Value as at 31/12/2023	Value as at 31/12/2022
Banco BPM	7,297,428	8,154,742

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

The table below shows non-performing loans:

Bank	Value as at 31/12/2023	Value as at 31/12/2022
Banco BPM	63,611	58,790

In 2023, the mortgage loans portfolio generated collections totalling 1,016.7 million, of which 846 million represented principal and 170.7 million represented interest.

Bonds issued by Banco BPM

As part of the "BPM CB2" Programme, Banco BPM issued nine CB Series, which are listed on the Luxembourg Stock Exchange, for a total nominal value of 6,500 million, of which 2,250 million was redeemed, plus a Registered Covered Bond of 100 million transferred from another issue programme. All bonds issued by the programme have been placed on the capital market.

As at 31 December 2023, there are seven Series of covered bonds in place for a total of 4,350 million, broken down as follows:

Date of issue	Series/Tranche	Notional value	Coupon	Maturity	Issue Price (flat quotation)	Moody's Rating (*)
24/01/2011	Registered CB (1)	100,000	5.250%	03/04/2029	96.590	Aa3
02/12/2015	2nd Series	750,000	1.500%	02/12/2025	98.946	Aa3
23/01/2018	4th Series	750,000	1.000%	23/01/2025	99.792	Aa3
05/12/2019	6th Series	500,000	0.500%	05/12/2025	100.000	Aa3
15/03/2022	7th Green Series	750,000	0.750%	15/03/2027	99.868	Aa3
27/26/2023	8th Series (Premium)	750,000	3.750%	27/26/2028	99.879	Aa3
18/09/2023	9th Series (Premium) first tranche	500,000	3.875%	18/09/2026	99.764	Aa3
29/09/2023	9th Series (Premium) second tranche	250,000	3.875%	18/09/2026	99.430	Aa3
Total		**4,350,000**				

(1) The securities were placed in the form of a private placement with market investors.
(*) Rating as at 31 December 2023.

Other information

As part of the programme, Banco BPM (i) at the maturity date of 8 June 2023, arranged for the full repayment, by natural extinction, of the Third Series of CBs issued for a nominal value of 750 million (ii) on 27 June 2023, issued the "Eighth Series" of CBs for a nominal value of 750 million (first issue of European Covered Bonds (Premium) as part of the BPM CB2 programme) (iii) on 18 September 2023, issued the "Ninth Series" of CBs (first tranche) for a nominal value of 500 million (second issue of European Covered Bonds (Premium)) (iv) at the maturity date of 25 September 2023, fully repaid, by natural extinction, the Fifth Series of CBs issued for a nominal value of 500 million and (v) on 29 September 2023, issued a second tranche under the Ninth Series of the programme for a nominal value of 250 million.

In addition, in April 2023, with the signing of the related contractual documentation, the transfer of the 100 million liability of the Registered Covered Bond, subscribed by German investors, from the original "BP CB1" Issue Programme to the "BPM CB2" Programme was finalised.
In May and December 2023, Banco BPM arranged for the repurchase en bloc, inter alia, of (i) the positions which as at 30 April 2023 and 30 November 2023 respectively were classified as bad loans and (ii) the repurchase of a portion of mortgages previously sold to the SPE and no longer classifiable as eligible. The considerations for these repurchases were paid to the SPE in May and December 2023 respectively.

On the Guarantor Payment Dates of 18 January, 18 April, 18 July and 18 October 2023, the subordinated loan granted by Banco BPM to the SPE was repaid for a total of 865 million.

Events occurring after the end of the year

The subordinated loan granted by Banco BPM to the SPE was repaid for 200 million on the Guarantor Payment Date of 18 January 2024.

As part of the programme, on 24 January 2024, Banco BPM issued the “Tenth Series” of CBs for a nominal value of 750 million (first issue of European Covered Bonds (Premium) issued by Banco BPM in 2024).

Accounting representation

On the consolidated financial statements of Banco BPM S.p.A. (as Issuer Parent Company and originator bank) the SPEs belong to the Group and are included in the consolidation on a line-by-line basis.
The main balance sheet items linked to the issue of CBs are shown below:

- loans sold by the originator banks to the SPEs continue to be posted under the balance sheet assets under item “40 b) - Loans to customers”, and the relative interest is posted under item 10 of the income statement “Interest and similar income”. As at 31 December 2023 the book value of the mortgages is (i) 2,496 million for the BP CB1 programme, (ii) 7,476 million for the BPM CB1 programme and (iii) 7,293 million for the BPM CB2 programme. Said value is specifically indicated under the “Assets pledged to secure own liabilities and commitments” in the Section “Other information” in “Part B – Information on the balance sheet” of these Notes;
- the CBs issued are posted under debt securities in issue (item 10 c) of the Liabilities) and valued according to the fair value hedge accounting rules, hedged by the interest rate hedging derivative stipulated by the SPE (“Covered Bond Swap”). The securities issued also include funding transactions by means of repurchase agreements on the series of CB repurchased, in line with the clarifications to this regard set out by the Supervisory Authority. The book value of the CBs as at 31 December 2023 amounts to (i) 1,433 million relative to the BP CB programme, (ii) 4,707 million relative to the BPM CB1 programme and (iii) 4,387 million relative to the BPM CB2 programme. Note that the issues of part of the BPM CB1 programme and part of the BP CB1 programme are not posted inasmuch as used as collateral for monetary policy operations with the Eurosystem, as described previously;
- the Covered Bond Swap contracts, between the SPEs and the market counterparties outside the Group, are classified under item 50 “Hedging derivatives” in assets and/or under item 40 “Hedging derivatives” in liabilities.

The consolidated income statement has the following components:

- interests on the loans sold (cover pool), as mentioned above, posted under the item “Interest and similar income”;
- interest on the Covered Bonds issued, posted under the item “Interest and similar expense”;
- the differentials relative to the hedging derivatives (which transform the Covered Bond rate from fixed to floating) which are posted under the “Interest and similar income” or “Interest and similar expense” according to the balance;
- the fair value delta of the hedging contracts and of the items covered, posted under item 90 “Fair value gains/losses on hedging derivatives”.

E. Prudential consolidation - Credit risk measurement models

When measuring the credit risk of portfolios, the Bank uses an econometric model for management purposes, supported by an extensive set of data and risk variables, known as the Portfolio Model.
The model allows for, through the use of Credit-VaR metrics, the definition of the probability distribution of losses in the loan portfolio. This distribution is used to measure the maximum potential loss over a yearly time period and with a specific level of confidence.
More specifically, in order to obtain this distribution, the model's processing engine uses a Monte Carlo simulation approach, which simulates a sufficiently high number of scenarios so as to provide a good empirical approximation of the theoretical distribution of loan portfolio losses.
The calculation of the maximum potential loss, which can be broken down into the classic measures of Expected Credit Loss and Unexpected Loss (Economic Capital), is affected by concentration risk and systematic risk, respectively.
Concentration risk derives from large exposures to single counterparties – name concentration – or types of peer counterparties in terms of industries, whose credit risk depends on one or more systematic factors (industry concentration).
On the other hand, systematic risk derives from the impact of unexpected changes in macroeconomic factors on risk parameters (PD and LGD) of the single accounts, using the elasticity estimated using satellite models capable of linking PD and LGD of peer counterparties and accounts and a set of (international and domestic) economic-financial factors.
Lastly, the portfolio model periodically undergoes stress testing to evaluate the credit risk sensitivity of the Group's portfolio to extreme changes in economic and financial factors.

As at 31 December 2023, the expected credit loss, calculated on the Basel III validation perimeter (for which Banco BPM was authorised by the Regulator to use internal rating systems to calculate the capital requirements on credit risks), was 0.40% of the exposure to default, while the overall loss (expected and unexpected loss measured by the C-VaR method with a 99.9th percentile confidence level, performing portfolio model perimeter, last figure available) amounted to 1.95% of the exposure to default.

The internal models for estimating PD, LGD and EAD are subject to an internal validation process by the Risk Function and to a third-tier control by the Audit Function. The outcome of these processes is outlined in special reports submitted to the Corporate Bodies and sent to the European Central Bank/Bank of Italy.

Outcome of backtesting of rating systems

In order to calculate capital requirements against Credit Risk and only on the scope of the Parent Company, Banco BPM Group adopts internal estimates of PD, LGD and EAD for Business and Private customer portfolios.

The comparison between estimates and empirical data is made separately for PD, LGD and CCF, by means of backtesting conducted by the Internal Validation function.

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

With regard to the LGD parameter, testing was conducted on both the performing and in default components. Internal Validation did not detect significant problems with the estimates generated for the private and business models. However, there are elements for further improvements of the portfolios guaranteed by real estate that still need to be studied, especially for the private segment.

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

In general, note that the models are fine-tuned on a continuous basis, mainly with a view to guaranteeing full compliance with legislative requirements.

1.2 MARKET RISKS

1.2.1 Interest rate risk and price risk - regulatory trading book

QUALITATIVE INFORMATION

A. General aspects

Market risk is the risk that the Bank may generate less revenues than expected, or suffer from the impairment of balance sheet items or capital losses from financial positions held, due to sharp and adverse changes in market conditions, in particular interest rates, share prices, exchange rates, commodities and the associated volatilities and correlations (generic risk), or due to events that may impair the issuer's redemption capability (default risk) or which in any event result in a change in the solvency of the issuer (credit spread risk). Market risks can materialise both with regard to the trading book, which includes trading instruments and the associated derivative instruments, and with regard to the banking book, which includes financial assets and liabilities that are accounted for differently than those included in the trading book.
The organisational model adopted by Banco BPM Group for the trading books exposed to interest rate risk and price risk requires:

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

With reference to the internal model for the calculation of capital absorption against market risk, it should be noted that, starting from the 31 December 2020 reporting date, Banco BPM Group has used the extended model to calculate the Market Risk capital requirement. Said requirement is therefore calculated on the basis of the VaR, Stressed VaR – including the specific risk of debt securities – and of the IRC.
On 11 January 2023, the Final Decision was received from the ECB that approved the implementation of the relative change in the IRC calculation method requested in January 2022. The new method guarantees a more accurate estimate of the P&Ls associated with rating migration events through a greater number of financial instruments used to calibrate the spread levels of the worst rating classes. A forward structure with different maturities (1, 3, 5, 7, 10 years) for the different rating classes and sectors was also introduced in the Asset Swap Spread matrix and a CDS spread matrix was created to calculate the P&L associated with the shock spreads of the CDS, with the same forward structure (1, 3, 5, 7, 10 years). Therefore, the new method has been used to calculate capital absorption/RWA starting from the first quarter of 2023. The ECB decision in question led to the removal of the 10% IRC add-on starting from 2 January 2023. As regards the latter metric, a limitation was actually in place with a 10% add-on on an individual and consolidated basis, until several relative methodological findings were resolved.
On 14 April 2023, following the remedial activities prepared by the Bank to fulfil obligations 2 and 3 of IMI4145, the ECB granted the authorisation to extend the approach of the IMA model to the exchange rate risk of Banking Book positions.
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.

Parent Company's Portfolio

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

- the investment portfolio, which represents the major source of interest-rate risk and equity risk, recognised in the Trading accounting category. At the end of December 2023, the Parent Company's bond portfolio (including technical overdrafts) amounted to 59 million in nominal value, approximately half of which

consisted of Italian government securities and the remainder of foreign government securities (France and the United States). The sensitivity to the overall interest rate risk as at 29 December, calculated assuming a parallel change in the interest rate curve of 1 basis point, was approximately +63 thousand euro per basis point, and derives from a net prevalence of short-term exposure on the Euro rate curve. This portfolio has a limited exposure to credit spread risk of approximately +7 thousand euro, considering a shock of 1 basis point, deriving mainly from a nominal short position (long credit spread sensitivity + 11 thousand euro) on the German government issuer. In addition to the bond portfolio, there is the price risk component of the equity trading portfolio, which has a positive delta exposure of approximately 5 million;
- the Treasury portfolio contained no securities at the date of the financial statements.

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

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

Banca Akros holds a trading book, the main interest rate risk exposures of which concern transactions on both money markets and the associated hedging derivatives, as well as those on the markets for OTC derivatives and structured products and listed derivatives.
Transactions in both plain vanilla and structured instruments and listed and unlisted derivatives, including trades on the secondary market of structured products issued or sold by the banks of the Group. The destructuring of complex transactions based on the underlying enables the centralised management of the interest rate, exchange rate and price risks within the specific offices of the Bank’s Global Markets Department, which use sophisticated position keeping systems.
Trading in interest rate derivatives mainly consists of optimising the flows generated by the need to hedge interest rate risk by institutional customers (for example, Banks, Funds and Insurance companies), and corporate customers of Banca Akros and the Parent Company, taking on the risk as its own and managing it using dynamic hedging strategies. Banca Akros operates as a market maker on OTC derivatives, mainly on the Euro interest rate curves. The process of rebalancing risks on an ongoing basis entails, also based on market liquidity, the use of trading in regulated futures and the related options on short and medium/long-term interest rates.
Trading in bonds issued by financial companies or corporates, traded on the secondary market (Eurobonds) derives from the need to meet customer requests, mainly from institutional customers. On the secondary market, the Bank operates as a market maker on bonds from corporate, financial and supranational issuers, primarily denominated in Euro, through trading on multilateral trading facilities or OTC.
More specifically, at the end of December, net bond exposure, excluding Banco BPM issues, amounted to a nominal value of around 180 million, represented by 141 million in Italian Financial securities, 64 million in Corporate bonds, 3 million in Supranational bonds and a short position in German government bonds (-19 million) and foreign Financial bonds (-27 million), the latter mainly comprised of financial CDS Itraxx, used to hedge the positions in financial securities.
The exposure to credit spread risk totalled approximately -5 thousand euro (net of Banco BPM issues), considering a shock of 1 basis point, deriving mainly from financial securities (credit spread sensitivity: approximately -19 thousand euro), most of which Italian. Instead, the exposure to Italian government bonds at the end of the year was substantially nil, equal to a credit spread sensitivity of around -1 thousand euro, considering a shock of 1 basis point.
The sensitivity (delta) to the overall interest rate risk at the end of December, net of long and short exposures on the various currencies and yield curve nodes, was +82 thousand euro, assuming a parallel change in the interest rate curve of 1 basis point. The greatest exposure to interest rate risk was recorded on EUR (+80 thousand euro, positive rho) and GBP (+1 thousand euro, positive rho) curves.

The main exposures to equity risk are related to trading on cash markets and associated listed or plain vanilla derivatives on the derivatives and OTC structured products market and the listed derivatives market.
Specifically, the scope includes portfolios of equities and related listed derivatives, held for trading purposes, for market making transactions on individual stock futures and options and for activities related to specialist services (continuous exposure of proposals to buy/sell), as well as transactions in structured instruments and listed derivatives.
The destructuring of complex operations based on the underlying enables the centralised management of the interest rate, exchange rate and price risks within the specific offices, which use a sophisticated position keeping system specialised in interest rate and credit spread, exchange rate and price risks. The system is integrated with pricing

models and risk measurement (Greeks) developed in-house by the Financial Engineering function and validated by the Parent Company's Risk Function.
At the end of December 2023, the overall exposure to the price risk of the equity portfolio equals a delta equivalent short position of about -2 million, divided between the Eurozone (-2 million), the USA (+1.4 million) and Asia (-1.4 million). With regard to the Vega indicator (sensitivity to changes in the implicit volatility of the underlying), relating to the equity risk class, at the end of December the exposure was positive, approximately +874 thousand euro, considering a parallel shock of 1% on volatility levels. That exposure mainly originates from liquid share indices and "Large Cap" single stocks.
Lastly, the sensitivity to the dividend risk factor, considering a parallel shock of 10% on the levels of this parameter, was approximately +353 thousand euro at 29 December, concentrated mainly in the Oil&Gas, Utilities and Healthcare sectors.

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

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

The task of controlling the financial risk management, with a view to identifying the different types of risk, defining the methods to measure the same, to controlling limits at strategic level and verifying the consistency between the operations of the same and the risk/return targets assigned, is centralised in the Parent Company under the responsibility of the Risk Function for all Group banks.
Financial risks are monitored on a daily basis, both through the use of deterministic indicators (sensitivity to market risk factors and indicators referred to the issuer) and probabilistic indicators (Value at Risk - VaR). The VaR, which indicates the maximum potential loss associated with market movements in unexceptional conditions, over a certain time horizon and with a certain confidence interval, represents a synthetic risk measurement.
The approach used to calculate the VaR is based on historical simulation. The values calculated are provided with a confidence interval of 99% and a time horizon of one day. The correlations used are those implicit in the historical scenarios of risk factors applied to estimate the empirical distribution of values in the trading book.
In addition to the Regulatory VaR calculated under current conditions, a Regulatory VaR under stressed conditions (Stressed VaR) is calculated, which adopts the period between January 2020 and January 2021 for Banca Akros as the most severe scenario (July 2008 - June 2009 for the Parent Company). The period of stress is monitored with a frequency and a method defined by internal regulations, which enable it to be promptly identified when changes in the composition of the portfolio occur, at the same time guaranteeing a certain degree of stability.
As envisaged by prudential requirements, that model is used to calculate the capital requirement for market risk, as well as for operational purposes.
The operational Value at Risk (VaR) measurement considers the interest rate risk, equity risk, foreign exchange risk and credit spread risk, as well as the benefit of correlation between the risks. Correlation risk and dividend risk are also considered, measured through stress testing techniques, with the benefit of diversification with respect to the first risk group cited.
The capital requirement for supervisory purposes is measured with an internal validated model, for equity risk, exchange rate risk, general interest rate risk and specific credit risk (from November 2020), while the commodity risk factor is measured with the standard method.

QUANTITATIVE INFORMATION

Regulatory trading book: internal models and other sensitivity analysis methods

Operational Var

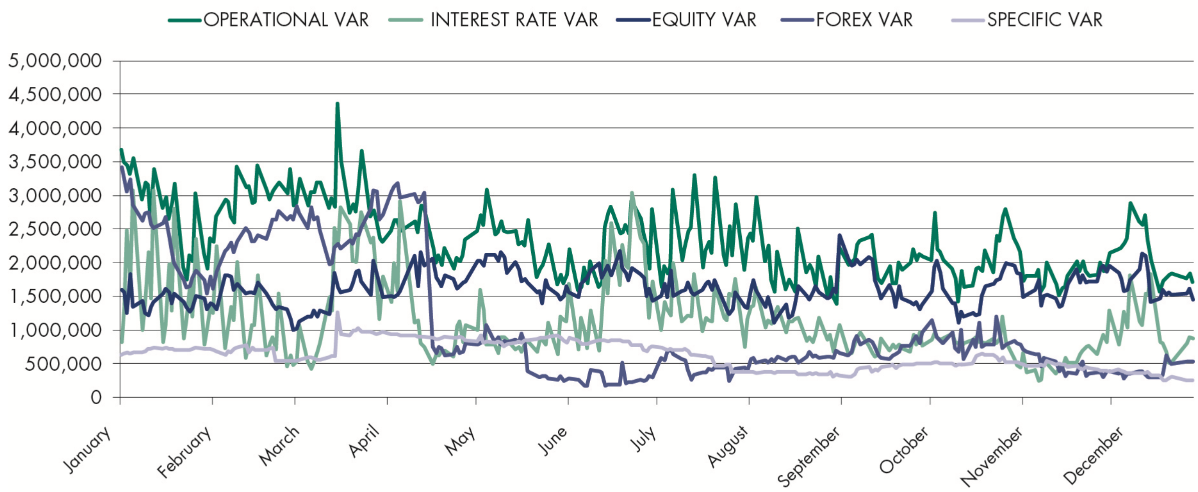
The Value at Risk (VaR) measurement considers interest rate risk, equity risk, exchange rate risk and credit spread risk, as well as the benefit of correlation between risks. Correlation risk and dividend risk are also considered, measured through stress testing techniques, with the benefit of diversification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

A table containing the operational VaR figures for 2023 and the performance graph are shown below, referring to the regulatory trading book of Banco BPM Group.

Regulatory trading book *(in millions of euro)*	**2023**			
	29 December	**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.

Daily VaR and VAR by risk factor
Banco BPM Group: Trading Book



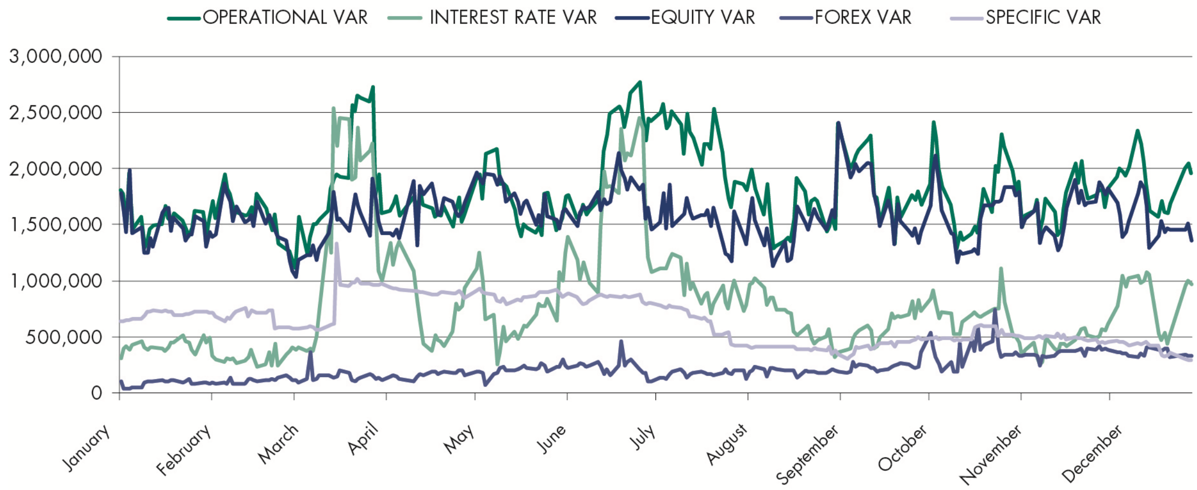
The prevailing risk component in 2023 is that relating to equity risk (levels and volatility), followed in order of importance by interest rate risk. The specific risk component on debt securities is low and constantly decreasing during the year.

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

Regulatory trading book *(in millions of euro)*	**2023**			
	29 December	**average**	**maximum**	**minimum**
Interest Rate Risk	0.968	0.791	2.535	0.236
Exchange Rate Risk	0.334	0.219	0.738	0.033
Equity Risk	1.362	1.583	2.402	1.034
Dividend and Correlation Risk	0.331	0.589	1.067	0.031
Specific Debt Securities Risk	0.291	0.637	1.329	0.291
Total uncorrelated	3.286			
Diversification effect	-1.327			
Combined risk (*)	1.959	1.798	2.774	1.109

(*) Overall operational VaR

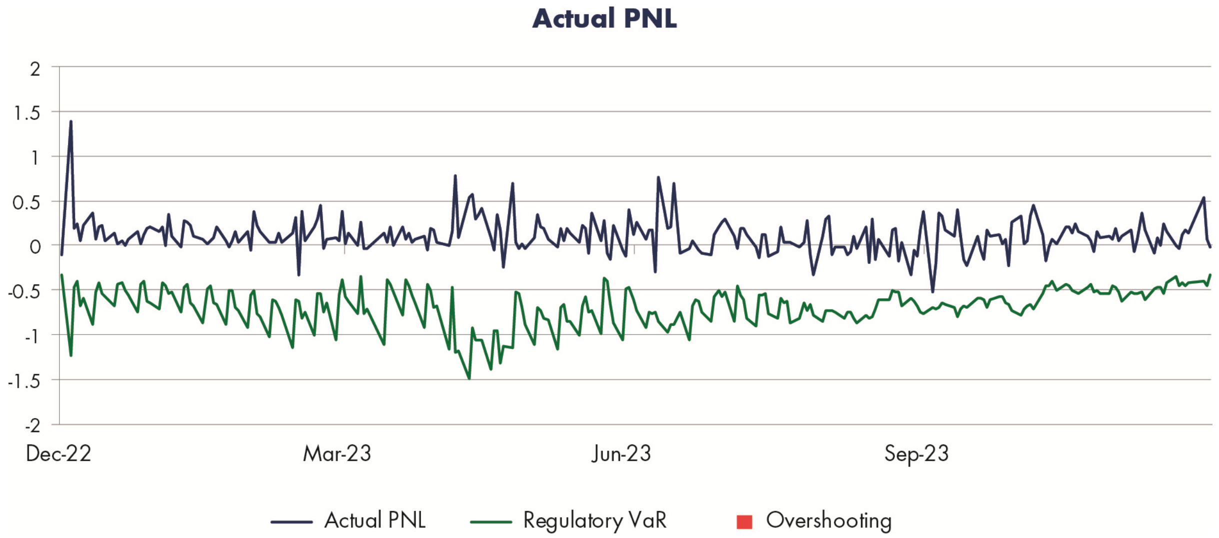
Daily VaR and VAR by risk factor
Banca Akros: Trading Book



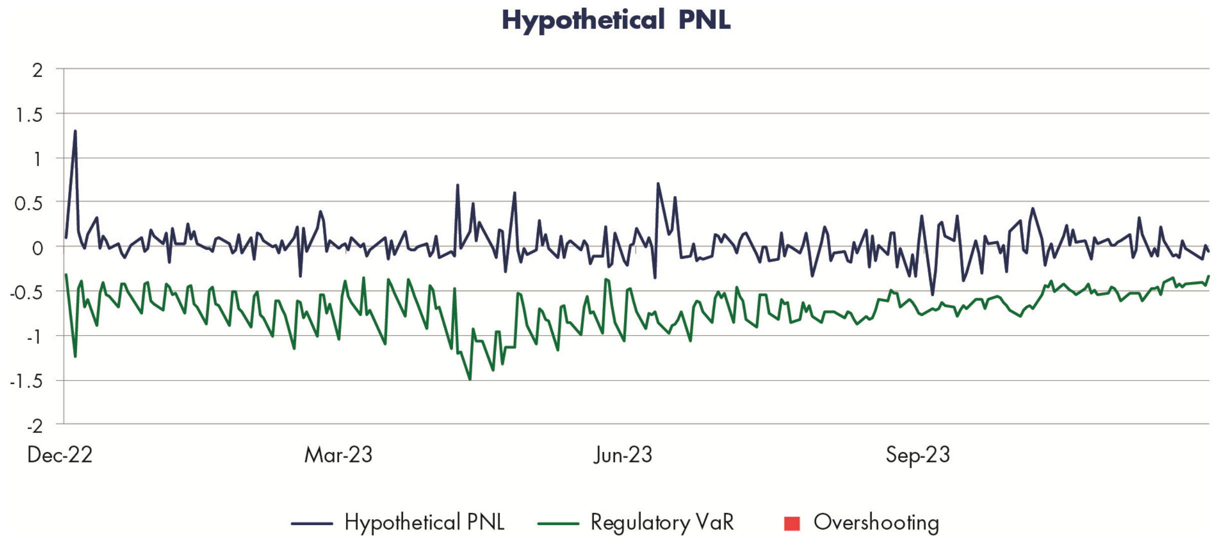
From the analysis of the graph, the preponderance of equity risk can be noted (with reference to both the delta component and the vega component), deriving from positions in equity instruments, both derivatives and cash. In March and June, there was also an increase in the interest rate risk component. The specific risk component on debt securities is contained and constantly decreasing during the year, in line with a reduction in the exposure to the bond segment.

In line with the validation of the internal model for the calculation of the capital requirement relating to market risks, backtesting is conducted on a daily basis, with a view to verifying the solidity of the VaR model adopted. These tests are conducted on the regulatory trading book of Banco BPM and of Banca Akros.
The graphs below show the backtesting relating to the VaR method, calculated on the generic and specific risk components of debt securities and equity instruments, interest rate risk and exchange rate risk.
For backtesting purposes, as envisaged by supervisory regulations in force, we used the equally-weighted VaR measurement instead of using a decay factor used in operational approaches.

Actual backtesting Banco BPM



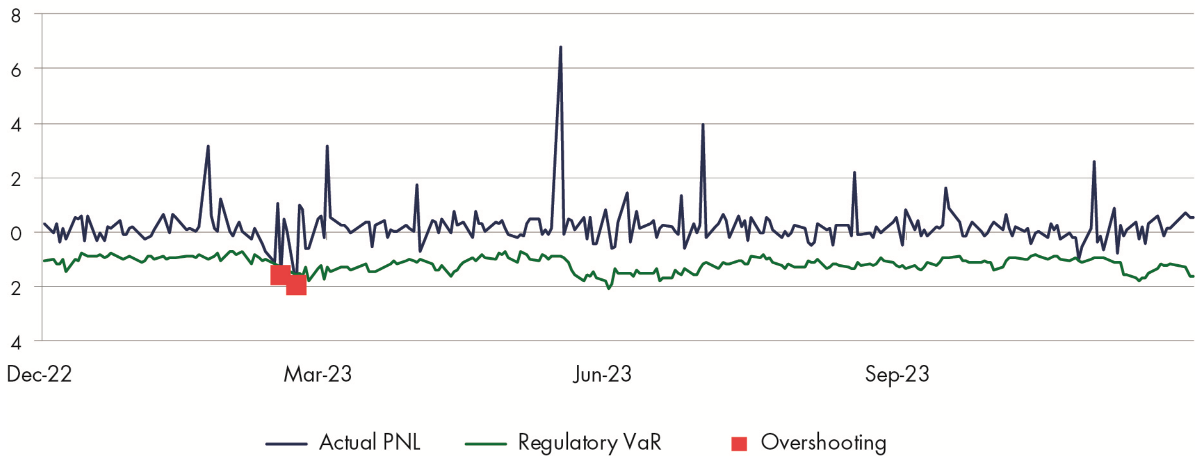
Hypothetical backtesting Banco BPM



In the last 250 observations, Banco BPM did not record any actual or hypothetical backtesting overruns.

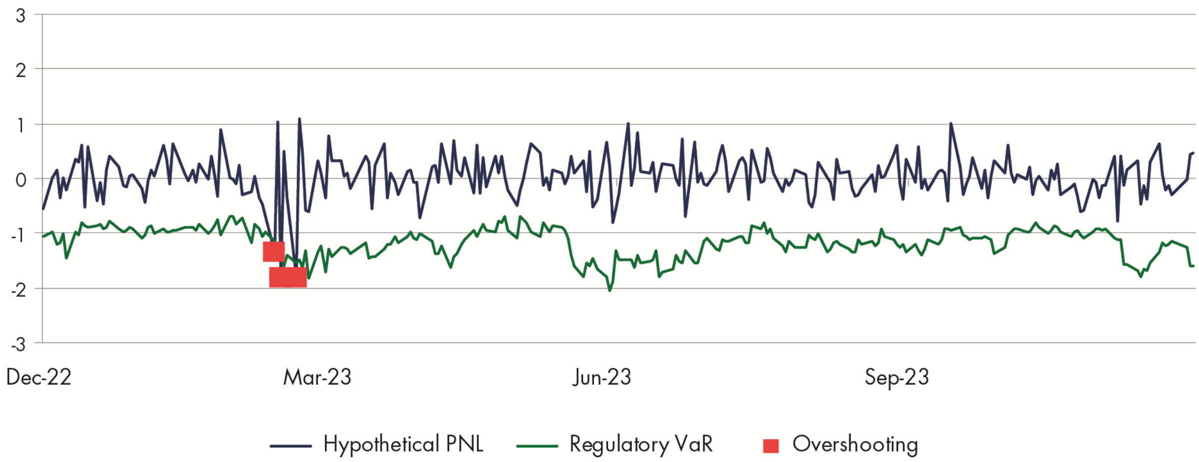
Actual backtesting Banca Akros

Actual PNL



Hypothetical backtesting Banca Akros

Hypothetical PNL



In the last 250 observations, Banca Akros recorded 2 actual backtesting overruns (15 March 2023 and 20 March 2023) and 3 hypothetical backtesting overruns (13 March 2023, 15 March 2023 and 20 March 2023).

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 3 Reforms, also known as Basel 4, which marks the last step in the process of implementation of the changes to capital standards through the Capital Requirements Regulation (CRR 3) and the Capital Requirements Directive (CRD 6). On 8 November 2022, the European Council published a proposal to amend the text of CRR2, 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 3 - Capital Requirements Regulation 2021/0342" and "CRD 6 - 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 with the SA model; therefore the IMA should be considered complementary to the SA and not an alternative;
- at regulatory level, boosting the monitoring and the management of market risk at trading desk level.

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 (and 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 make the request to use new internal models, reserving the option of requesting it at a later date.
The start date for the use of the new Basel 4 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 from March 2025.

Outcomes of internal validation activities

Banco BPM Group adopts internal models to quantify capital requirements for Market Risk, on which the Internal Validation function conducts qualitative and quantitative analyses to assess their soundness and the accuracy of the estimates for all significant risk components. Furthermore, it expresses an opinion on the regular functioning, on the predictive capacity, on the performance of internal risk measurement methods and on the adequacy of operating processes to ensure, on a continuous basis, the compliance of internal methods with company needs and the evolution of the reference market.
With reference to backtesting, the data produced to support overruns is analysed, as well as specific statistical tests (Proportion of Failures test, Time Until First Failure test, Christoffersen Interval Forecast test, Mixed Kupiec test and Conditional Coverage test) that are conducted in regard to different portfolio hierarchical levels and time horizons

for Banca Akros and the Parent Company. The results of the analysis showed that the model has a good ability to predict the number of backtesting overruns, also taking into account market trends.
Additionally, the adequacy of the scaling method used to quantify the capital requirement, as required by regulations, was reviewed.
To verify the severity of the stressed period used in the Stressed VaR risk measurement, appropriate analysis is carried out to assess any alternative periods that are more conservative than the one currently used to quantify the risk. The analyses showed the adequacy of the stressed period used in the quantification of risk.
Lastly, the Internal Validation function validates sample pricing models and performs benchmark models in order to evaluate the robustness of those in production.
On a periodic basis Internal Validation also verifies the robustness of the non-modelled risk framework (RNIME), as required by supervisory regulations.
As regards MiFiD 2 regulations, the Internal Validation function coordinated the working group created specifically to produce the Annual Validation Report on the Trading Algorithm to be sent to CONSOB (after the assessment of the Audit and Compliance functions), with an overall result of the self-assessment process considered adequate.

1.2.2 Interest rate risk and price risk - banking book

QUALITATIVE INFORMATION

A. General aspects, management procedures and measurement methods for interest rate risk and price risk

The interest rate risk relating to the banking book is mainly associated with the core activity performed by the bank acting as an intermediary in the process of transformation of maturities. In particular, the issue of fixed-rate bonds, the granting of fixed-rate commercial and mortgage loans, and funding from demand current accounts represent a fair value interest rate risk, while floating-rate financial assets and liabilities represent a cash flow interest rate risk.
The Asset & Liability Management unit of the Parent Company's Finance Function is responsible for managing interest rate risk and operates in compliance with the limits for exposure to interest rate risk defined by the RAF and the indications of the Finance Committee.
The Parent Company's Risk Function is in charge of monitoring and controlling the interest rate risk of the banking book, also for the financial subsidiaries. This activity is performed on a monthly basis to verify that the limits in terms of changes in net interest income or the economic value of the banking book are complied with.
In 2023, the usual periodic maintenance and updating of the internal models were carried out; it should also be noted that several adjustments were made to the rate risk measurement system to take into account the new 2022 EBA guidelines, also with reference to the CSRBB; for example the new floor level communicated by the EBA, the introduction of management monitoring of the "supervisory outlier test" on net interest income, no longer adopting the "historical spread" method, but the "current spread" one, as specified in the EBA RTS.
As part of the monitoring of interest rate risk, the risk measures used internally and as regards the RAF limit are:

- the change in expected net interest income (over a time horizon of twelve months in keeping with both a dynamic and static approach to the financial statements) following a parallel instantaneous shock of the spot rate curves of +/- 100 basis points higher than last year following the increase of the average level of interest rates;
- the change in economic value following a parallel shock to spot interest rate curves of +/- 200 bps with relation to Tier 1 (capital perspective); furthermore, the value at risk of the banking book based on the VaR (Value at Risk) method over 12 months and with a confidence interval of 99.9% is also monitored as an early warning RAF indicator.

In accordance with normal management practice and internal regulations, Banco BPM Group conducts periodic stress tests, applying instant shocks, both parallel and non-parallel, to the interest rate curves of the currencies in which the banking book items are denominated. Additionally, during the ICAAP exercise, the impact of extreme yet plausible changes in risk factors on VaR is assessed from a capital adequacy perspective.

QUANTITATIVE INFORMATION

1. Banking book: distribution of financial assets and liabilities by residual duration (by repricing date)

Currency of denomination: Euro

Type/Residual duration	On demand	Up to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	From over 5 years to 10 years	Over 10 years	Unlimited duration
1. On-balance sheet assets	**34,163,518**	**54,487,910**	**13,926,041**	**3,634,722**	**23,143,578**	**18,580,289**	**10,859,748**	**999**
1.1 Debt securities	182,424	2,426,460	4,072,336	1,257,229	11,823,409	12,817,055	745,452	-
- with early redemption option	26,000	1,202,035	121,590	99,664	665,454	262,469	87,822	-
- other	156,424	1,224,425	3,950,746	1,157,565	11,157,955	12,554,586	657,630	-
1.2 Loans to banks	18,075,613	3,399,336	14,642	5,735	3,609	-	-	-
1.3 Loans to customers	15,905,481	48,662,114	9,839,063	2,371,758	11,316,560	5,763,234	10,114,296	999
- current accounts	7,233,673	206,853	655	5,947	78,954	118	-	-
- other loans	8,671,808	48,455,261	9,838,408	2,365,811	11,237,606	5,763,116	10,114,296	999
- with early redemption option	2,678,452	41,475,456	9,557,897	2,150,211	10,353,377	5,687,639	10,065,573	-
- other	5,993,356	6,979,805	280,511	215,600	884,229	75,477	48,723	999
2. On-balance sheet liabilities	**100,172,521**	**15,101,218**	**2,421,091**	**6,638,041**	**15,683,561**	**1,137,618**	**278,680**	**-**
2.1 Due to customers	98,949,144	95,702	146,548	139,129	430,832	359,893	266,901	-
- current accounts	97,464,509	15,717	6	240	-	7	-	-
- other payables	1,484,635	79,985	146,542	138,889	430,832	359,886	266,901	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	1,484,635	79,985	146,542	138,889	430,832	359,886	266,901	-
2.2 Due to banks	140,095	10,681,056	2,365	6,381,793	868,163	3,006	1,286	-
- current accounts	13,606	-	-	-	-	-	-	-
- other payables	126,489	10,681,056	2,365	6,381,793	868,163	3,006	1,286	-
2.3 Debt securities	1,083,271	4,324,460	2,272,178	117,119	14,384,566	774,719	10,493	-
- with early redemption option	111,670	4,322,401	1,799,916	68	2,940,931	695,335	172	-
- other	971,601	2,059	472,262	117,051	11,443,635	79,384	10,321	-
2.4 Other liabilities	11	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	11	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	1	-	-	-	-	-	-
+ Short positions	-	202	-	-	-	-	-	-
- Other derivatives								
+ Long positions	628,980	27,342	-	-	-	290,000	-	-
+ Short positions	914,022	-	-	-	4,146	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	172	51,669	21,874	112	78	45	440	-
+ Short positions	-	595	42	114	47,109	19,890	6,640	-
- Other derivatives								
+ Long positions	1,697,500	17,065,617	1,806,100	7,008,000	24,685,193	2,240,385	570,000	-
+ Short positions	9,742,193	22,744,654	551,164	1,288,358	6,078,979	10,954,043	3,713,406	-
4. Other off-balance sheet transactions								
+ Long positions	32,556,081	1,206,680	-	-	-	-	-	-
+ Short positions	1,206,680	32,556,081	-	-	-	-	-	-

Currency of denomination: other currencies

Type/Residual duration	On demand	Up to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	From over 5 years to 10 years	Over 10 years	Unlimited duration
1. On-balance sheet assets	**262,485**	**637,970**	**383,410**	**1,053,121**	**733,349**	**2,341,498**	**23,890**	**-**
1.1 Debt securities	16,804	41,584	341,931	1,031,066	502,668	2,245,827	-	-
- with early redemption option	815	1,812	-	22,418	20,385	21,321	-	-
- other	15,989	39,772	341,931	1,008,648	482,283	2,224,506	-	-
1.2 Loans to banks	123,734	241,349	87	86	-	-	-	-
1.3 Loans to customers	121,947	355,037	41,392	21,969	230,681	95,671	23,890	-
- current accounts	100,105	-	-	-	-	1	-	-
- other loans	21,842	355,037	41,392	21,969	230,681	95,670	23,890	-
- with early redemption option	14,831	13,735	15,479	20,119	229,094	95,670	23,890	-
- other	7,011	341,302	25,913	1,850	1,587	-	-	-
2. On-balance sheet liabilities	**972,406**	**4,769,210**	**294**	**677**	**-**	**-**	**-**	**-**
2.1 Due to customers	862,596	1,252,867	294	677	-	-	-	-
- current accounts	796,555	9,548	294	677	-	-	-	-
- other payables	66,041	1,243,319	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	66,041	1,243,319	-	-	-	-	-	-
2.2 Due to banks	109,810	3,516,343	-	-	-	-	-	-
- current accounts	537	-	-	-	-	-	-	-
- other payables	109,273	3,516,343	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	27,963	1,610,739	43,378	354,491	-	-	-	-
+ Short positions	-	-	-	27,963	420,373	1,588,235	-	-
4. Other off-balance sheet transactions								
+ Long positions	-	90,482	7,709	31	-	-	-	-
+ Short positions	-	98,223	-	-	-	-	-	-

2. Banking book: internal models and other sensitivity analysis methods

The Group makes use of an Asset & Liability Management procedure to measure on a monthly basis the impact ("sensitivity") from changes in the interest rate structure on the management aggregates of the financial margin and of the economic value of capital related to the banking book.
With regard to the impact on the management aggregate of the financial margin, which represents a reasonable proxy of net interest income in the financial statements, the ALM system estimates its changes on a one-year horizon in the assumption of deterministic shocks of the interest rate curves (bps increases/decreases applied to all the interest rate curves as if it were a sudden, single and parallel change), and shocks to adjust to the forward rates implied in money market rates, and again shocks from projections that reflect alternative scenarios. Estimates are based on the assumption that the capital structure remains unchanged in terms of aggregate assets and liabilities, as well as in terms of financial characteristics (rates, spreads, duration).
With regard to the economic value of capital, the same assumptions on the interest rate curve changes are applied, measuring the change in present value of all transactions and comparing it with the value of Own Funds (Tier 1).
For the purposes of sensitivity analyses, risk measurement metrics are monitored by applying a floor to the development of rates which, however, is currently not relevant in the face of a market scenario characterised by a sudden increase in risk-free rates after years of negative interest rates.

In 2023, interest rate risk exposure, from income and capital perspectives, generally remained within the Risk Appetite Framework and operational risk limits.
The table below shows exposure to interest rate risk at the end of 2023 in accordance with operational risk measures.

Risk ratios (%)	**2023**				**2022**	
	31 December	**average**	**maximum**	**minimum**	**30 June**	**average**
For shift + 100 bps						
Financial margin at risk/Financial margin	6.0%	4.6%	6.1%	3.4%	4.8%	16.6%
For shift - 100 bps						
Financial margin at risk/Financial margin	-6.8%	-6.3%	-5.6%	-7.1%	-6.4%	-14.9%
For shift + 100 bps						
Economic value at risk/Economic value of capital	-3.1%	-3.9%	-2.4%	-6.1%	-5.4%	-3.5%
For shift - 100 bps						
Economic value at risk/Economic value of capital	-1.0%	-1.2%	1.8%	-3.8%	1.1%	0.2%

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

Outcomes of internal validation activities

Banco BPM Group adopts behavioural models in order to capture idiosyncratic elements of customer segments and produce rate risk estimates that are more appropriate to the characteristics of the banking book. In this context, Internal Validation carries out reperforming, benchmarking and backtesting analyses in order to verify the robustness of rate risk estimates. The latest analyses carried out in 2023 did not highlight any particular aspects of improvement.

1.2.3 Exchange rate risk

QUALITATIVE INFORMATION

A. General aspects, management procedures and exchange rate risk measurement methods

As the Group's Corporate & Investment Bank, Banca Akros, given its specific business model and, in particular, as regards the exchange risk generated by the trading book, has centralised the management of the same with the Rates, Forex & Commodities Unit.
The total net exposure for Banca Akros at the end of the year, adding all the exchange rate positions against the Euro, was around +3.5 million euro (long foreign currency, short Euro), concentrated mainly in CHF (Swiss Franc: exposure +3.8 million euro) and JPY (Japanese Yen: exposure -530 thousand euro).
Regarding the methods for measuring and controlling the exchange rate risk generated by the trading book, please refer to the method described in the "Interest rate risk and price risk - Regulatory trading book" section.
With regard to calculation of capital requirements, note that, with the Final Decision on 16 November 2020, the Supervisory Authority made the authorisation to extend the exchange rate risk of the banking book subject to a condition.
on 14 April 2023, the extension of the internal model was also granted to the exchange rate risk component of the banking book, following the completion and closure of the existing obligations. Therefore, from 17 April 2023, Banco BPM Group has used the extended model to calculate 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 – and IRC (Incremental Risk Charge) metrics.
However, as at 31 December 2023, the Banking Book of Banca Akros had no exposure to exchange rate risk.

B. Exchange rate risk hedging

Exchange rate risk exposures are monitored on a daily basis and are hedged by the various desks so as to meet the risk limits defined by the Group.
The Money Market & Forex Unit, where the management of the Parent Company's exchange rate risk is centralised, hedges currency exposures both relating to other desks and to its own market making activities, with a view to the unitary and dynamic management of exchange rate risk and exchange rate volatility "on the book", thus with the possibility to carry out hedging "upstream" and to assume risks within the preset limits defined by the internal policies.

QUANTITATIVE INFORMATION

The table below shows the distribution, by currency, of the assets, liabilities and derivatives of the Group, based on the rules for preparation envisaged by Bank of Italy Circular no. 262.

In this regard, note that the imbalance resulting from the above-mentioned distribution does not necessarily represent the Group's actual foreign exchange position, as can be inferred from operational risk results. This mainly results from the fact that the table includes certain instruments in foreign currency, operationally related to other instruments which, however, are not subject to exposure as they are denominated in euro, although a part of the cash flows depends on exchange rate risk.

1. Breakdown by currency of assets and liabilities and of derivatives

Items	Currencies					
	USD	CHF	JPY	CHF	PLN	OTHER
A. Financial assets	**6,027,799**	**319,900**	**242,836**	**319,900**	**168**	**279,971**
A.1 Debt securities	4,073,346	98,751	-	98,751	-	8,573
A.2 Equity instruments	926,982	65,900	237,535	65,900	-	217,324
A.3 Loans to banks	159,758	145,357	3,476	145,357	168	46,237
A.4 Loans to customers	867,713	9,892	1,825	9,892	-	7,837
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**26,536**	**6,864**	**1,710**	**6,864**	**16**	**5,019**
C. Financial liabilities	**5,570,390**	**38,537**	**15,660**	**38,537**	**22**	**51,008**
C.1 Due to banks	3,594,651	7,489	7,676	7,489	-	18,687
C.2 Due to customers	1,975,739	31,048	7,984	31,048	22	32,321
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**27,134**	**1,096**	**460**	**1,096**	**2**	**2,772**
E. Financial derivatives						
- Options						
+ Long positions	95,089	9,390	3,743	9,390	-	9,758
+ Short positions	134,695	4,001	4,361	4,001	-	1,647
- Other derivatives						
+ Long positions	17,770,806	27,829	161,034	27,829	71,876	114,680
+ Short positions	17,547,414	287,806	138,733	287,806	72,045	121,388
Total assets	**23,920,230**	**363,983**	**409,323**	**363,983**	**72,060**	**409,428**
Total liabilities	**23,279,633**	**331,440**	**159,214**	**331,440**	**72,069**	**176,815**
Imbalance (+/-)	**640,597**	**32,543**	**250,109**	**32,543**	**(9)**	**232,613**

2. Internal models and other sensitivity analysis methods

The exchange rate risks generated by the trading book and the banking book are monitored through an internal VaR model illustrated in the "Interest rate risk and price risk - Regulatory trading book" section, where the values assumed by this indicator are shown.

1.3 Derivative instruments and hedging policies

Derivative instruments

With regard to derivative transactions, Banco BPM Group has introduced specific and robust validation and control processes of the pricing models and related market parameters.

Validation and control process of Market Parameters

Banco BPM Group adopted a Fair Value Policy defining the accounting rules to be used to value market parameters. To comply with this Policy, a strict process was put in place to count, validate and control the market parameters used to measure the market value and to estimate the risk of derivative positions. This process is implemented by the Parent Company's CRO Function and envisages, in particular:

- the constant update of the Parameter Manual, containing the main parameters used and their most significant features, and the definition of the source;
- the constant update of parameter control methods;
- the daily validation and control of the listed parameters, automatically fed by external infoproviders;
- the daily validation and control of illiquid parameters, from an accounting and operational perspective.

In order to support control activities, the Group introduced an advanced application system (fed by the front office system and, for benchmarking purposes, by alternative and highly specialised infoproviders) to monitor the performance of the parameters over time, featuring the statistical analysis of variations and operating warnings.

Validation and control process of pricing models of OTC derivative products

Banco BPM Group works with OTC derivative instruments using, for the purposes of their valuation, quantitative pricing models in line with market best practices, which are already included in the Front Office application or, for special structures, models developed by the financial engineering department of the Investment Bank.
In order to ensure a precise and strict control over the adoption of new pricing models - be they market or in-house developed models - a validation process is in place, with the following features:

- the validation of the models carried out by the Market Risk Unit of the CRO Function;
- model validation based on strict consistency and robustness tests;
- the official validation of the new pricing models by the Parent Company's Risk Committee and, when this involves a new product, also by the Product Innovation Committee with the involvement of the main members of corporate management.

Note that, based on the current prudential policy pursued by the Group, innovative financial instruments can be entered only after a thorough analysis of the reliability and accuracy of their pricing models.

The table below gives the fair value amount of Banca Akros' positions in derivative financial instruments (with the exclusion of forward exchange contracts), in relation to the type of pricing model used. Note that Banca Akros, in its role as the investment bank of Banco BPM Group, manages the market risk that derives from its overall transactions in derivative financial instruments.

Aggregate *(fair value in thousands of euro)*		Number of contracts/lots (in units)	Fair Value	Positive Fair Value	Negative Fair Value
Total		**374,750**	**552,295,053**	**1,412,234,350**	**(859,939,297)**
of which:	Listed/Quoted Derivatives	371,077	34,595,241	173,523,634	(138,928,393)
of which:	Certificates valued using internal models developed by the financial engineering department of Banca Akros	85	(131,291,729)	-	(131,291,729)
of which:	OTC derivatives valued using the proprietary models of the Front Office system	677	(175,366,701)	255,508,273	(430,874,974)
of which:	OTC derivatives valued using internal models developed by the financial engineering department of Banca Akros	2,911	824,358,242	983,202,443	(158,844,201)
of which:	OTC derivatives valued using external contributors	-	-	-	-

OTC financial and credit derivatives: counterparty risk/financial risk – Internal models

With regard to counterparty risk, defined as the risk that the counterparty in a transaction defaults before the final settlement of the cash flows of such transaction (Regulation (EU) no. 575/2013), the Group uses, both for supervisory reporting purposes and for internal management purposes, standardised methods to calculate exposures on the entire reference scope (derivatives, repurchase agreements, securities lending and medium- and long-term loans).
As regards derivative transactions, exposure to counterparty risk is calculated on the basis of the SA-CCR approach (Standardised Approach for Counterparty Credit Risk) (Ref. Regulation (EU) 2019/876), which makes it possible to better reflect the risks associated with derivative transactions.
Starting from March 2023, the internal method (Shortcut Method), previously used for management purposes to estimate risk exposures in OTC derivatives subject to Collateral Agreements (CSA), was prudentially replaced by the standardised approach (SA-CCR) also adopted in the Supervisory reporting area, which entered into force in June 2021 and applied to the entire scope of derivative transactions.
The above cited internal method continues to be implemented in the Parent Company and Banca Akros lending process chain for transactions in OTC collateralised derivatives, together with a daily monitoring and reporting system.

Membership of Clearing Houses for transactions in OTC Derivatives and Credit Derivatives has enabled the mitigation of risks.
In accordance with the Basel III Framework, additional capital requirements regarding the following are to be calculated:

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

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

The Group has met the obligation envisaged by European Legislation (Delegated Regulation (EU) 2016/2251), by exchanging, based on the relative contracts (CTA - Collateral Transfer Agreement), the initial margins of OTC derivatives not cleared by a central counterparty, which provide additional protection in the event that one of the two counterparties is not able to meet its commitments over the life of the contract.
Banco BPM Group uses the SIMM method, whose calculation is mostly risk-sensitive, and is based on aggregate sensitivities by risk and product category.

1.3.1 Trading derivative instruments

A. FINANCIAL DERIVATIVES

A.1 Trading financial derivatives: year-end notional values

Underlying assets/Derivative types	Total 31/12/2023				Total 31/12/2022			
	Over the Counter			Organised markets	Over the Counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting arrangements	Without netting arrangements			With netting arrangements	Without netting arrangements	
1. Debt securities and interest rates	43,673,488	32,148,054	12,163,452	55,216	42,389,484	39,099,959	14,606,813	16,251
a) Options	-	18,795,583	1,987,454	-	-	25,743,058	1,826,404	-
b) Swaps	43,673,488	11,145,971	9,885,998	-	42,389,484	13,356,901	10,694,509	-
c) Forwards	-	-	290,000	-	-	-	165,000	-
d) Futures	-	2,206,500	-	55,216	-	-	1,920,900	16,251
e) Other	-	-	-	-	-	-	-	-
2. Equity instruments and share indices	-	10,794,253	880,908	1,124,328	-	9,574,472	1,312,282	750,897
a) Options	-	10,571,629	880,908	1,077,270	-	9,574,472	939,533	693,371
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	222,624	-	47,058	-	-	372,749	57,526
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	-	35,295,614	894,273	-	-	40,551,085	1,150,304	-
a) Options	-	376,237	214,903	-	-	254,749	318,959	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	34,919,377	668,448	-	-	40,296,336	826,419	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	10,922	-	-	-	4,926	-
4. Commodities	-	168,889	8,902	-	-	138,478	9,404	-
5. Other	-	-	-	-	-	-	-	-
Total	**43,673,488**	**78,406,810**	**13,947,535**	**1,179,544**	**42,389,484**	**89,363,994**	**17,078,803**	**767,148**

A.2 Trading financial derivatives: gross positive and negative fair value - breakdown by products

Derivative types	Total 31/12/2023				Total 31/12/2022			
	Over the Counter			Organised markets	Over the Counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting arrangements	Without netting arrangements			With netting arrangements	Without netting arrangements	
1. Positive fair value								
a) Options	-	666,299	12,257	38,212	-	711,589	16,165	32,482
b) Interest rate swaps	933,661	319,307	52,734	-	1,469,731	511,515	3,392	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	344,332	9,340	-	-	807,593	27,537	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	8,340	187	-	-	2,507	331	-
Total	**933,661**	**1,338,278**	**74,518**	**38,212**	**1,469,731**	**2,033,204**	**47,425**	**32,482**
2. Negative fair value								
a) Options	-	645,411	160,084	32,225	-	663,441	214,999	26,021
b) Interest rate swaps	515,675	175,746	388,643	-	870,745	338,121	733,265	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	346,893	5,341	-	-	772,678	11,634	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	7,686	686	-	-	3,284	105	-
Total	**515,675**	**1,175,736**	**554,754**	**32,225**	**870,745**	**1,777,524**	**960,003**	**26,021**

A.3 OTC trading financial derivatives: notional values, gross positive and negative fair value by counterparties

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
Contracts not included in netting arrangements				
1) Debt securities and interest rates				
- notional value	X	-	291,366	11,872,086
- positive fair value	X	-	2,352	59,246
- negative fair value	X	-	3,804	412,039
2) Equity instruments and share indices				
- notional value	X	-	-	880,908
- positive fair value	X	-	-	2,935
- negative fair value	X	-	-	131,292
3) Currencies and gold				
- notional value	X	212,825	5,796	675,652
- positive fair value	X	3,652	12	6,166
- negative fair value	X	-	32	6,928
4) Commodities				
- notional value	X	-	-	8,902
- positive fair value	X	-	-	155
- negative fair value	X	-	-	659
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included in netting arrangements				
1) Debt securities and interest rates				
- notional value	43,673,488	17,931,347	11,705,808	2,510,899
- positive fair value	933,661	220,894	230,095	17,370
- negative fair value	515,675	94,624	74,180	79,644
2) Equity instruments and share indices				
- notional value	-	6,588,113	4,206,140	-
- positive fair value	-	368,839	144,435	-
- negative fair value	-	316,128	254,238	-
3) Currencies and gold				
- notional value	-	30,857,812	4,076,669	361,133
- positive fair value	-	300,188	44,341	1,862
- negative fair value	-	319,618	23,881	3,831
4) Commodities				
- notional value	-	64,364	37,843	66,682
- positive fair value	-	1,249	2,275	6,730
- negative fair value	-	6,213	804	2,575
5) Other				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC financial derivatives: notional values

Underlying/Residual life	Up to 1 year	From over 1 year to 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	34,183,058	44,765,187	9,036,749	87,984,994
A.2 Financial derivatives on equity instruments and share indices	4,038,563	7,636,081	517	11,675,161
A.3 Financial derivatives on currencies and gold	35,658,615	531,272	-	36,189,887
A.4 Financial derivatives on commodities	174,632	3,159	-	177,791
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2023	**74,054,868**	**52,935,699**	**9,037,266**	**136,027,833**
Total 31/12/2022	**82,656,162**	**55,882,872**	**10,293,247**	**148,832,281**

B. CREDIT DERIVATIVES

B.1 Trading credit derivatives: year-end notional values

Transaction categories	Trading derivatives	
	on a single party	on several parties (basket)
1. Protection bought		
a) Credit default products	-	91,000
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Other	-	-
Total 31/12/2023	**-**	**91,000**
Total 31/12/2022	**-**	**70,000**
2. Protection sold		
a) Credit default products	-	8,000
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Other	-	-
Total 31/12/2023	**-**	**8,000**
Total 31/12/2022	**-**	**-**

B.2 Trading credit derivatives: gross positive and negative fair value - breakdown by products

Derivative types	Total 31/12/2023	Total 31/12/2022
1. Positive fair value		
a) Credit default products	403	411
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Other	-	-
Total	**403**	**411**
2. Negative fair value		
a) Credit default products	3,045	142
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Other	-	-
Total	**3,045**	**142**

B.3 OTC trading credit derivatives: notional values, gross (positive and negative) fair value by counterparty

	Central counterparties	Banks	Other financial companies	Other entities
Contracts not included in netting arrangements				
1) Protection purchased				
– notional value	X	-	-	-
– positive fair value	X	-	-	-
– negative fair value	X	-	-	-
2) Protection sold				
– notional value	X	-	-	-
– positive fair value	X	-	-	-
– negative fair value	X	-	-	-
Contracts included in netting arrangements				
1) Protection purchased				
– notional value	61,000	30,000	-	-
– gross positive fair value	77	-	-	-
– gross negative fair value	2,702	343	-	-
2) Protection sold				
– notional value	8,000	-	-	-
– gross positive fair value	326	-	-	-
– gross negative fair value	-	-	-	-

B.4 Residual life of OTC trading credit derivatives: notional values

Underlying/Residual life	Up to 1 year	From over 1 year to 5 years	Over 5 years	Total
1 Protection sold	-	8,000	-	8,000
2 Protection bought	-	91,000	-	91,000
Total 31/12/2023	**-**	**99,000**	**-**	**99,000**
Total 31/12/2022	**-**	**70,000**	**-**	**70,000**

B.5 Credit derivatives connected with the fair value option: annual changes

This case is not present for the Group; thus the relevant table has been omitted.

1.3.2 Hedge accounting

QUALITATIVE INFORMATION

A. Fair value hedging

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

- demand items are hedged through fair value hedges;

- bonds placed with ordinary customers are hedged via the fair value option, while fair value hedging is used for bonds placed with institutional investors;
- the securities portfolio is usually hedged through fair value hedges (or, in some specific cases, cash flow hedges);
- loans are hedged through fair value hedges.

For further details, please refer to "Section A.2 – Key financial statement items" in Part A of these Notes to the consolidated financial statements.

The price risk of the alternative asset portfolio is monitored on a daily basis and is not hedged.

B. Cash flow hedging

Cash flow hedges are extremely limited and only concern certain securities on the balance sheet (these are mainly inflation-linked securities).

C. Foreign investment hedging

The only foreign investment hedges made by the Group concern the interest held by Banca Aletti in the subsidiary Banca Aletti & C. (Suisse) S.A., in which the book value is expressed in a currency other than euro (Swiss francs). In the separate financial statements, the hedge directly refers to the interest recorded in Banca Aletti's financial statements, while at the consolidated financial statement level, following on from a process of consolidation, the hedge regards the assets and liabilities of the aforementioned subsidiary.

D. Hedging instruments

The main sources of ineffectiveness that could change the hedging relationship during the period of validity are as follows:

- misalignment of the derivative and the hedged underlying recorded on initial designation or subsequently generated, as in the case of repurchases of bond loans;
- inclusion in the effectiveness test of the value of the variable leg of the hedging derivative, in the case of fair value hedges.

During the year, no conditions arose that determined hedge ineffectiveness.

During the year, the Group did not implement any dynamic hedging, as defined by IFRS 7, paragraph 23C.

E. Hedged items

Regarding the hedged risks and the relative hedging instruments used, please refer to previous points A and B.
As outlined in Part A of these Notes to the consolidated financial statements, the derivatives can be designated as hedges, provided that the hedging relationship between the hedged instrument and the hedging instruments is formally documented and it is effective at the time the hedge is originated and prospectively throughout its entire life.
The hedge effectiveness depends on the extent to which the changes in the fair value or in the expected cash flows of the hedged instrument are actually offset by those of the hedging instrument. Therefore, effectiveness is measured by comparing said changes, while considering the aim pursued by the entity when the hedge was established.
A hedge is effective (within the limits established as a range of 80% to 125%) when changes in the fair value (or in the cash flows) of the hedging instrument neutralise almost completely the changes in the hedged instrument attributable to the hedged risk.
Subsequent to initial recognition with reference to the partial or total ineffectiveness of the hedging relationships:

- for fair value hedges, the changes in fair value of the hedged element are offset by the changes in fair value of the hedging instrument. Said offset is recognised by charging the changes in value to the income statement, in item "90. Fair value gains/losses on hedging derivatives", referring both to the hedged element (referring to the changes generated by the underlying risk factor), as well as to the hedging instrument. Any resulting difference, which represents the partial ineffectiveness of the hedge, represents the net effect on the income statement. If the hedging relationship ends, the hedged instrument reacquires the measurement approach of the class to which it originally belonged; for instruments measured at amortised cost, the cumulative revaluations/write-downs recognised as a result of changes in fair value of the hedged risk are recognised in the income statement under interest income and expense throughout the residual life of the hedged item, on the basis of the effective interest rate. If the hedged item is sold or repaid, the share of fair value not yet amortised is recognised immediately in the income statement;

- for cash flow hedges, the portion of changes in the fair value of the derivative that is determined to be an effective hedge is recognised in shareholders' equity (item "120. Valuation reserves"), while it is recognised in the income statement only when changes in cash flows to be offset arise in the hedged item. The portion of gains or losses of the hedging instrument that is considered ineffective is charged to the income statement (item "90. Fair value gains/losses on hedging derivatives"). Said portion is equal to any difference between the cumulative fair value of the hedging instrument and the cumulative fair value of the hedged instrument. In any event, the fluctuations in fair value of the hedged item and the related hedge must lie within the 80%-125% range. If the cash flow hedge is no longer considered effective, or the hedging relationship is terminated, the total amount of gains or losses on the hedging instrument, already recognised under item "120. Valuation reserves", is recognised in the income statement only when the hedged transaction will take place or when it is no longer deemed possible that the transaction will take place. In this last circumstance, the profits or losses are transferred from the shareholders' equity item to the income statement item "90. Fair value gains/losses on hedging derivatives".

With reference to the impacts related to the macroeconomic environment on the effectiveness of the Group's hedging relationships in place as at 31 December 2023, no particular critical elements emerged.
In this regard, the risk that the hedging relationship may be interrupted due to the increased risk of counterparty default appears remote, considering that almost all hedging derivatives are entered into with central counterparties, as shown in the following tables.
In addition, for fair value macro hedges, no elements have emerged related to the risk of any prepayment, even unexpected, as this risk is already included in the model. As a further safeguard against unexpected prepayments, there is the circumstance that the hedged portion represents a fraction of the amount that can be potentially hedged.

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In addition, for fair value macro hedges, no elements have emerged related to the risk of any prepayment, even unexpected, as this risk is already included in the model. As a further safeguard against unexpected prepayments, there is the circumstance that the hedged portion of the hedged instrument represents a fraction of the amount that can be potentially hedged.

QUANTITATIVE INFORMATION

A. FINANCIAL HEDGING DERIVATIVES

A.1 Financial hedging derivatives: year-end notional values

Underlying assets/Derivative types	Total 31/12/2023				Total 31/12/2022 (*)			
	Over the Counter			Organised markets	Over the Counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting arrangements	Without netting arrangements			With netting arrangements	Without netting arrangements	
1. Debt securities and interest rates	**48,082,972**	**461,543**	**1,000,000**	**-**	**35,254,737**	**2,197,758**	**500,000**	**-**
a) Options	-	5,000	-	-	-	205,000	-	-
b) Swaps	48,082,972	429,201	1,000,000	-	35,254,737	1,971,720	500,000	-
c) Forwards	-	27,342	-	-	-	21,038	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity instruments and share indices	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	**-**	**-**	**29,239**	**-**	**-**	**-**	**28,980**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	29,239	-	-	-	28,980	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**48,082,972**	**461,543**	**1,029,239**	**-**	**35,254,737**	**2,197,758**	**528,980**	**-**

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

A.2 Financial hedging derivatives: gross positive and negative fair value - breakdown by products

Derivative types	Positive and negative fair value								Changes in value used to calculate hedge ineffectiveness	
	Total 31/12/2023				Total 31/12/2022 (*)					
	Over the Counter			Organised markets	Over the Counter			Organised markets	Total 31/12/2023	Total 31/12/2022
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties				
		With netting arrangements	Without netting arrangements			With netting arrangements	Without netting arrangements			
1. Positive fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	1,335,296	3,270	-	-	2,286,908	(32,042)	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	696	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	**1,335,296**	**3,270**	**-**	**-**	**2,286,908**	**(31,346)**	**-**	**-**	**-**	**-**
2. Negative fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	1,296,835	80,566	20,701	-	1,402,964	82,455	536	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	358	1,868	-	-	-	1,455	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	**1,296,835**	**80,924**	**22,569**	**-**	**1,402,964**	**82,455**	**1,991**	**-**	**-**	**-**

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

A.3 OTC financial hedging derivatives: notional values, gross positive and negative fair value by counterparty

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
Contracts not included in netting arrangements				
1) Debt securities and interest rates				
- notional value	X	1,000,000	-	-
- positive fair value	X	-	-	-
- negative fair value	X	20,701	-	-
2) Equity instruments and share indices				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Currencies and gold				
- notional value	X	29,239	-	-
- positive fair value	X	-	-	-
- negative fair value	X	1,868	-	-
4) Commodities				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included in netting arrangements				
1) Debt securities and interest rates				
- notional value	48,082,972	236,543	225,000	-
- positive fair value	1,335,296	2,324	947	-
- negative fair value	1,296,835	29,274	51,650	-
2) Equity instruments and share indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other	-	-	-	-
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC financial hedging derivatives: notional values

Underlying/Residual life	Up to 1 year	From over 1 year to 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	6,782,805	23,749,873	19,011,837	49,544,515
A.2 Financial derivatives on equity instruments and share indices	-	-	-	-
A.3 Financial derivatives on currencies and gold	29,239	-	-	29,239
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2023	**6,812,044**	**23,749,873**	**19,011,837**	**49,573,754**
Total 31/12/2022	**1,447,041**	**19,968,421**	**16,566,013**	**37,981,475**

B. CREDIT HEDGING DERIVATIVES

B.1 Credit hedging derivatives: year-end notional values

This case is not present for the Group; thus the relevant table has been omitted.

B.2 Credit hedging derivatives: gross positive and negative fair value - breakdown by products

This case is not present for the Group; thus the relevant table has been omitted.

B.3 OTC credit hedging derivatives: notional values, gross positive and negative fair value by counterparty

This case is not present for the Group; thus the relevant table has been omitted.

B.4 Residual life of OTC credit hedging derivatives: notional values

This case is not present for the Group; thus the relevant table has been omitted.

C. NON-DERIVATIVE HEDGING INSTRUMENTS

C.1 Hedging instruments other than derivatives: breakdown by accounting portfolio and hedge type

This case is not present for the Group; thus the relevant table has been omitted.

D. HEDGED INSTRUMENTS

D.1 Fair value hedges

	Micro hedges: book value	Micro hedges - net positions: book value of assets or liabilities (before netting)	Micro hedges			Macro hedges: Book value
			Accumulated changes in the fair value of the hedged instrument	Termination of the hedge: residual accumulated changes in fair value	Changes in value used to calculate hedge ineffectiveness	
A. Assets						
1. Financial assets measured at fair value through other comprehensive income – hedging of:	**7,838,917**	**-**	**(250,416)**	**-**	**-**	**-**
1.1 Debt securities and interest rates	7,838,917	-	(250,416)	-	-	X
1.2 Equity instruments and share indices	-	-	-	-	-	X
1.3 Currencies and gold	-	-	-	-	-	X
1.4 Loans	-	-	-	-	-	X
1.5 Other	-	-	-	-	-	X
2. Financial assets at amortised cost - hedging of:	**6,468,396**	**-**	**(265,859)**	**-**	**-**	**9,008,620**
2.1 Debt securities and interest rates	6,468,396	-	(265,859)	-	-	X
2.2 Equity instruments and share indices	-	-	-	-	-	X
2.3 Currencies and gold	-	-	-	-	-	X
2.4 Loans	-	-	-	-	-	X
2.5 Others	-	-	-	-	-	X
Total 31/12/2023	**14,307,313**	**-**	**(516,275)**	**-**	**-**	**9,008,620**
Total 31/12/2022	**13,987,682**	**-**	**(1,760,173)**	**-**	**-**	**5,476,138**
B. Liabilities						
1. Financial liabilities at amortised cost - hedging of:	**7,735,620**	**-**	**(32,684)**	**-**	**-**	**15,996,000**
1.1 Debt securities and interest rates	7,735,620	-	(32,684)	-	-	X
1.2 Currencies and gold	-	-	-	-	-	X
1.3 Other	-	-	-	-	-	X
Total 31/12/2023	**7,735,620**	**-**	**(32,684)**	**-**	**-**	**15,996,000**
Total 31/12/2022	**2,913,218**	**-**	**(258,001)**	**-**	**-**	**11,386,000**

D.2 Cash flow hedges and foreign investment hedges

	Changes in value used to calculate hedge ineffectiveness	Hedging reserves	Termination of the hedge: residual value of the hedging reserves
A. Cash flow hedges			
1. Assets	**-**	**22,867**	**(2,386)**
1.1 Debt securities and interest rates	-	22,867	(2,386)
1.2 Equity instruments and share indices	-	-	-
1.3 Currencies and gold	-	-	-
1.4 Loans	-	-	-
1.5 Other	-	-	-
2. Liabilities	**-**	**-**	**-**
2.1 Debt securities and interest rates	-	-	-
2.2 Currencies and gold	-	-	-
2.3 Other	-	-	-
Total (A) 31/12/2023	**-**	**(22,867)**	**2,386**
Total (A) 31/12/2022	**-**	**(27,655)**	**-**
B. Foreign investment hedges	**X**	**(2,806)**	**-**
Total (A+B) 31/12/2023	**-**	**(25,673)**	**2,386**
Total (A+B) 31/12/2022	**-**	**(29,130)**	**-**

E. EFFECTS OF HEDGING TRANSACTIONS ON SHAREHOLDERS' EQUITY

E.1 Reconciliation of shareholders' equity components

	Cash flow hedging reserve					Foreign investment hedging reserve				
	Debt securities and interest rates	Equity instruments and share indices	Currencies and gold	Loans	Other	Debt securities and interest rates	Equity instruments and share indices	Currencies and gold	Loans	Other
Opening balance	**(27,655)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Fair value changes (effective portion)	10,717	-	-	-	-	-	-	-	-	-
Reclassifications to income statement	-	-	-	-	-	-	-	-	-	-
of which: future transactions no longer expected	-	-	-	-	-	X	X	X	X	X
Other changes	(3,543)	-	-	-	-	-	-	-	-	-
of which: transfers at the initial book value of hedged instruments	-	-	-	-	-	X	X	X	X	X
Closing balance	**(20,481)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

The table relating to Hedging instruments (non-designated items) is omitted as the category is not present for the Group.

F. Disclosure envisaged by IFRS 7 relating to the reform of benchmark rates

Information on risks and related hedging policies - derivative instruments and hedging policies

Hedge accounting

As regards hedge accounting, as at 31 December 2023 there are no residual derivative contracts indexed to the rates impacted by the IBOR Reform, pursuant to paragraph 24H of IFRS 7.

1.3.3 Other information on derivatives (trading and hedging)

A. FINANCIAL AND CREDIT DERIVATIVES

A.1 OTC financial and credit derivatives: net fair value by counterparty

	Central counterparties	Banks	Other financial companies	Other entities
A. Financial derivatives				
1) Debt securities and interest rates				
- notional value	53,828,215	-	-	-
- net positive fair value	456,685	-	-	-
- net negative fair value	-	-	-	-
2) Equity instruments and share indices				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
3) Currencies and gold				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
4) Commodities				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
5) Other				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
B. Credit derivatives				
1) Protection purchased				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
2) Protection sold				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-

1.4 LIQUIDITY RISK

QUALITATIVE INFORMATION

Challenges and impacts related to the current macroeconomic context

Although the macroeconomic scenario has been characterised recently by high volatility given the inflation and interest rate trends, as well as geopolitical tensions, the Group's risk profile showed robust levels of liquidity and funding, well above the regulatory thresholds and internal limits. In addition, the scenario and the relative impacts on the Group's liquidity and funding position are constantly monitored and reported to the competent corporate bodies.

A. General aspects, management processes and measurement methods for liquidity risk

Liquidity risk means the risk that the Group is not able to meet its payment commitments, which are certain or envisaged with reasonable certainty. Liquidity risk is usually broken down into two types of risk: (1) liquidity and funding risk, namely the risk that the Group is unable, in the short-term (liquidity) and in the long-term (funding) to meet its payment commitments and its obligations in an efficient manner; (2) market liquidity risk, namely the risk that the Group is not able to liquidate an asset without incurring losses on the capital account due to the poor depth of the reference market and/or due to the timing with which the transaction must be performed.
In Banco BPM Group, liquidity and funding risk is governed by the "Liquidity, funding risk and ILAAP regulation", which establishes: the roles and responsibilities of the corporate bodies and the corporate functions, the metrics used for risk measurement, the guidelines for conducting stress tests, the Liquidity Contingency Plan and the overall reporting framework related to the Group's liquidity and funding risk.
Liquidity risk is managed and monitored as part of the Internal Liquidity Adequacy Assessment Process (ILAAP), which is the process the Group uses to identify, measure, monitor, mitigate and report its liquidity risk profile. As part of said process, the Group makes an annual self-assessment regarding the adequacy of the overall liquidity risk management and measurement framework, which also covers governance, methodologies, IT systems, measurement tools and reporting. The results of the risk profile adequacy assessment and the overall self-assessment are reported to the Corporate Bodies and submitted for the attention of the Supervisory Authority.
Liquidity governance is centralised within the Parent Company. Liquidity risk monitoring and control is conducted on a daily (short-term liquidity) and a monthly basis (structural liquidity); its objective is to monitor the evolution of the risk profile by verifying its adequacy with respect to the Risk Appetite Framework and the operational limits envisaged. Stress tests are conducted on a monthly basis, in order to test the Group's ability to withstand unfavourable scenarios and the estimates of the liquidity that can be generated with the countermeasures (so-called action plan, an integral part of the Liquidity Contingency Plan) that can be activated when a stress scenario occurs, are updated.
More specifically, the Group uses a monitoring system that includes short-term liquidity indicators (with a time horizon from intraday to twelve months) and long-term ones (beyond twelve months). To this end, both regulatory metrics (LCR, NSFR, ALMM) and metrics processed internally, which include the use of estimation models of behavioural and/or optional parameters, are adopted.
In 2023, the liquidity and funding profile of Banco BPM Group was found to be adequate, complying with both internal and regulatory risk limits. The monitoring of all ordinary activities related to the measurement, monitoring and reporting of the Group's exposure to liquidity and funding risks was maintained, including Supervisory Reporting and periodic dialogue with the JST. In addition, activities related to the implementation of the improvement actions envisaged by the ILAAP 2023 Action Plan were carried out, including the incorporation of the EBA regulatory update relating to ALMM (Additional Liquidity Monitoring Metrics) reports, the strengthening of the Data Quality control framework and the closure of the critical issues raised by the control functions.
Lastly, during the fourth quarter of 2023, the Group participated in the Joint Liquidity Exercise performed jointly by the Single Resolution Board (SRB) and the ECB, with positive results in terms of punctuality, completeness and accuracy of the information provided.

Outcomes of internal validation activities

The Internal Validation Function conducts qualitative and quantitative analyses to assess the soundness and accuracy of liquidity risk estimates. Furthermore, as regards ILAAP, the Function expresses an opinion on the regular functioning, on the predictive capacity, on the performance and on the prudence of the internal methodologies for measuring liquidity and funding risks. The latest analyses carried out in 2023 did not highlight any particular aspects of improvement.

QUANTITATIVE INFORMATION

1. Distribution of financial assets and liabilities by residual duration of the contracts. Currency of denomination: Euro

Items/Time bands	On demand	From over 1 day to 7 days	From over 7 days to 15 days	From over 15 days to 1 month	Over 1 month to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	Over 5 years	Unlimited duration
On-balance sheet assets	**17,009,659**	**4,715,389**	**1,396,827**	**2,508,570**	**3,973,499**	**6,211,856**	**10,677,041**	**53,923,949**	**47,545,021**	**1,269,631**
A.1 Government securities	115,068	-	-	-	150,000	618,112	956,000	11,495,587	15,151,441	-
A.2 Other debt securities	73,257	60	82	25,992	90,757	173,799	240,939	3,247,919	3,543,260	1,109
A.3 UCIT units	1,397,505	-	-	-	-	-	-	-	-	657
A.4 Loans	15,423,829	4,715,329	1,396,745	2,482,578	3,732,742	5,419,945	9,480,102	39,180,443	28,850,320	1,267,865
- Banks	671,847	363,401	484,781	875,549	72,572	166,939	23,702	557,117	-	963,005
- Customers	14,751,982	4,351,928	911,964	1,607,029	3,660,170	5,253,006	9,456,400	38,623,326	28,850,320	304,860
On-balance sheet liabilities	**100,444,575**	**16,589,870**	**615,129**	**963,189**	**10,947,714**	**697,667**	**6,994,583**	**21,655,473**	**2,675,269**	**-**
B.1 Deposits and current accounts	98,031,891	40,019	-	-	27,049	109,404	75,529	21,075	5,181	-
- Banks	148,763	40,019	-	-	-	-	-	-	-	-
- Customers	97,883,128	-	-	-	27,049	109,404	75,529	21,075	5,181	-
B.2 Debt securities	1,083,341	70	2,065	10	805,597	511,170	427,117	20,264,239	2,000,230	-
B.3 Other liabilities	1,329,343	16,549,781	613,064	963,179	10,115,068	77,093	6,491,937	1,370,159	669,858	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	386,522	1,207,604	1,828,775	5,295,767	4,862,402	4,982,494	142,311	290,000	-
- Short positions	313,342	475,144	948,624	2,030,407	4,515,921	4,900,857	5,113,711	525,496	25	-
C.2 Financial derivatives without exchange of capital										
- Long positions	1,911,938	4,542	27,248	38,398	163,146	211,767	390,429	-	-	-
- Short positions	1,827,267	5,891	18,837	48,144	202,889	167,268	403,941	-	-	-
C.3 Deposits and loans to be received										
- Long positions	32,556,081	-	-	-	-	-	-	-	-	-
- Short positions	-	32,556,081	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	-	1,206,680	-	-	-	-	-	-	-	-
- Short positions	1,206,680	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	42,544	132	975	1,446	4,982	6,862	64,388	273,668	80,395	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	404	-	-	-	-	-	-	-	-	-
- Short positions	3,045	-	-	-	-	-	-	-	-	-

2. Distribution of financial assets and liabilities by residual duration of the contracts. Currency of denomination: other currencies

Items/Time bands	On demand	From over 1 day to 7 days	From over 7 days to 15 days	From over 15 days to 1 month	Over 1 month to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	Over 5 years	Unlimited duration
On-balance sheet assets	**315,427**	**81,224**	**165,541**	**216,579**	**141,885**	**397,261**	**1,069,268**	**800,145**	**2,843,409**	**1,731**
A.1 Government securities	13,188	-	-	4,525	-	316,742	972,851	345,580	2,628,672	-
A.2 Other debt securities	3,628	-	-	90	-	22,624	44,561	216,349	95,072	-
A.3 UCIT units	57,656	-	-	-	-	-	-	-	-	-
A.4 Loans	240,955	81,224	165,541	211,964	141,885	57,895	51,856	238,216	119,665	1,731
- Banks	123,657	74,052	147,608	1,953	17,793	87	86	-	-	-
- Customers	117,298	7,172	17,933	210,011	124,092	57,808	51,770	238,216	119,665	1,731
On-balance sheet liabilities	**970,390**	**960,409**	**1,307,195**	**2,470,726**	**33,912**	**299**	**713**	**-**	**2,427**	**-**
B.1 Deposits and current accounts	865,097	960,409	99,774	4,118	33,912	299	713	-	-	-
- Banks	70,277	960,409	99,774	-	28,333	-	-	-	-	-
- Customers	794,820	-	-	4,118	5,579	299	713	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	105,293	-	1,207,421	2,466,608	-	-	-	-	2,427	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	529,396	946,953	2,234,059	4,409,628	4,829,194	4,958,642	488,766	-	-
- Short positions	-	439,445	1,193,246	2,026,012	5,140,018	4,757,661	4,836,413	34,802	-	-
C.2 Financial derivatives without exchange of capital										
- Long positions	46,887	-	-	-	8	4	21	-	-	-
- Short positions	34,317	-	-	132	29,793	1,300	14,654	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	-	-	8,757	77,140	4,586	7,709	31	-	-	-
- Short positions	-	98,223	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	22	-	-	-	176	3,421	2,003	2,715	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

As outlined in "Part E – Section 2 – Risks of prudential consolidation – 1.1 Credit risk – C. Securitisation transactions", Banco BPM has subscribed to securities that can be used for refinancing transactions with the ECB or for repurchase agreements with market counterparties, against "self-securitisation" transactions generated by Group companies or banks. The "self-securitisation transactions" outstanding as at 31 December 2023 are shown below.

Self-securitisation transactions

SPE	Originator	Issue date of securities	Transaction	Type of securitisation
Self-securitisation transactions not derecognised from the financial statements				
BPL Mortgages S.r.l.	Banco BPM	December 2012	BPL Mortgages 5	Performing residential mortgage loans
ProFamily SPV S.r.l.	Banco BPM (former ProFamily)	February 2021	ProFamily	Consumer credit
BPL Mortgages S.r.l.	Banco BPM	April 2022	BPL Mortgages 8	Mortgage, landed, agricultural and other loans granted to performing SMEs

Existing and significant self-securitisation transactions during 2023

Securitisation of mortgage, landed, agricultural and other loans granted to small and medium-sized enterprises – BPL Mortgages 8 (April 2022)

On 29 March 2022, with the signature of the relative contracts, Banco BPM sold to the SPE BPL Mortgages S.r.l. a portfolio of mortgage, landed, agricultural and other loans, disbursed in favour of small and medium-sized enterprises for a sale value (including accruals) of 2,459.5 million, carrying out a new securitisation called "BPL Mortgages 8". On 27 April 2022, to fund the purchase of the loans, the SPE issued two classes of securities: (i) Class A (Senior Notes), rated, listed on the ExtraMOT PRO segment of Borsa Italiana and (ii) Class J (Junior Notes), unrated and unlisted. Both classes of securities were subscribed by Banco BPM and the Senior Securities are currently used by Banco BPM as collateral for Eurosystem monetary policy transactions and as a source of funding in REPO transactions with institutional counterparties.

As part of this transaction, the Originator, Banco BPM, took on the role of Servicer, managing the collection of receivables and also acts as Interim Account Bank and Transaction Bank.

Loans portfolio

Bank	Value 31/12/2023	Value 31/12/2022
Banco BPM	1,288,190	1,764,993

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

Issue characteristics

Class	Type	Issue value	Value 31/12/2023	Interest rate	Maturity	Rating Moody's/DBRS (*)
A	Senior	1,800,000	740,289	3-month Euribor + 0.7% (1)	October 2064	Aa3/A high
J	Junior (2)	656,397	656,397	Additional Return	October 2064	unrated
	Total	**2,456,397**	**1,396,686**			

(1) In any event, this interest rate cannot be higher than 1.7%.
(2) Unlisted Junior Securities.
(*) Rating as at 31 December 2023.

Accessory financial transactions

The structure of the transaction envisaged the establishment of an initial Cash Reserve of 72 million, constituted at the date of issue of the securities mainly through the disbursement of a subordinated loan totalling 67 million by Banco BPM. Subsequent to the issue date, the Target Cash Reserve Amount was 4% of the outstanding amount of the Class A securities (with a minimum amount of 7.2 million). At the time of the Interest Payment Date of 25 October 2023, in compliance with the order of priority of payments and within the limits of the available funds, the vehicle repaid the residual principal amount of the subordinated loan in full, paid all the interest accrued on the subordinated loan (both previous unpaid and accrued in the period) and, moreover, repaid part, equal to 2.8 million, of the total amount of 3 million due and still to be paid to the Originator for the accruals portion of the loans transferred initially. As at 31 December 2023, the Cash Reserve amounted to 33.8 million (target level).

Other information

The rating of the Class A Security ("Senior Note") was increased (i) from "A2" to "Aa3" in February 2023 by the rating agency Moody's Investors Services and (ii) from "A" to "A high" in April 2023 by the rating agency DBRS.

Securitisation of residential mortgage and landed loans – BPL Mortgages 5 (December 2012)

The securitisation transaction was originated by Banco Popolare and Credito Bergamasco, now both Banco BPM, and was finalised in a number of phases. On 7 December 2012, with the signature of the relative contracts, the Originator Banks sold an initial portfolio of performing residential landed and mortgage loans to the SPE BPL Mortgages S.r.l. for a sale value (including accruals) of 2,505.2 million and on 21 December 2012, the SPE issued two classes of bonds.
Subsequently, portfolio restructuring was carried out, which resulted in the sale/repurchase of loans and the issue of additional securities.
The Senior Securities are listed on the Irish Stock Exchange. All Classes of Securities were subscribed by Banco BPM and the Senior Securities are used by Banco BPM as collateral for Eurosystem monetary policy transactions and as a source of funding in REPO transactions with institutional counterparties.

As part of this transaction, the Originator Banks, now Banco BPM, took on the role of Servicer, managing the collection of receivables; Banco BPM also has the role of Interim Account Bank and Transaction Bank.

Loans portfolio

Bank	Value 31/12/2023	Value 31/12/2022
Banco BPM	2,019,871	2,320,169

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

Issue characteristics

Class	Type	Issue value	Value 31/12/2022	Interest rate	Maturity	Rating Moody's/DBRS (*)
A1	Senior	2,440,400	280,421	1-month Euribor + 0.3%	October 2058	Aa3/AA
B1	Junior (1)	1,148,455	392,765	Additional Return	October 2058	unrated
A2	Senior	995,100	243,469	1-month Euribor + 0.25%	October 2058	Aa3/AAA
A3	Senior	1,504,300	544,183	1-month Euribor + 0.25%	October 2058	Aa3/AAA
B3	Junior (1)	69,670	69,670	Additional Return	October 2058	unrated
	Total	**6,157,925**	**1,530,508**			

(1) Unlisted Junior Securities.
(*) Rating as at 31 December 2023.

Accessory financial transactions

The structure of the transaction envisaged the establishment of a Cash Reserve of 64 million, constituted mainly through the disbursement, which took place on 21 December 2012, of a subordinated loan totalling 60 million by the Originator Banks, now Banco BPM.
As part of the transaction restructuring that took place during 2019, on 14 March 2019, the Cash Reserve was further increased by 24.6 million via the disbursement by Banco BPM, of a limited loan of the same amount.
At the time of the Interest Payment Date of 28 April 2023, the amount of the Cash Reserve reached its target level of 40 million.

Other information

In February 2023, the rating agency DBRS upgraded the rating of the Class A1, Class A2 and Class A3 Senior Securities from "AA" to "AAA".

Consumer credit securitisation – ProFamily SPV (February 2021)

On 16 December 2020, ProFamily S.p.A., now Banco BPM, with the signature of the relative contracts, sold a portfolio of performing consumer loans to the SPE Profamily SPV S.r.l. for 958.5 million. On 24 February 2021, the SPE issued two classes of securities: (i) Class A (Senior Notes), rated, listed on the ExtraMOT PRO segment of Borsa Italiana and (ii) Class J (Junior Notes), unrated and unlisted. Both classes of securities were fully subscribed by the Originator ProFamily, now Banco BPM.
During the revolving period, the SPE purchased a further four portfolios of performing consumer loans from ProFamily.
As part of the transaction, the Originator ProFamily, now Banco BPM, acted as Servicer to manage the collection of the loans.

Loans portfolio

Bank	Value 31/12/2023	Value 31/12/2022
Banco BPM (former ProFamily S.p.A.)	247,899	469,013

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

Issue characteristics

Class	Type	Issue value	Value 31/12/2023	Interest rate	Maturity	Rating DBRS/Fitch (*)
A	Senior	860,000	157,108	1% per annum	December 2040	AA/AA
J	Junior (1)	100,932	100,932	5% per annum	December 2040	unrated
	Total	**960,932**	**258,040**			

(1) Unlisted Junior Securities.
(*) Rating as at 31 December 2023.

Other information

In February 2023, the rating agency DBRS upgraded the rating of the Class A Senior Security from "AA" to "AAA".

1.5 BANKING GROUP - OPERATIONAL RISKS

QUALITATIVE INFORMATION

A. General aspects, management processes and measurement methods for operational risk

Type of risk

Operational risk is defined as the risk of losses suffered as a result of inadequacy or malfunction of procedures, human resources and internal systems, or of external events. Losses resulting from fraud, human error, interruption of operations, non-availability of systems, contractual breaches and natural disasters are included in this type of risk. Operational risk also encompasses legal risk, while strategic and reputational risks are not included.

Risk sources

The main sources of operational risk are: the low reliability of operational processes - in terms of effectiveness/efficiency - internal and external frauds, operational mistakes, the qualitative level of physical and logical security, inadequate IT structure compared to the size of operations, the growing recourse to automation, the outsourcing of corporate functions, a limited number of suppliers, changes in strategies, incorrect personnel management and training policies and finally social and environmental impacts.

Risk management model and organisational structure

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

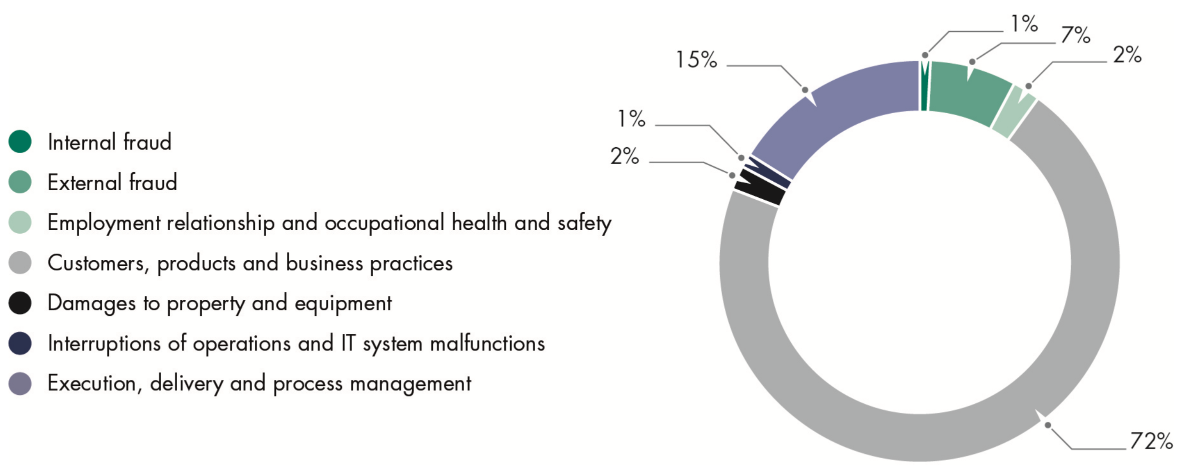
Also in compliance with the relevant regulations, the Group adopted an operational risk management model that illustrates the management methods and the people involved in risk identification, measurement, monitoring, mitigation and reporting. In particular, the model refers to centralised oversight functions (governance and control functions) and decentralised oversight functions (coordinators and ORM contacts, which are specifically involved in the key processes of collecting operating loss data, continuously assessing the operating scenario and forecasting exposure to risk). This model is governed by a specific Group Regulation approved by the Corporate Bodies.
Banco BPM Group adopts a reporting model, consisting of a management IT system for the Corporate Bodies and Top Management (significant losses and related recoveries, overall assessment of the risk profile, RAF indicator profile, capital absorption and risk management policies implemented and/or planned) and an operational reporting system, for the purposes of adequate risk management in the relevant areas.

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

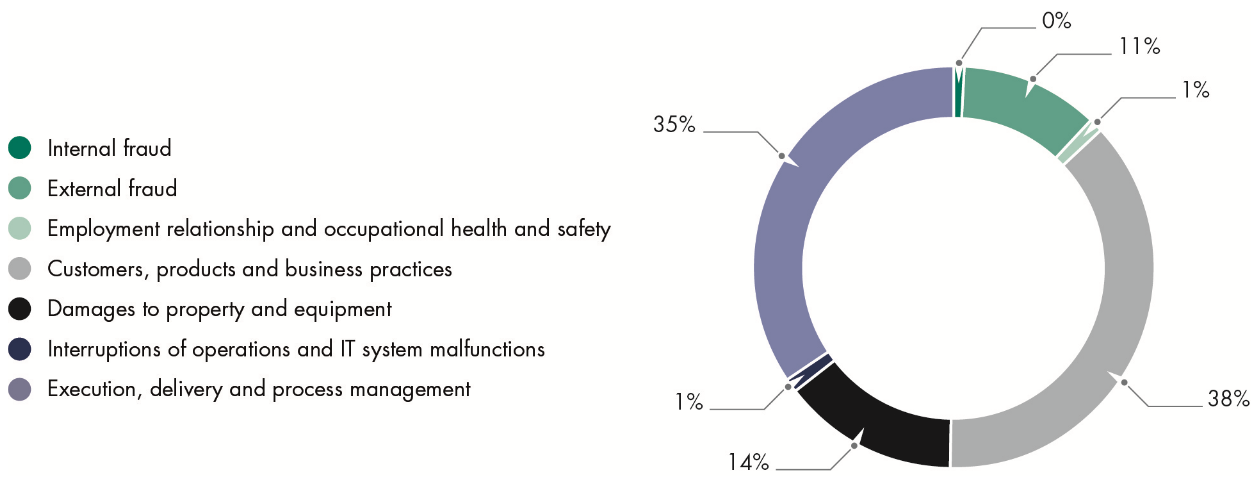
QUANTITATIVE INFORMATION

Regarding the sources of operational risk, an analysis was conducted with reference to operational risk events, with a gross loss greater than or equal to 200 euro (minimum materiality threshold) and with a reporting date of 1 January 2014 or later.
The loss data in question, recorded in the Group's Loss Collection management archive, have been broken down by type of event, with views by impact and by number of events, according to the event classification standards provided by the Regulator.

Breakdown by impact



Breakdown by number of events



The analysis of the graphs reveals that the main event categories in terms of impact relate to:

- commercial practices, with losses resulting from failures to meet professional obligations towards customers or from the nature or characteristics of the product or service provided. The category in question includes operational risk impacts connected to the diamond situation;
- processes, with losses related to errors/inefficiencies/delays in the execution, delivery and management of processes;
- external crimes, with losses due to fraud, undue appropriation or infringement of the law by parties outside the Bank, including phenomena relating to cyber risk.

Validation activities

In the area of Operational Risk, the Internal Validation Unit oversees the management framework and the calculation of Pillar II risks through annual audits of measurement metrics. In particular, the stability, robustness and uncertainty of the model, the consistency of the calculation dataset, through independent repeat tests and checks during the Loss Data Collection and Risk Self-Assessment campaign, compliance with current regulatory requirements and best-practices are continuously verified. On the basis of the checks conducted, the Internal Validation unit addresses specific suggestions to the competent departments and monitors the solution in order to ensure the high standards of quality and reliability in risk management are maintained.
Moreover, during the ICAAP process, the stress scenarios and methods applied to the entire scope of the Group are verified.

Section 3 - Risks to insurance companies

3.1 INSURANCE RISKS

In 2023, Banco BPM Group moved forward with the process of integrating the insurance business started last year with the acquisition of control of the insurance companies Banco BPM Vita S.p.A. and Banco BPM Assicurazioni S.p.A. and with the finalisation of an agreement with Crédit Agricole Assurances ("CAA") for the launch of a commercial partnership in the Non-Life/Protection sector.

In this regard, note that, with its communication dated 7 March 2023, the European Central Bank recognised Banco BPM Group's status as a financial conglomerate pursuant to Directive 2002/87/EC, on the same basis as the main Italian and European financial groups operating in both the banking/investment services and insurance sectors.
This recognition represented the condition for being able to submit the request for the application of Art. 49 (1) of Regulation (EU) no. 575/2013 (CRR), and to access the benefits of the prudential treatment of the equity investment

resulting from the application of the so-called "Danish Compromise", whose authorisation was received on 3 November 2023, with effect from the supervisory reports referring to 31 December 2023[1].

In addition, on 29 May Banco BPM Group exercised the option to purchase 65% of the share capital of Vera Vita S.p.A. and Vera Assicurazioni S.p.A., insurance companies operating in the life and non-life segments, respectively.
Following the issue of the required legal authorisations, the acquisition of control of Vera Vita and Vera Assicurazioni from Generali Italia, with the simultaneous resale of the latter and Banco BPM Assicurazioni to CAA, was finalised on 14 December 2023, completing the internationalisation in the "Life" sector and launching the long-term strategic partnership with CAA in the "Non-Life/Protection" sector.

For additional details in this regard, please refer to the section "Significant events during the year" contained in the Report on operations.

With reference to the purchase transaction in question, it was finalised, as mentioned above, on 14 December 2023.
As a balance sheet cannot be drawn up as at 14 December 2023, and also considering that in the short period of time up until the end of the year, no events occurred such as to significantly change the balance sheet or income statement of the companies with respect to the acquisition date, for accounting purposes the acquisition date was conventionally assumed to coincide with 31 December 2023.

Following the acquisition of control of Vera Vita and BBPM Life DAC, the process for the management of the risk profiles and the relative hedging policies of the insurance sector is currently under review, which envisages the extension of the processes already implemented for Banco BPM Vita to the new companies acquired.

LIFE BUSINESS - QUALITATIVE INFORMATION

The main risk factors of the life insurance portfolio are linked to underwriting risks, which can be classified into:

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

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

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

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

[1] The application of the Danish Compromise allows Banco BPM not to have to deduct the book value of the investment held in Banco BPM Vita from CET 1 Capital, as it is considered an exposure to credit risk to be weighted in accordance with the provisions of the CRR.

the surrender frequency. The risk indicators, at present relating to Banco BPM Vita, will also be gradually introduced for Vera Vita as well.

LIFE BUSINESS - QUANTITATIVE INFORMATION

The concentration of gross direct premiums broken down into Class I and Class III as at 31 December 2023 with reference to the life business of Banco BPM Vita is shown below (Vera Vita and BBPM Life entered the Group for accounting purposes on 31 December 2023, therefore the economic contribution regards interests in associates).

Gross premium	**31/12/2023**	**%**
CLASS I	786,163	79.9%
CLASS III	197,364	20.1%
Total	**983,527**	**100.0%**

In addition, the following table shows the SCR risk modules determined using the standard formula of the Insurance Sub-Group (Parent Company Banco BPM Vita) deriving from the monthly monitoring in December 2023 prepared for IVASS Supervisory purposes.

(in millions of euro)	**31/12/2023**
Market risk	291
Counterparty Default Risk	16
Life Risk	164
Health Risk	1
Diversification Effects	(99)
Total BSCR Net	**373**

In this regard, it should be noted that the above data are preliminary and taken from management calculations based on estimation methods of the individual Companies that make up the Insurance Sub-Group; therefore, it cannot be ruled out that the final results based on the process to finalise Solvency II data, which is expected to be concluded by mid-May 2024, may provide a more accurate estimate of the amounts.

3.2 FINANCIAL RISKS

LIFE BUSINESS - QUALITATIVE INFORMATION

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

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

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

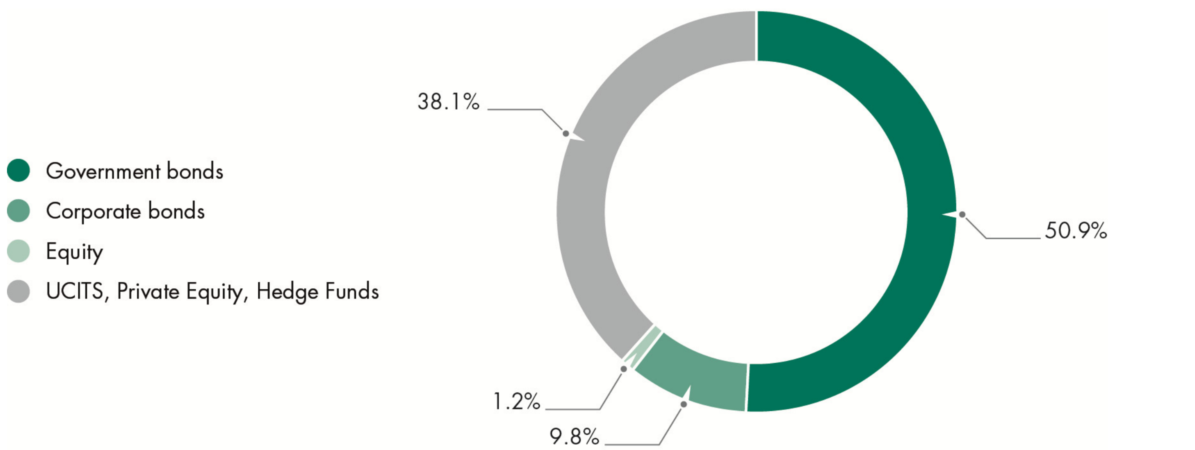
With regard to market risks, no specific mitigation techniques are used, but these risk factors are monitored through the calculation and subsequent control of risk indicators defined in the Risk Appetite Framework (RAF). In particular, given the composition of the asset portfolio, the Companies are particularly exposed to the concentration risk of government bonds. This risk is monitored by calculating a specific indicator.
For Vera Vita the risk indicators of Banco BPM Vita will be gradually introduced, also taking into account the different composition of the portfolio, which for Vera Vita shows a lower exposure to government securities.

LIFE BUSINESS - QUANTITATIVE INFORMATION

Exposure to concentration risk

The following table shows the breakdown by asset class of the investment portfolio relating to the life business as at 31 December 2023.

Financial assets	**31/12/2023**	**%**
Government bonds	7,780,263	50.9%
Corporate bonds	1,501,160	9.8%
Equity	179,992	1.2%
UCITS, Private Equity, Hedge Funds	5,824,872	38.1%
Total	**15,286,287**	**100.0%**



As shown in the previous table, investments in the life insurance segment are exposed to concentration risk. An analysis of the securities segment, however, shows that investments in government bonds represent around 51% of total investments.

Below is a breakdown of financial assets mandatorily measured at fair value (included in item 20 c) of Balance Sheet assets) both by product (table A) and by debtor/issuer (table B):

Table A **Items/Amounts**	**Total 31/12/2023**		
	L1	**L2**	**L3**
1. Debt securities	171,481	123,142	0
1.1 Structured securities	-	-	-
1.2 Other debt securities	171,481	123,142	0
2. Equity instruments	236,067	-	-
3. UCIT units	4,088,155	1,405,947	330,770
4. Loans	-	-	-
4.1 Repurchase agreements	-	-	-
4.2 Other	-	-	-
Total	**4,495,703**	**1,529,089**	**330,770**

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

Table B **Items/Amounts**	**Total 31/12/2023**
1. Equity instruments	**236,067**
of which: banks	-
of which: other financial companies	-
of which: non-financial companies	-
2. Debt securities	**294,623**
a) Central Banks	85,750
b) Public Administrations	35,647
c) Banks	124,037
d) Other financial companies	25,772
of which: insurance companies	7,121
e) Non-financial companies	23,417
3. UCIT units	**5,824,872**
4. Loans	**-**
a) Central Banks	-
b) Public Administrations	-
c) Banks	-
d) Other financial companies	-
of which: insurance companies	-
e) Non-financial companies	-
f) Households	-
Total	**6,355,562**

Lastly, the breakdown of financial assets measured at fair value through other comprehensive income (included in item 30 of Balance Sheet assets) is provided both by product (Table C) and by debtor/issuer (Table D):

Table C Items/Amounts	Total 31/12/2023		
	L1	L2	L3
1. Debt securities	8,857,141	1,874	127,785
1.1 Structured securities	-	-	-
1.2 Other debt securities	8,857,141	1,874	127,785
2. Equity instruments	126	-	-
3. Loans	-	-	-
Total	**8,857,267**	**1,874**	**127,785**

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

Table D Items/Amounts	Total 31/12/2023
1. Debt securities	**8,986,800**
a) Central Banks	57,059
b) Public Administrations	7,601,807
c) Banks	-
d) Other financial companies	1,327,934
of which: insurance companies	-
e) Non-financial companies	-
2. Equity instruments	**126**
a) Banks	-
b) Other issuers:	126
- other financial companies	-
of which: insurance companies	-
- non-financial companies	-
- other	126
3. Loans	**-**
a) Central Banks	-
b) Public Administrations	-
c) Banks	-
d) Other financial companies	-
of which: insurance companies	-
e) Non-financial companies	-
f) Households	-
Total	**8,986,926**

3.3 OTHER RISKS

Liquidity risk

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

The objective is to ensure adequate and sufficient levels of capital and liquidity to guarantee all commitments that the insurance company is responsible for. To achieve this, the exposure to liquidity risk is calculated using a specific indicator, called the Liquidity Ratio, which compares the available resources and the resources needed over a medium/short-term time horizon, monitoring their performance and compliance with specific thresholds defined as part of the Risk Appetite Framework (RAF). The indicator was also introduced for Vera Vita, with the same short-medium term logic.

Operational risk

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

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

Section 4 - Other company risks

No significant additional risks are reported for the remaining companies falling within the consolidation scope that are not part of the Banking Group or of insurance companies. As regards the Group’s real estate companies, including those acquired following credit restructuring arrangements, note that the book value at which said real estate is recognised is consistent with the value stated in specific appraisals and valuations.
The risk of impairment of real estate assets is in any event covered by a specific capital requirement - in terms of credit risk - which the Group calculates in accordance with regulatory methods. Furthermore, the Risk Function uses internal operational methods to check the adequacy of the regulatory capital requirement vis-à-vis real estate risk on a quarterly basis.

PART F – INFORMATION ON CONSOLIDATED SHAREHOLDERS' EQUITY

Section 1 - Consolidated shareholders' equity

A. QUALITATIVE INFORMATION

The Group's shareholders' equity consists of the sum of the balances of the following balance sheet liability items:

- Shareholder's equity net of repurchased own shares
- Share premium reserve
- Reserves
- Valuation reserves
- Equity instruments
- Own shares
- Profit (loss) for the year.

B. QUANTITATIVE INFORMATION

Consolidated shareholders' equity as at 31 December 2023 amounted to 14,038.2 million (of which 14,038.1 million for the Group and 0.1 million for non-controlling interests), showing a net increase of 1,021.7 million compared to the 13,016.5 million (of which 13,015.8 million for the Group and 0.7 million for non-controlling interests) recorded for consolidated shareholders' equity as at 31 December 2022, restated to enable a like-for-like comparison.

B.1 Consolidated book value of shareholders' equity: breakdown by business type

Shareholders' equity items	Prudential consolidation	Insurance companies	Other businesses	Consolidation cancellations and adjustments	Total
1. Share capital	7,100,008	179,125	4,052	(183,125)	7,100,060
2. Share premium reserve	-	-	4	(4)	-
3. Reserves	4,483,988	643,282	22,513	(642,643)	4,507,140
4. Equity instruments	1,465,843	-	-	-	1,465,843
5. (Own shares)	(22,936)	-	-	-	(22,936)
6. Valuation reserves:	(276,378)	8,099	8	(8,107)	(276,378)
- Equity instruments designated at fair value through other comprehensive income	(14,634)	-	-	-	(14,634)
- Hedges of equity instruments designated at fair value through other comprehensive income	-	-	-	-	-
- Financial assets (other than equity instruments) measured at fair value through other comprehensive income	(488,176)	(28,147)	-	-	(516,323)
- Property, plant and equipment	321,213	-	-	-	321,213
- Intangible assets	-	-	-	-	-
- Foreign investment hedges	(2,806)	-	-	-	(2,806)
- Cash flow hedges	(20,481)	-	-	-	(20,481)
- Hedging instruments (non-designated items)	-	-	-	-	-
- Exchange rate differences	19,450	-	-	-	19,450
- Non-current assets and disposal groups held for sale	-	-	-	-	-
- Financial liabilities designated at fair value through profit and loss (changes to its own credit risk)	(43,107)	-	-	-	(43,107)
- Actuarial gains/(losses) on defined benefit pension plans	(58,476)	-	8	-	(58,468)
- Shares of valuation reserves related to interests in associates and joint ventures carried at equity	10,639	-	-	(8,107)	2,532
- Revenues or costs of a financial nature relating to insurance contracts issued	-	36,246	-	-	36,246
- Revenues or costs of a financial nature relating to reinsurance	-	-	-	-	-
- Special revaluation laws	-	-	-	-	-
7. Profit (loss) for the year (+/-) attributable to the Group and non-controlling interests	1,279,969	21,163	(3,797)	(32,904)	1,264,431
Total	**14,030,494**	**851,669**	**22,780**	**(866,783)**	**14,038,160**

B.2 Valuation reserves for financial assets measured at fair value through other comprehensive income: breakdown

Asset/Amounts	Prudential consolidation		Insurance companies		Other businesses		Consolidation cancellations and adjustments		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	36,697	(524,873)	-	(28,147)	-	-	-	-	36,697	(553,020)
2. Equity instruments	34,436	(49,070)	-	-	-	-	-	-	34,436	(49,070)
3. Loans	-	-	-	-	-	-	-	-	-	-
Total 31/12/2023	**71,133**	**(573,943)**	**-**	**(28,147)**	**-**	**-**	**-**	**-**	**71,133**	**(602,090)**
Total 31/12/2022 (*)	**40,953**	**(685,854)**	**-**	**(157,488)**	**-**	**-**	**-**	**-**	**40,953**	**(843,342)**

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

B.3 Valuation reserves for financial assets measured at fair value through other comprehensive income: annual changes

	Debt securities	Equity instruments	Loans
1. Opening balance (*)	**(626,415)**	**(18,486)**	**-**
2. Positive changes	**152,556**	**17,006**	**-**
2.1 Fair value increases	134,082	12,536	-
2.2 Credit impairment losses	1,000	X	-
2.3 Reclassification to income statement of negative reserves from disposal	12,074	X	-
2.4 Transfers to other shareholders' equity components (equity instruments)	-	4,470	-
2.5 Other changes	5,400	-	-
3. Negative changes	**(14,317)**	**(13,154)**	**-**
3.1 Fair value decreases	(5,466)	(9,588)	-
3.2 Credit recoveries	(1,967)	-	-
3.3 Reclassification to income statement of positive reserves: from disposal	(6,841)	X	-
3.4 Transfers to other shareholders' equity components (equity instruments)	-	(3,566)	-
3.5 Other changes	(43)	-	-
4. Closing balance	**(488,176)**	**(14,634)**	**-**

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

B.4 Valuation reserves for defined benefit plans: annual changes

	31/12/2023
1. Opening balance	**(60,315)**
2. Positive changes	**9,678**
2.1 Gains from changes in financial assumptions	2,931
2.2 Other actuarial gains	5,201
2.3 Other changes	1,546
3. Negative changes	**(7,831)**
3.1 Losses from changes in financial assumptions	(3,861)
3.2 Other actuarial losses	(1,722)
3.3 Other changes	(2,248)
4. Closing balance	**(58,468)**

Section 2 - Own funds and capital ratios

Please see the information on own funds and capital adequacy found in the document "Disclosure to the public by entities (Pillar III)", available on the website www.gruppo.bancobpm.it.

PART G – BUSINESS COMBINATIONS REGARDING COMPANIES OR DIVISIONS

Section 1 - Transactions carried out during the year

1.1 Business combinations

Introduction

As described in the section dedicated to significant events during the year of the Report on operations, on 14 December 2023, Banco BPM Group purchased 65% of the share capital of Vera Vita S.p.A., from Generali Italia, acquiring control of the same.
The aforementioned purchase, following the exercise of the call option by the Group on 29 May 2023, is part of a broader reorganisation of the bancassurance segment with a view to:

- on the one hand, expanding the insurance business in the Life segment, by acquiring 100% of the share capital of Vera Vita S.p.A., an insurance company operating mainly in the life business, which in turn holds 100% of the share capital of Vera Financial DAC (which changed its name to BBPM Life DAC following this acquisition);
- on the other hand, strengthening the partnership in the Non-Life Protection sector with Crédit Agricole Assurances S.A. (CAA), to which the 65% interest in Vera Assicurazioni was sold, immediately after its purchase from Generali Italia, as well as the 65% interest in Banco BPM Assicurazioni, already held by the subsidiary Banco BPM Vita, in compliance with the agreement signed on 23 December 2022.

This section illustrates the accounting aspects of the business combination regarding the acquisition of full control of Vera Vita and of its subsidiary BBPM Life DAC. For the sake of completeness, the paragraph "Other impacts related to the overall reorganisation of the bancassurance segment" provides an illustration of the series of transactions that regarded the reorganisation of the bancassurance segment, the relative accounting treatment and the related impacts.

Brief illustration of the requirements envisaged by IFRS 3 "Business combinations"

For accounting purposes, the purchase of Vera Vita is classified as a business combination, according to the provisions of IFRS 3, which provides for the application of the purchase method.

Pursuant to the above-cited standard, the entity must identify the acquirer and the acquisition date, determine and allocate the cost of the business combination to the assets acquired and the liabilities assumed, including contingent ones, which are measured on the basis of the fair value (so-called "Purchase Price Allocation" - "PPA") with the exception of non-current assets (or disposal groups) classified as held for sale in accordance with IFRS 5. In fact, the latter are accounted for at fair value net of costs to sell. In addition, any intangible assets must be recognised even if not previously recognised by the acquired party.
In addition, at the acquisition date, for business combinations carried out in several phases - i.e. those in which the acquirer already held a minority interest in the acquired company before carrying out the transaction, so-called "step acquisitions" - the acquirer must recognise the minority interest that it already held at fair value, recognising the difference with respect to the previous book value in the income statement. This case is relevant for the business combination in question, as the Group already held an interest of 35% in Vera Vita.

With regard to the Purchase Price Allocation, the acquisition cost - equal to the sum of the fair value of the consideration transferred to acquire the majority shares and that of the interest already held - must be allocated through the recognition at fair value of the assets and liabilities of the acquired entity, including any intangible assets not previously recognised in the financial statements of the acquiree, as they can benefit from the option provided for by IFRS 3 § 45, which grants the acquirer 12 months, with respect to the acquisition date, to definitively complete the PPA process.

Any unallocated difference between the cost of the business combination and the net assets acquired represents, if positive, "goodwill" to be recognised in the balance sheet as goodwill or, if negative, a "bargain purchase" to be credited to the income statement as profit realised with the acquisition, after carrying out a new measurement aimed at ascertaining the correct process to identify all of the assets acquired and liabilities assumed.

For further details on the accounting treatment of the business combinations, please refer to "Part A - Accounting policies" of these Notes to the consolidated financial statements.

Determination of the acquisition date

The date of acquisition of control represents the initial date of recognition of the business combination, and consequently the date from which the economic results of Vera Vita must be included, line by line, in the consolidated financial statements of the Group. It is therefore an essential element for the accounting of the transaction, as it represents the reference both for the determination of the fair value of the assets and liabilities acquired, and for the acquisition of the economic results.
With reference to the purchase transaction in question, its completion took place on 14 December 2023, which therefore represents the date on which the Group - through its subsidiary Banco BPM Vita - acquired control of Vera Vita and of its subsidiary BBPM Life, pursuant to IFRS 10.
As a balance sheet cannot be drawn up as at 14 December 2023, and also considering that in the short period of time up until the end of the year, no events occurred such as to significantly change the balance sheet or income statement of the companies with respect to the acquisition date, for accounting purposes, the acquisition date was conventionally assumed to coincide with 31 December 2023.

The balance sheet of first-time consolidation is therefore represented by the balances of the two companies at the end of the year, which are included, line by line, in the Group's consolidated financial statements as at 31 December 2023. The contribution to the income statement of the companies in question is instead limited for 2023 to the 35% share held until the date of accounting aggregation, and shown in the income statement item "250. Gains (losses) of associates and joint ventures"; the economic contribution will be recognised "line by line" only from 1 January 2024.

Determination of the acquisition cost

The acquisition cost totals 417.3 million and is represented by the consideration for the acquisition of the 65% interest of Vera Vita and of its subsidiary BBPM Life DAC (hereinafter also the companies), corresponding to 271.3 million, and by the valuation of the minority shares already held before assuming control (35%), corresponding to 146.0 million, as the transaction is classified, for accounting purposes, as a "step acquisition", as illustrated in more detail below.

With regard to the share already held (35%), the transition from the equity accounting method to line-by-line consolidation is considered, pursuant to IFRS 3, to be an economic event, to be recognised as if the shareholding previously held were sold at fair value and immediately repurchased at the same value.

In line with the aforementioned provisions, the interest previously held was measured at fair value at the acquisition date, estimated as 146.0 million for the 35% interest. The related economic effect, equal to the difference between the aforementioned fair value and the previous book value - also considering the effect resulting from the reversal of the negative valuation reserves - was a negative 104.5 million. This effect is shown in income statement item "250. Gains (losses) of associates and joint ventures".

With reference to the acquired interest (65%), the consideration to be considered for the purposes of the PPA process amounts to 271.3 million, equal to the exercise price of the call option attributed to the acquisition of the interest in question (239.2 million), plus the effects relating to the valuation of the option itself (+32.1 million). Said consideration represents the price paid for the acquisition of insurance contracts, net of the fair value of the net assets acquired, including assets not recognised by the acquirer.

In greater detail, pursuant to the provisions of the call option, the exercise price is set equal to the Eligible Own Funds (Tier 1 and Tier 3) of the companies as at 31 December 2022, which amount to 198.8 million, plus a deferred component proportional to the 65% of the profits accrued by them between 1 January 2023 and the closing date of 30.5 million, and a fixed component of 35.9 million, 26 million of which represents a penalty to be paid to Generali Italia. This latter component refers to the consideration to be paid against the former waiver by

Cattolica Assicurazioni (now Generali Italia) to extend the distribution agreement to the branches served by another insurance partner; this consideration had already been recognised as a payable in the Group's financial statements, as it is an amount that would have been paid even in the event of the non-exercise of the option, and as such not attributed to the acquisition of the shareholding.
In addition, at the date of the transaction, it was necessary to recognise the positive effect related to the valuation of the call option, equal to 32.1 million, as the estimate of the fair value of the companies was higher than the exercise price. More specifically, the aforementioned valuation is based on the specific exercise price adjustment mechanism, as illustrated above, which was only able to partially capture the higher value generated by the companies during 2023. Compared to the value of the Eligible Own Funds as at 31 December 2022, the overall increase in the exercise price of the call option attributed to the acquisition of the interest, equal to 40.4 million, was lower than the increase in the fair value of the companies, equal to 72.5 million, measured by the positive change in Own Funds in 2023; the resulting benefit linked to the exercise of the option, amounting to 32.1 million, was recognised in the income statement item "80. Net trading income", in line with the rules envisaged by IFRS 9 for derivative instruments.

Purchase Price Allocation (PPA) process

The process in question actually entails allocating the cost of the business combination, equal to 417.3 million, to the identifiable net assets acquired, including contingent liabilities, on the basis of the relative fair values at the acquisition date.
The residual difference between the cost of the business combination and the adjusted shareholders' equity based on the fair value of the net assets acquired, is recognised as goodwill/badwill, depending on whether the aforementioned difference is positive or negative, respectively.

In light of that illustrated above, from the measurement at fair value of the net assets acquired, carried out with the support of independent experts, the shareholders' equity, amounting to 322 million, was revalued by 87.9 million; the fair value of the net assets acquired therefore amounts to 410.1 million.
This revaluation is mainly attributable to the following elements:

- recognition under intangible assets of the implicit margins of insurance contracts classified as investment contracts, and measured on the basis of IFRS 9, amounting to 18.9 million and referring entirely to the subsidiary BBPM Life. This activity, typical of the insurance business, is defined as Value of Business Acquired (VoBA). For more details, please refer to "Section 10 - Intangible assets - Item 100" in Part B of these Notes to the consolidated financial statements;
- measurement of insurance contracts based on the provisions of IFRS 7 (paragraphs 38-39 and B93-B95F) to which IFRS 3 refers. This measurement led to a reduction in insurance liabilities of 102.5 million, fully allocated to the Contractual Service Margin (CSM).

Taking into account the negative effect resulting from the elimination of the pre-existing transactions between Vera Vita and Banco BPM, amounting to 7.2 million net of tax, the PPA process did not reveal any residual difference to be recognised as badwill/goodwill, as shown in the table below.

(in thousands of euro)		
Total acquisition cost as at 31 December 2023	**417,270**	**A**
Book value of shareholders' equity of Vera Vita and BBPM Life DAC as at 31 December 2023	**322,178**	**B**
Difference to be allocated net of pre-existing intercompany relations:	**87,906**	**C= D+E+F+G+H**
- Contractual Service Margin adjustment of insurance liabilities	102,469	D
- VoBA recognised	18,900	E
- Fair value change of financial liabilities	7,810	F
- Other minor adjustments	(2,945)	G
- Total deferred tax effects	(38,328)	H
Fair value of the net assets acquired as at 31 December 2023	**410,084**	**I=B+C**
Loss from elimination of pre-existing contracts between Vera Vita and Banco BPM net of tax effects	(7,186)	**L**
Goodwill/Badwill	**-**	**M=A-I+L**

It should be noted that this allocation must be understood as provisional, as permitted by IFRS 3, given that in the short period of time from the date of the business combination, all the necessary information may not have been considered[1]. In line with the aforementioned standard, the above difference, and more generally the financial statements, will be finalised by 31 December 2024.

If the final recognition deviates from the provisional one, the provisional amounts recognised as at 31 December 2023, and on the subsequent quarterly reporting dates, will have to be retroactively adjusted.

Lastly, the following table provides evidence of the impacts of the PPA, by individual financial statement item, of the companies acquired (Vera Vita and BBPM Life). To construct this table, note that the carrying amount of the interest held by Vera Vita in BBPM Life, equal to 62.9 million, was eliminated as a balancing entry to the shareholders' equity of Vera Vita, with the aim of providing evidence of the impact of the PPA of the two insurance companies at consolidated level.

figures in thousand euro	**Book value at the acquisition date**			**PPA**		**Fair value of the net assets acquired**		
	Vera Vita	**BBPM Life DAC**				**Vera Vita**	**BBPM Life DAC**	
Assets								
Cash and cash equivalents	12,274	21,147				12,274	21,147	
Financial assets at fair value through profit and loss	1,971,740	2,346,180				1,971,740	2,346,180	
Financial assets measured at fair value through other comprehensive income	5,270,410	57,059				5,270,410	57,059	
Insurance assets	90	29,156				90	29,156	
Property, plant and equipment	-	2,556				-	2,556	
Intangible assets	-	-		18,900	(E)	-	18,900	
of which VoBA	*-*	*-*		*18,900*	*(E)*	*-*	*18,900*	
Tax assets:	134,043	1,024				134,043	1,024	
- current	*81,160*	*980*				*81,160*	*980*	
- deferred	*52,883*	*44*				*52,883*	*44*	
Other assets	99,937	42,847		7	(G)	99,944	42,847	
Total assets	**7,488,494**	**2,499,969**		**18,907**		**7,488,501**	**2,518,869**	
Liabilities								
Financial liabilities at amortised cost	201,676	2,560		(7,810)	(F)	193,866	2,560	
Financial liabilities designated at fair value	6,053	1,385,079				6,053	1,385,079	
Tax liabilities:	115,356	1,026		38,328	(H)	150,060	4,650	
- current	*57,862*	*1,020*				*57,862*	*1,020*	
- deferred	*57,494*	*6*		*38,328*	*(H)*	*92,198*	*3,630*	
Other liabilities	13,335	54,298		2,952	(G)	16,287	54,298	
Provisions for employee severance pay	-	-				-	-	
Provisions for risks and charges	655	-				655	-	
Insurance liabilities	6,906,949	979,298		(102,469)	(D)	6,814,780	968,998	
Total liabilities	**7,244,024**	**2,422,261**		**(68,999)**		**7,181,701**	**2,415,585**	
Shareholders' equity	**244,470**	**77,708**		**87,906**		**306,800**	**103,284**	
Total Vera Vita + BBPM Life DAC		**322,178**	**(B)**				**410,084**	**(I)**
Goodwill				**-**	**(M)**			

[1] IFRS 3, par. 45, provides that the measurement period within which to obtain the information needed to carry out the fair value measurement of the net assets acquired - and therefore to terminate the process of allocation of the business combination - ends as soon as the acquirer has received all the necessary information at the acquisition date or has ascertained that it is not possible to obtain further information for the measurement at fair value of the items acquired. In any event, the measurement period may not exceed one year from the acquisition date.

In accordance with the provisions of Bank of Italy Circular no. 262, the table below includes data relating to the entity subject to the business combination (figures in millions of euro), the main items of which are determined on the assumption that the transaction took place at the beginning of the current year:

Company name	Transaction date	(1)	(2)	(3)	(4)
Vera Vita S.p.A. (*)	14/12/2023	271.3	65%	100.9	53.9

(*) Please note that Vera Vita holds full control of BBPM Life DAC.
Key:
(1) = Transaction cost. For the relative details, please refer to the above.
(2) = Percentage of interests acquired with voting right in the ordinary shareholders' meeting.
(3) = Total Group revenues (total net operating income of the two insurance companies as at 31 December 2023).
(4) = Group net profit/loss (IFRS net profit of the two insurance companies as at 31 December 2023).

Other impacts related to the overall reorganisation of the bancassurance segment

As indicated in the introduction, the acquisition of Vera Vita (and of BBPM Life) is part of a more complex reorganisation that also involved the sale of 65% of the interest held in Banco BPM Assicurazioni and that acquired in Vera Assicurazioni, as well as the transfer of certain insurance interests within the Group, as illustrated below.

Sale of 65% of the share capital of Banco BPM Assicurazioni and consequent loss of control

On 14 December 2023, the interest held in Banco BPM Assicurazioni was sold to Crédit Agricole Assurances S.A. (CAA) for an interest of 65%.
The sale price is estimated as 42.5 million; this price is determined, as a function of the interest sold, on the basis of the Company's Own Funds as at 31 December 2022 (44.5 million), plus a fixed component of 24.9 million recognised as goodwill related to the twenty-year commercial agreement, adjusted according to the change in the amount of Own Funds recognised as at 31 December 2023, by way of price adjustment (estimated as -3.9 million).
The economic result of the sale was a positive 19.7 million.

From an accounting perspective, the sale in question led to a loss of control and the consequent need to reclassify the investment withheld, equal to 35%, under interests in associates carried at equity (item "70. Interests in associates and joint ventures"), based on their fair value. The impact resulting from the measurement at fair value of the interest withheld due to the loss of control is a positive 10.6 million.

The aforementioned effects, positive for a total of 30.3 million (30.0 million net of the related tax effects), are shown in income statement item "280. Gains (losses) on disposal of investments".

Lastly, note that the economic contribution of Banco BPM Assicurazioni is represented, line by line, in the consolidated income statement for the entire 2023 financial year, considering that the loss of control took place in December 2023.

Transactions involving 65% of the share capital of Vera Assicurazioni and Vera Protezione

The transaction for the purchase of 65% of the shares of Vera Assicurazioni (which in turn holds 100% of Vera Protezione) from Generali Italia, and the simultaneous sale to Crédit Agricole Assurances S.A. (CAA) of a 65% interest on 14 December 2023, led to the recognition of a positive economic effect of 11.7 million, recognised in income statement item "250. Gains (losses) of associates and joint ventures" (14.9 million considering the tax impacts). The aforementioned effect is obtained from the difference between the sale price to CAA, estimated as 223.3 million, and the average carrying cost of the interest sold, which became 211.6 million, after the purchase from Generali Italia (for an estimated consideration of 174.1 million).
From a substantial perspective, the aforementioned transactions, completed on the same day, are seen as a mere transfer of interests, as the Group never assumed any control of Vera Assicurazioni.

As at 31 December 2023, the 35% interest held in Vera Assicurazioni (and indirectly in Vera Protezione) is included under interests in associates carried at equity (item "70. Interests in associates and joint ventures"), in line with the classification at the beginning of the year. The relative economic contribution, for the 35% shareholding, is shown in income statement item "250. Gains (losses) of associates and joint ventures", as for the whole of 2023, the interest was classified as an interest in an associate.

Intercompany transfers of the shares held in the insurance segment by Banco BPM

To conclude the reorganisation in question, on 15 December 2023, the intercompany transfers of the interests in the insurance segment held by Banco BPM to Banco BPM Vita were finalised, with a view to concentrating all the Group's interests operating in the insurance segment (Life and Non-Life/Protection classes) in the latter.
Therefore, as at 31 December 2023, Banco BPM Vita holds:

- 100% of Vera Vita (which in turn holds 100% of BBPM Life Dac), acquired for 65% from Generali Italia and 35% from Banco BPM;
- 35% of Vera Assicurazioni (which in turn holds 100% of Vera Protezione) acquired for 35% from Banco BPM;
- 35% of Banco BPM Assicurazioni, previously held.

These transfers, which took place on the basis of the respective fair values, had no impact on the consolidated financial statements as they are business combinations under common control.

In light of the above - taking into account the tax effects, as well as the release of the provision recognised in previous years (+12.5 million) against the commitments undertaken with respect to Generali Italia, which no longer apply as a result of the agreements signed in December 2023, as illustrated in "Section 10 - Provisions for risks and charges - Item 100" of these Notes to the financial statements - the total impacts of the bancassurance reorganisation are a negative 22.2 million, as summarised in the following table.

(in thousands of euro)	Gross value	Taxation	Net value	Income statement items (before tax)
(A) Total impact of acquisition of control of Vera Vita:	**(82,878)**	**3,202**	**(79,676)**	
… Measurement at fair value of the interest already held (35%)	(104,544)	-	(104,544)	250. Gains (losses) of associates and joint ventures
… Economic effect of the cancellation of pre-existing intercompany relations	(10,388)	3,202	(7,186)	250. Gains (losses) of associates and joint ventures
… Profit attributed to the exercise of the call option of Vera Vita (65%)	32,054	-	32,054	80. Net trading income
(B) Total impact of purchase and sale of Vera Assicurazioni:	**11,747**	**3,224**	**14,971**	
… Profit from sale of 65% of Vera Assicurazioni to CAA	11,747	3,224	14,971	250. Gains (losses) of associates and joint ventures
(C) Total impact of loss of control of BBPM Assicurazioni:	**30,286**	**(257)**	**30,029**	
… Profit from sale of 65% of BBPM Assicurazioni to CAA	19,735	(257)	19,478	280. Gains (losses) on disposal of investments
… Profit from measurement at FV of the interest withheld (35%) due to loss of control	10,551	-	10,551	280. Gains (losses) on disposal of investments
(D) Release of provision due to partnership agreements with Generali Italia:	**12,500**	**-**	**12,500**	
Release of provision due to partnership agreements	12,500	-	12,500	200. Net provisions for risks and charges
Total impact of the bancassurance reorganisation (A)+(B)+(C)+(D)	**(28,345)**	**6,169**	**(22,176)**	

The aforementioned impact is additional to the economic contribution of the insurance companies involved in the transaction in question, which is represented, as usual, in the reclassified income statement item "250. Gains (losses) of associates and joint ventures" or line-by-line, for associates and controlling interests, respectively.

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

Effective for accounting and tax purposes from 1 January 2023, the partial demerger of Tecmarket Servizi to Banco BPM was finalised; it regarded the assignment of a business unit relating to the activities carried out by the subsidiary on the technology platform for the You Business Web service, intended for entities and companies that are customers of Banco BPM, as well as technological services, functional to specific businesses of Banco BPM for its customers.

Although this transaction does not fall under the scope of IFRS 3 on the basis of the Provisions of Circular 262/2005 of the Bank of Italy, it is conventionally reported in this section. In the absence of a relevant accounting standard, transactions "under common control" are recognised using the principle of continuity in accounting values. Specifically, the values used are those found in the Group's consolidated financial statements as of the date the assets were transferred; therefore, the transaction did not have any impact on Banco BPM Group's balance sheet or income statement.

Section 2 - Transactions carried out after the end of the year

No business combination transactions with companies outside of the Group were completed after the end of the year.

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

After the end of FY 2023, Banco BPM and Akros finalised a simplified partial demerger, which envisaged the assignment by Banca Akros to Banco BPM of the business unit consisting of the set of assets and resources organised for the performance of the "Proprietary Finance" activities of Banca Akros and included the related financial assets and liabilities, a 20% equity interest in Vorvel SIM, relations with custodian banks, brokers and counterparties, in addition to employment contracts with 60 employees.

The transaction took effect for accounting and tax purposes from 1 January 2024 and took place according to the simplified form envisaged for wholly-owned companies; it does not fall within the scope of application of IFRS 3 and had no impact on the balance sheet or and income statement of Banco BPM Group.

Section 3 - Retrospective adjustments

It was not necessary to recognise any retrospective adjustments.

PART H – TRANSACTIONS WITH RELATED PARTIES

1. Information on compensation to directors and executives with strategic responsibilities

This information relates to those who, directly or indirectly, have the power and the responsibility to plan, manage and control the business activities of Group companies.

The table below summarises the compensation paid to directors, statutory auditors and executives with strategic responsibilities (general managers and other executives meeting the above characteristics).

In total, 165 assignments were entrusted to 119 people (including 29 executives).

(thousands of euro)	2023	2022
Total gross compensation	**17,416**	**15,648**
of which:		
Non-executive directors and Statutory auditors	4,877	4,520
Non-employee executive directors	105	234
Employee executive directors	4,900	4,831
Employees	7,534	6,063
Short-term benefits (e.g. car, lodging, accident insurance policy, medical assistance) (*)	**207**	**136**
Post-employment benefits (e.g. pension fund, supplementary pension scheme) (*)	**232**	**241**
Employee termination benefits (e.g. provisions for employee severance pay, other benefits)	**-**	**-**

(*) The figure represents the taxable amount of the benefits.

2. Information on transactions with related parties

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

a) companies subject to significant influence and joint control: namely the entities in which the Parent Company Banco BPM or the Subsidiary entities exercise significant influence pursuant to IAS 28 or joint control pursuant to IFRS 11. In particular, these are the "Interests in companies subject to joint control and subject to significant influence" indicated under "Section 7 Interests in associates and joint ventures" in Part B of these Notes to the consolidated financial statements;

b) executives with strategic responsibilities: the members of the Board of Directors, the acting members of the Board of Statutory Auditors, the General Manager and the Co-General Managers of the Parent Company and the Group companies are classified as such, as well as the top operations and management executives of Banco BPM, identified by a dedicated board resolution, the Manager responsible for preparing the Company's financial reports, the Head of the Compliance function, the Head of the Risk Management function, the Head of the Internal Audit function of Banco BPM, any additional structure heads identified by the Board of Directors of Banco BPM;

c) close family members of executives with strategic responsibilities: only family members that are able to influence (or be influenced by) the party concerned in the relationship between the latter and Banco BPM or Group companies. The following are presumed to be as such, unless otherwise declared in writing by the executive, under the latter's own responsibility and containing adequate and analytical justification of the reasons that exclude any possible influence: spouses, common law spouses (including cohabitants whose status is not indicated in the family status certificate), offspring of the party, of the spouse or common law spouse, individuals dependent on the party, the spouse or common law spouse. Any other individual, which the party believes may influence them (or be influenced by them) in their dealings with Banco BPM or the other Group companies, is also a related party;

d) equity interests attributable to executives with strategic responsibilities and their close relatives: the following entities are considered to be related parties, those in which executives with strategic responsibilities or their close relatives have control pursuant to Art. 2359, paragraph 1 of the Italian Civil Code, or joint control or exercise significant influence which is presumed when they hold, directly or indirectly, at least 20% of the voting rights which can be exercised during ordinary shareholders' meetings, or 10% if the company has shares listed on organised markets;

e) Group pension funds: the Pension Funds for employees of the Group and of any other related entity;

f) holders of a significant interest: shareholders and the relative corporate groups (legal entities which are parent companies, subsidiaries or subject to joint control) which control the Parent Company, even jointly, or which exercise significant influence over Banco BPM, are considered related parties. As a minimum, a situation of significant influence is deemed to exist when the shareholder holds an interest with voting rights exceeding 10% of the share capital of Banco BPM. Parties not belonging to the Group who hold an interest in other Group companies greater than 20% of the voting rights that may be exercised in the ordinary shareholders' meeting, or 10% if the company has shares listed in organised markets, are also considered to be related parties;

g) parties who themselves are in a position to appoint members of the Board of Directors by virtue of the articles of association or shareholders' agreements.

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

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

The tables below indicate the balance sheet and income statement transactions as at 31 December 2023 with the companies subject to significant influence, the joint ventures, management with strategic responsibilities (which include audit bodies) and other related parties.

(thousands of euro)	Entities exercising significant influence (1)	Associated companies	Joint ventures	Executives with strategic responsibilities	Other related parties	Total	% of consolidated total
Financial assets held for trading	-	5,191	-	-	74	5,265	0.12%
Other financial assets mandatorily measured at fair value		-	-	-	2,808	2,808	0.03%
Financial assets measured at fair value through other comprehensive income	-	9,103	-	-	-	9,103	0.05%
Loans to customers	-	2,717,576	-	10,179	195,890	2,923,645	2.81%
Other asset items	-	3,517	-	-	-	3,517	0.02%
Due to customers	-	140,447	-	6,599	94,203	241,249	0.24%
Financial liabilities held for trading	-	-	-	-	696	696	0.00%
Financial liabilities designated at fair value	-	-	-	506	1,609	2,115	0.03%
Other liability items	-	5,462	-	41	1,751	7,254	0.04%
Guarantees given and commitments	-	329,114	-	2,214	139,231	470,559	0.76%

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

(thousands of euro)	Entities exercising significant influence (1)	Associated companies	Joint ventures	Executives with strategic responsibilities	Other related parties	Total	% of consolidated total
Net interest income	-	113,803		183	10,774	124,760	3.70%
Net fee and commission income	-	473,377	-	12	839	474,228	26.49%
Administrative expenses/recoveries of expenses	-	(9,051)	-	(15,600)	(543)	(25,194)	0.91%
Other costs/revenues	-	482	-	-	332	814	0.07%

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

Other related party transactions

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

	Purchases and sales of goods and services	Rental income	Rental expense
a) Directors	-	-	-
b) Executives with strategic responsibilities	-	-	-
c) Close family members of the parties in letters a) and b)	-	-	-
d) Subsidiary, associated company or subject to significant influence by the parties in letters a) and b)	738	132	325

Other information

In regard to paragraph 8 of Art. 5 Disclosures to the public on related party transactions of CONSOB Regulation containing provisions for related-party transactions (adopted by CONSOB with resolution no. 17221 of 12 March 2010 as amended), the following paragraphs illustrate the most important transactions conducted in 2023, as well as those that are less important yet particularly significant.

Issue and placement of certificates and/or bonds by Banco BPM: (i) placement through the Parent Company and Banca Aletti Network; (ii) structuring activities by Banca Akros

The Board of Directors, in the meeting of 20 December 2022, resolved (i) the extension of the ceiling relating to the fees and commissions paid by Banco BPM to Banca Akros for the structuring of certificates for the month of January 2023 for 3.9 million (for the year 2022, a maximum value of 31.5 million was established, which in December 2022 had been completely used); (ii) the extension to January 2023 of the framework resolution concerning the fees and commissions paid by Banco BPM to Banca Aletti for the placement of certificates issued by Banco BPM for a total of 450 thousand, representing the residual unused value estimated at the end of December 2022 out of the 2022 ceiling of 1.7 million.

Subsequently, in the meeting of 17 January 2023 the Board of Directors approved the allocation of a total maximum ceiling of up to 1,750 million, to be used for the issue of certificates and/or bonds, for the period 1 February 2023 - 31 January 2024, 1,650 million of which to be distributed through the Commercial Network of Banco BPM and 100 million to be placed through the Network of Banca Aletti, and the renewal of the framework resolution in question for the period 1 February 2023 - 31 January 2024, approving the recognition: (i) to Banca Aletti, for the placement of certificates and/or bonds, of a flow of commissions for a total of up to 1.7 million, parametrised to an indicative commission of 1.75%; (ii) to Banca Akros, for the structuring of certificates and/or bonds and for the management of the relative financial risk hedging, of a flow of commissions of up to 32.2 million (of which 30.4 million for certificates and/or bonds issued by Banco BPM and placed by the Banco BPM Network and 1.8 million for certificates and/or bonds issued by Banco BPM and placed by the Banca Aletti Network), parametrised to an average commission of 1.84%.

Subsequently, the Board of Directors, in the meeting of 20 June 2023, approved the increase of 1.25 million of the ceiling relating to the flow of commissions recognised by Banco BPM to Banca Aletti until 31 January 2024 for the placement of certificates and/or bonds through the Banca Aletti Network up to a maximum total amount of 3 million (compared to 1.75 million previously authorised), to be used for the issue of certificates and/or bonds and parametrised to an indicative commission of 3%, increased compared to the previous percentage of 1.75%, in relation to the changed market context and the increase in interest rates.
Subsequently, the Board of Directors, in the meeting of 7 November 2023, resolved to approve: (i) the increase of 250 million in the ceiling originally established at 1,750 million with the Board's resolution of 17 January 2023, to be used for the issue of certificates and/or bonds by Banco BPM up to a maximum total amount of 2,000 million (of which 1,856 million for the Banco BPM Network and 144 million for the Banca Aletti Network); (ii) the increase of 11.8 million in the ceiling relating to the flow of commissions that Banco BPM will pay to Banca Akros for the structuring of certificates and/or bonds and for the management of the related financial risk hedging, up to a maximum total amount of 44 million (compared to the amount of 32.2 million previously authorised), parametrised

to an average commission of 2.20%; (iii) the increase of 1.32 million in the ceiling relating to the flow of commissions that Banco BPM will pay to Banca Aletti for the placement of certificates and/or bonds through the subsidiary's Network, up to a maximum total amount of 4.32 million (compared to the amount of 3 million previously authorised), based on an indicative commission of 3%.
It should be noted that for the February - December 2023 period, the ceiling relating to the flow of commissions to be paid to Banca Aletti for the placement of certificates and/or bonds issued by Banco BPM was used for approximately 2.4 million, while the ceiling relating to the flow of commissions to be paid to Banca Akros for the structuring of certificates and/or bonds and for the management of the relative financial risk hedging was used for approximately 37.8 million.

Framework resolution for the fee and commission flows relating to the placement and management of Banca Aletti's asset portfolios by Banco BPM

At its meeting on 20 December 2022, the Board of Directors approved the extension until 31 January 2023 of the framework resolution concerning flows of commissions for the year 2022 relating to the placement and management of Banca Aletti's asset portfolios by Banco BPM for a maximum fee and commission amount of 78 thousand, representing the residual unused value estimated at the end of December 2022 out of the 2022 ceiling of 450 thousand.
Subsequently, at its meeting on 17 January 2023 the Board of Directors approved the renewal of the framework resolution in question for the 1 February 2023 - 31 January 2024 period, approving the recognition to Banco BPM for the placement and management of Banca Aletti's asset portfolios of a flow of commissions for a total of up to 780 thousand.
It should be noted that for the February - December 2023 period, the ceiling was used for approximately 382 thousand.

Framework resolution for fee and commission flows relating to the performance of trading on own behalf, order execution on behalf of customers, receipt and transmission of orders between Banco BPM, Banca Aletti and Banca Akros

On 20 December 2022, the Board of Directors approved: (i) an amendment of the 2019 framework agreement (hereinafter "2019 Framework Agreement Amended"), with which Banco BPM gave Banca Akros the assignment to provide trading services on its own behalf, execute orders on behalf of customers, receive and transmit the orders referred to in Art. 1, paragraph 5, lett. a), b) and e) of the Consolidated Finance Law (CFL), with regard to the orders transmitted by Banco BPM and relating to investment accounts that have been and/or will be finalised by Banco BPM itself with its customers, this amendment entailed the exclusion from its subject of transactions in financial derivatives traded in regulated markets in order to govern those transactions with a separate agreement; (ii) the stipulation of a new agreement between Banco BPM and Banca Akros (hereinafter "Derivatives Framework Agreement") to regulate activities relating to order execution and netting services on behalf of customers and order receipt and transmission services on financial derivatives traded in regulated markets; (iii) the renewal of the framework resolution relating to the performance of trading activities by Banca Akros, applicable at the same time and jointly both to the 2019 Framework Agreement Amended and to the Derivatives Framework Agreement, for which Banco BPM estimated paying the subsidiary for 2023, and specifically from 1 January to 31 December 2023, a maximum fee and commission flow of 14 million; (iv) the renewal of the framework resolution regarding the performance of trading activities by Banca Akros, for which Banca Aletti, on the basis of the Framework Agreement Banca Aletti - Banca Akros, estimated paying for 2023, and specifically from January to December 2023, a maximum fee and commission flow of 3.3 million.

It should be noted that for the January - December 2023 period, the ceilings were used, as regards point (iii), for approximately 11.7 million and, with respect to point (iv), for approximately 2.4 million.

Subsequently, the Board of Directors, at its meeting on 19 December 2023, resolved the renewal for the period 1 January - 31 December 2024, of the framework resolution concerning the performance of trading activities by Banca Akros S.p.A., for which (i) Banco BPM estimated to pay the subsidiary a maximum flow of commissions of 14 million; (ii) Banca Aletti S.p.A. estimated to pay Banca Akros a maximum flow of commissions of 3.3 million.

Issue of Investment certificates by Banca Akros to be placed on third-party networks and 2023 ceiling for the relative bond issues of Banco BPM, subscribed by Banca Akros and intended for the use of the ensuing liquidity

At its meeting held on 17 January 2023, the Board of Directors approved a ceiling for the issue by Banco BPM, during 2023, of bonds for a maximum of 250 million, which will be offered for subscription entirely to Banca Akros in order to be able to manage the liquidity ensuing from the placement of certificates.
Subsequently, on 20 June 2023, the Board of Directors resolved to increase the ceiling relating to the issue of bonds by Banco BPM, which will be offered for subscription entirely to the subsidiary Banca Akros in 2023, from the current 250 million up to a maximum amount of 300 million.
Please note that for the January - December 2023 period, bonds totalling 300 million were issued, offered for subscription entirely to Banca Akros.

Issue of certificates: (i) framework resolution for the definition of a new ceiling for placements of Banco BPM with third-party distribution networks; (ii) definition of the flow of commissions to be paid to Banca Akros for the restructuring and integration of the framework agreement for the provision of existing services

At its meeting on 11 July 2023, the Board of Directors resolved to approve the allocation of a total maximum ceiling of 100 million for the issue, by Banco BPM, of certificates to be placed with third-party distributed networks in the 1 July 2023 - 31 January 2024 period, recognising a flow of commissions to Banca Akros for a total amount of up to 2 million euro, in relation to the structuring and financial hedging of the instruments carried out by the aforementioned subsidiary.

Framework resolution concerning the issue by Banco BPM S.p.A. of investment certificates to be placed with third-party networks

The Board of Directors, at its meeting on 19 December 2023, resolved the allocation of a maximum total ceiling of up to 600 million, to be used for the issue of certificates and bonds to be placed with third-party networks outside the Group, for the 1 January 2024 - 31 December 2024 period, recognising a flow of commissions to Banca Akros, for the same time interval - as a framework resolution pursuant to the rules on conflicts of interest - of a total amount of up to 6 million, in relation to the promotion and marketing activities. This framework resolution replaces the one approved at the board meeting of 11 July 2023.

Initiatives as part of the Group's Covered Bond ("CB") issue programmes: determination of annual ceilings for the periodic repurchase of assets sold

At its meeting held on 29 November 2022, the Board of Directors approved the renewal, for the January - December 2023 period, of the annual ceilings for the periodic repurchase, for up to a maximum of 100 million for each of the outstanding Covered Bonds programmes and on the basis of the criteria established therein, of assets sold to the SPEs BP Covered Bond S.r.l., BPM Covered Bond S.r.l. and BPM Covered Bond 2 S.r.l. as well as the signature of the Repurchase Documents relating to each programme.

In May, August and December 2023, with the signing of the relative contracts, as part of all three Covered Bond Issue Programmes, Banco BPM, inter alia, repurchased en bloc (i) the positions that were classified as bad loans and (i) some positions classified as unlikely to pay. For the January - December 2023 period, the annual ceilings for periodic repurchases of assets sold were therefore used respectively for (i) 15 million with reference to BP Covered Bond S.r.l. (ii) 16.8 million with reference to BPM Covered Bond S.r.l. and (iii) 6 million with reference to BPM Covered Bond 2 S.r.l.

Subsequently, at its meeting on 7 November 2023, the Board of Directors resolved the renewal of the annual ceiling, maturing on 31 December 2024, to be used for each of the three existing CB issue programmes, with a view to making, on the basis of the criteria established in the relative programmes, periodic repurchases, for up to a maximum of 100 million per programme, of assets sold to the SPEs BP Covered Bond S.r.l., BPM Covered Bond S.r.l. and BPM Covered Bond 2 S.r.l. as well as the signature of the Repurchase Documents relating to each programme.

Covered Bonds (CB): (i) amendments to the Supervisory Provisions regarding CBs: adoption of internal operating limits and sending of the Communication to the Bank of Italy; (ii) sale to BPM Covered Bond S.r.l. of residential and commercial mortgages of the BPM CB1 programme and repurchase of non-eligible assets from the SPE as part of the Group's issue programmes

At its meeting on 8 May 2023, the Board of Directors approved:

- the adoption, following the amendments made to the Supervisory Provisions on covered bonds (Bank of Italy Circular no. 285/2013), of internal operating limits on the amount of eligible assets to be used for covered bond programmes, in line with the risk objectives and tolerance thresholds defined in the Risk Appetite Framework, particularly with reference to those relating to liquidity risk (LCR, NSFR), the overall level of encumbered assets and the NPE ratio;
- with reference to sales and repurchases, as part of the Group's Covered Bond issue programmes, also in the exercise of management and coordination activities that are the responsibility of the Parent Company pursuant to Arts. 2497 et seq. of the Italian Civil Code: (i) the sale, by Banco BPM to the SPE BPM Covered Bond S.r.l., of the New BPM CB1 Portfolio of eligible assets consisting of residential mortgages, including disbursements to Group employees, and commercial mortgages, in the amount of approximately 1.7 billion within the terms described, as well as the signing of the BPM CB1 Sale Documents; (ii) the repurchase from the respective SPEs of non-eligible mortgages, for a maximum total specified in the narrative, and the signing of Repurchase Documents, and more specifically:
  - the return to Banco BPM of the mortgages not eligible under the BPM CB1 Programme for a maximum of 4 million, excluding the UTP and Bad Loan positions already considered in the annual ceiling, with the payment of the relative sale price to the SPE;
  - the return to Banco BPM of the mortgages not eligible under the BPM CB2 Programme for a maximum of 1 million, excluding the UTP and Bad Loan positions already considered in the annual ceiling, with the payment of the relative sale price to the SPE;
  - the return to Banco BPM of the mortgages not eligible under the BP CB Programme for a maximum of 4.5 million, excluding the UTP and Bad Loan positions already considered in the annual ceiling, with the payment of the relative sale price to the SPE.

In May 2023, in execution of these resolutions, Banco BPM, with the signing of the relative contracts, (i) as part of the BPM CB1 Programme, sold to the SPE BPM Covered Bond S.r.l. a new portfolio of eligible assets for a total residual debt of 1.6 billion (Banco BPM Fifth Portfolio) and (ii) as part of all three Covered Bond Issue Programmes, inter alia, repurchased en bloc a portion of mortgages previously sold to the SPEs and no longer classifiable as eligible, including all the mortgages that as at 7 May 2023 had expired mortgage collateral for consideration of 3 million for the BPM CB1 Programme, 786 thousand for the BPM CB2 Programme and 3.2 million for the BP CB Programme.

It should be noted that, for the purposes of the sale in May 2023 of the new portfolio to the SPE BPM Covered Bond S.r.l., the new Supervisory Provisions, in force since 31 March 2023, were applied internally: in line with the new regulatory framework, the new internal limits on the sale of eligible assets adopted by Banco BPM were respected in order to proceed with sale in the BPM CB1 programme.

Covered Bonds (CB): (i) new issue of retained covered bonds under the BPM CB1 programme and prior communication to the Bank of Italy; (ii) sale to BPM Covered Bond S.r.l. of residential and commercial mortgages and repurchase of non-eligible assets by the SPE as part of the Group's issue programmes

At its meeting on 7 November 2023, the Board of Directors approved, following the amendments made to the Supervisory Provisions on covered bonds (Bank of Italy Circular no. 285/2013): (i) the new retained Series 12 issue under the BPM CB1 programme for a nominal value of 600 million with a maximum maturity of 4 years at a floating rate and the subscription of Series 12 Documents; (ii) the contents of the Communication to be sent to the Bank of Italy, concerning the characteristics of the new retained Series 12 issue under the BPM CB1 programme; (iii) the contents of the Statement regarding the adaptation of the BPM CB1 programme to the new reference regulatory framework on eligible assets and valuation procedures, hedging derivatives included in the cover pool, where applicable, hedging requirements, liquidity requirements, clauses for the automatic extension of maturities where envisaged, companies controlling the hedging aggregate. With reference to sales and repurchases, under the Group's Covered Bond issue programmes, the Board of Directors also approved: (i) the sale, by Banco BPM to the vehicle BPM Covered Bond S.r.l., of the New BPM CB1 Portfolio of eligible assets consisting of residential mortgages, including disbursements to Group employees, and commercial mortgages, in the amount of approximately 2.2 billion, as well as the signing of the BPM CB1 Sale Documents; (ii) the repurchase from the respective SPEs of not eligible mortgages, and the signing of Repurchase Documents, and more specifically:

- the return to Banco BPM of the mortgages not eligible under the BPM CB1 Programme for a maximum of 15 million, excluding the UTP and Bad Loan positions already considered in the annual ceiling, with the payment of the relative sale price to the SPE;
- the return to Banco BPM of the mortgages not eligible under the BPM CB2 Programme for a maximum of 5 million, excluding the UTP and Bad Loan positions already considered in the annual ceiling, with the payment of the relative sale price to the SPE;
- the return to Banco BPM of the mortgages not eligible under the BP CB Programme for a maximum of 15 million, excluding the UTP and Bad Loan positions already considered in the annual ceiling, with the payment of the relative sale price to the SPE.

In December 2023, in execution of these resolutions, Banco BPM, with the signing of the relative contracts, (i) as part of the BPM CB1 Programme, sold to the SPE BPM Covered Bond S.r.l. a new portfolio of eligible assets for a total residual debt of 2.1 billion (Banco BPM Sixth Portfolio) and (ii) as part of all three Covered Bond Issue Programmes, inter alia, repurchased en bloc a portion of mortgages previously sold to the SPEs and no longer classifiable as eligible, including all the mortgages whose collateral was due to expire by 31 December 2023, for consideration of 9.3 million for the BPM CB1 Programme, 2.1 million for the BPM CB2 Programme and 9.5 million for the BP CB Programme.
It should be noted that, in accordance with the new regulatory framework, which came into force last March, the new internal limits on the sale of eligible assets adopted by Banco BPM were complied with in order to proceed with the sale on the BPM CB1 programme.

Approval of the project for the partial demerger of Banca Akros S.p.A. in favour of Banco BPM S.p.A.

At the meeting of 29 May 2023, the Board of Directors approved, pursuant to Articles 2506-bis and 2501-ter of the Italian Civil Code, the project for the partial demerger by Banca Akros to Banco BPM with a simplified procedure pursuant to Articles 2505 and 2506-ter of the Italian Civil Code of the business unit relating to proprietary Finance activities, which allows (i) the Parent Company to specialise in the management of proprietary portfolios and in the issue of financial instruments (ii) Banca Akros to specialise in Investment Banking, Brokerage and Sales activities.

Following the issue on 22 September 2023 of the ECB's authorisation pursuant to Art. 57 of Italian Legislative Decree no. 385/1993, the next stages of the corporate demerger process were carried out, the last of which was the signature of the demerger deed on 18 December 2023.

The demerger was effective, also for accounting and tax purposes, from 1 January 2024; therefore, from the same date, transactions relating to the demerged business unit were charged to the financial statements of the beneficiary Banco BPM.

Evolution of bancassurance at Banco BPM

On 22 December 2022, Banco BPM and Crédit Agricole Assurances S.A. signed a binding term-sheet for the establishment of a long-term strategic partnership in bancassurance, limited to the Non-Life and Protection sector: the agreements envisaged, inter alia, that Crédit Agricole Assurances S.A. acquired from Banco BPM a 65% stake in the share capital of Banco BPM Assicurazioni S.p.A. and a 65% stake in the share capital of Vera Assicurazioni S.p.A., subject to the purchase by Banco BPM of a 65% stake in the share capital of Vera Assicurazioni S.p.A. as well as of Vera Vita S.p.A., held by Società Cattolica di Assicurazione S.p.A. (which was taken over by Generali Italia S.p.A.[1]).

At the meeting of the Board of Directors on 20 June 2023, as part of the process to integrate the insurance business, and following the exercise, on 29 May 2023, of the purchase option on 65% of the share capital of Vera Vita S.p.A. and Vera Assicurazioni S.p.A. established by the Shareholders' Agreement in place between Banco BPM and

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

Generali Italia S.p.A., Banco BPM identified the consolidation of the insurance segment with Banco BPM Vita S.p.A. as the Parent Company (for both the Life business segment and the Non-Life/Protection business segment) as the optimal solution.

On 14 December 2023, having obtained the required legal authorisations, Banco BPM Group finalised:

- the purchase of 65% of the share capital of Vera Vita S.p.A., which in turn holds 100% of the share capital of Vera Financial Dac (which at the same time changed its company name to BBPM Life Dac);
- the purchase of 65% of the share capital of Vera Assicurazioni S.p.A. - which in turn holds 100% of the share capital of Vera Protezione S.p.A. - at the same time sold to Crédit Agricole Assurances S.A.;
- the sale of 65% of the share capital of Banco BPM Assicurazioni, previously held by Banco BPM, to Crédit Agricole Assurances.

Therefore, on 15 December 2023, the intercompany transfers of the equity interests held by Banco BPM to Banco BPM Vita were finalised, with the aim of concentrating all the Group's equity interests (Life and Non-Life/Protection) in the insurance segment.

Alba Leasing risk group - increase of lending ceiling for direct risks, growth in total credit lines and new review date

At its meeting on 20 June 2023, the Board of Directors approved in favour of Alba Leasing S.p.A.: (i) the increase of the lending ceiling for direct risks from 1,000 million to 1,200 million, of which 200 million maturing on 31 July 2023; (ii) the increase of the amount of credit lines from 971.18 million to 1,163.18 million, of which 200 million maturing on 31 July 2023, in addition to indirect risks for 0.01 million and evidence risks of 15 million; (iii) the new review deadline of 30 June 2024.
Subsequently, at its meeting on 19 December 2023, the Board of Directors approved in favour of Alba Leasing S.p.A.: (i) an increase in the lending ceiling for direct risks from 1,000 million to 1,100 million, of which 100 million maturing on 30 June 2024; (ii) an increase in the total credit lines from 963.18 million to 1,063.18 million, of which 100 million maturing on 30 June 2024, alongside indirect risks for 0.01 million and evidence risks for 15 million, maintaining the review deadline as 30 June 2024.

BPM Covered Bond S.r.l./BPM Covered Bond 2 S.r.l./BP Covered Bond S.r.l. - Review as at 30 November 2024 of the lending ceiling for subordinated loans, with confirmation of the same as 21 billion

At its meeting on 19 December 2023, the Board of Directors resolved to approve: (i) the review as at 30 November 2024 of the ceiling for subordinated loans granted to the three SPEs of Banco BPM Group (BPM Covered Bond S.r.l., BPM Covered Bond 2 S.r.l. and BP Covered Bond S.r.l.), confirming the relative amount as 21 billion; (ii) the granting to BPM Covered Bond S.r.l. of a new line for subordinated loans of 2 billion, to purchase a new portfolio of eligible assets, represented by residential and commercial mortgages originated by Banco BPM for a total value of 2.2 billion; (iii) the simultaneous reduction, from 5 billion to 3 billion, of the lines for subordinated loans held by BP Covered Bond S.r.l.; (iv) the renewal of the lines for subordinated loans held by BPM Covered Bond 2 S.r.l. for 9.2 billion.

PART I – SHARE-BASED PAYMENT AGREEMENTS

A. QUALITATIVE INFORMATION

1. Description of share-based payment agreements

1.1 Remuneration linked to incentive systems: compensation plans based on shares

As the Parent Company, Banco BPM S.p.A. prepares the annual Policy-on-remuneration report and payouts awarded pursuant to the provisions in force on remuneration and incentive policies and practices of the Bank of Italy (Circular no. 285/2013, 37th update of 24 November 2021, Part I, Title IV, Chapter 2 "Remuneration and incentive policies and practices"), of Art. 123-*ter* of Italian Legislative Decree 58/1998 ("Consolidated Finance Law" or "CFL") as amended, of Art. 84-*quater* of CONSOB resolution no. 11971/1999 as amended ("Issuers' Regulation") and of IVASS Regulation 38/2018 and related Guidelines.

The remuneration policy ("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 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.

In accordance with the 2023 Policy, the remuneration of Group employees includes a variable component (incentive) linked to the annual incentive system (Short Term Incentive Plan). The receipt of an incentive is subject to the verification that the predefined access conditions (gates) have been met, consisting of indicators of capital adequacy and adequacy of liquidity and profitability. After verification of the gates, but before any payment, the amount of the economic resources actually available is determined on the basis of the economic results recorded (financial adjustment factor), as well as qualitative indicators of a non-financial nature (non-financial adjustment factor), in line with the Group risk appetite framework.

The incentive for identified staff[1] established in the year 2023, is paid over a period of six or five years, and is divided into an up-front portion and five or four annual deferred portions, subject to the successful fulfilment of future conditions.

The up-front portion, regardless of beneficiary, amounts to:
- 60% of the incentive awarded, in cases where the annual individual variable remuneration is less than 435 thousand euro;
- 40% of the incentive awarded, in cases where the annual individual variable remuneration is equal to or greater than 435 thousand euro.

The figure of 435 thousand euro represents for the Group the level of variable remuneration of a particularly high amount, determined in keeping with the criterion established by the Bank of Italy Supervisory Regulations[2].
50% of the up-front portion of the incentive is awarded in Banco BPM ordinary shares.

[1] Parties whose professional activity has or may have a significant impact on the risk profile of the Group or the individual Legal Entity.
[2] See Part One, Title IV, Chapter 2, Section III, Paragraph 2: "Particularly high variable remuneration amount means the lower of: i) 25 percent of the total average remuneration of the Italian high earners, resulting from the most recent report published by the EBA; ii) 10 times the total average remuneration of the bank's employees".

The deferred portions consist of:

- five annual instalments of the same amount deferred in the five-year period following the year of vesting of the up-front portion, for 55% in Banco BPM ordinary shares, for the senior identified staff, regardless of the amount of the annual individual variable remuneration awarded, and for the heads of the main business lines of Banca Akros or Banca Aletti who report directly to the Chief Executive Officer or senior management of Banca Akros or Banca Aletti, in the event that the amount of the annual individual variable remuneration paid is equal to or greater than 435 thousand euro;
- four annual instalments of the same amount, deferred in the four-year period following the year of vesting of the up-front portion, for 50% in Banco BPM ordinary shares, for identified staff not included in the previous point.

As required by the Supervisory Provisions of the Bank of Italy, in cases where the annual individual variable remuneration is lower than or equal to the significance threshold of 50 thousand euro, and, at the same time, lower than or equal to one third of the total annual individual remuneration, the relative amount is paid out in cash and in a lump sum.

The Long-Term Incentive plan supports the 2021-2024 Strategic Plan, to pursue results that create long-term value for shareholders and all relevant stakeholders, and provides for two assessment periods (2021-2023 LTI plan and 2022-2024 LTI plan).
The scope of the beneficiaries of the LTI plans includes around 60 positions relating to the Group's identified staff (excluding those belonging to functions with control tasks), selected on the basis of the level of the position and the impact on the business, including the Chief Executive Officer and executives with strategic responsibilities of the Parent Company.
The incentive correlated with the LTI plan (LTI incentive) is fully assigned in Banco BPM ordinary shares, is awarded at the end of the three-year performance period and is proportional to the level of achievement of the conditions and performance objectives.
For the 2021-2023 LTI incentive, the provisions in force at the time of its adoption are applied and, therefore, it is paid over six or four years, divided into an up-front share equal to 40% and five or three annual deferred portions, depending on the staff, subject to the successful fulfilment of future conditions. The 2022-2024 LTI incentive is paid in an up-front portion of 40% and in annual deferred portions of the same amount, in accordance with the provisions of the 2022 Short-Term Incentive Plan, subject to the successful fulfilment of future conditions.

With reference to the Short-Term Incentive and Long-Term Incentive Plans, for vested shares (up-front and deferred), a one-year retention period (selling restriction) is established, which starts from their vesting; the transfer of ownership to the beneficiary takes place at the end of this period.
Both the up-front portions and the deferred portions are subject to malus and claw-back mechanisms, as set forth in the Policy.

In addition to the compensation plan based on Banco BPM S.p.A. shares relating to the 2023 Short-Term Incentive Plan, the Ordinary Shareholders' Meeting of Banco BPM held on 20 April 2023 approved:

- the 2023 remuneration policy - Section I of the Policy-on-remuneration report and payouts awarded of Banco BPM Group's staff – 2023;
- the report on payouts awarded in 2022 - Section II of the Policy-on-remuneration report and payouts awarded of Banco BPM Group's staff – 2023 (advisory vote);
- the criteria for calculating any amounts to be granted in the event of early termination of employment or early departure from office of all personnel, including therein the limits set on said amounts;
- the request for authorisation to purchase and dispose of own shares in service of the Banco BPM S.p.A. share-based payment plan.

For further information refer to the content of the documents: Banco BPM Group 2023 Policy-on-remuneration report and payouts awarded (Section I and Section II) and the Information Document on the share-based compensation plan - 2023 Short-Term Incentive Plan, available on the website www.gruppo.bancobpm.it (Corporate Governance - Remuneration Policies section).

1.2 Share-based compensation plans of previous years

On 6-7 February 2023, the Banco BPM Board of Directors acknowledged the vesting in the year 2023 of the equity component of the deferred short and long-term incentives referring to the share-based compensation plans currently valid and approved on the basis of previous shareholders' resolutions.

For more details on the procedures and the terms for the allocation of the shares under the above-illustrated Plans, please refer to the respective information documents drawn up in accordance with Art. 84-*bis* of the Issuers' Regulation, deposited at the registered office, at Borsa Italiana S.p.A. and also available to the general public on Banco BPM S.p.A.'s website at www.gruppo.bancobpm.it (Corporate Governance — Remuneration Policies section).

1.3 Amounts for early termination of employment

In compliance with regulations in force over time, the Parent Company has the unilateral right to agree — subject to the conditions and in accordance with the methods defined in the Policy — possible amounts for the early termination of employment (for identified staff, golden parachutes), which may be awarded up to the maximum extent of twenty-four months of fixed remuneration (excluding indemnity for lack of notice, determined by legislative provision) and up to the maximum limit of 2.9 million euro (employee gross amount).

The recognition of the amounts for early termination of the employment relationship takes place on termination and is subject to the positive verification of conditions, related to the previous financial year, of capital adequacy and liquidity. The amount is determined considering each relevant element, and in any event:
- the positive results achieved over time;
- the circumstances that led to the termination, taking into account the interests of the company also to avoid an error of judgement;
- the tasks performed and/or positions held in the course of the employment relationship, also in the sense of risks assumed by the subject;
- the duration of the employment relationship and of the job;
- savings as a result of early termination of employment.

Payment thereof occurs according to the same methods provided for by the Short-Term Incentive Plan, defined in the remuneration policy in force on the date of termination, with reference to the last position for which payment of the amount was assessed, without prejudice to specific conditions envisaged by the Bank of Italy Supervisory Regulations.
The amounts for early termination of the employment relationship, both for identified staff and the remaining personnel, shall only be disbursed in the absence of fraudulent conduct or gross negligence committed by the person who has terminated his/her employment. Confirmation of such conduct entails the cancellation of the portions not yet disbursed (malus) and the return of those already disbursed (claw-back). The assessment of the degree of negligence is carried out by the Board of Directors of the Parent Company and/or the subsidiaries and/or the Chief Executive Officer of the Parent Company (or his/her delegate), each to the extent of their responsibility; this assessment takes place from the moment of vesting of units and for the next five years.

The remuneration components for the identified staff described above, which establish the payment based on shares of Banco BPM, are equity-settled plans in accordance with the provisions in IFRS 2. These share-based payments are recorded in the income statement under the item Personnel expenses as a balancing entry to an increase in the Reserves of consolidated shareholders' equity and the Parent Company's shareholders' equity.
Subsidiaries, on the other hand, in their separate financial statements, record the cost for the period in the income statement item Personnel expenses as a balancing entry of an increase in the balance sheet liability item "Provisions for risks and charges", in that the incentive plans for identified staff establish payment based on the shares of the Parent Company, which will be settled by the individual subsidiaries and, therefore, are considered cash-settled transactions.

B. QUANTITATIVE INFORMATION

1. Annual changes

The balance of the stock of shares at 1 January 2023, entirely held by the Parent Company Banco BPM, consisted of 6,159,480 ordinary shares of Banco BPM.
In 2023, in implementation of the remuneration policy, a total of 1,619,651 ordinary shares of Banco BPM S.p.A. were delivered to 95 beneficiaries.

1.1 Own share purchase programme to service the share allocation plans for Banco BPM Group's identified staff

Please recall that the Ordinary Shareholders' Meeting of Banco BPM S.p.A. of 7 April 2022 approved, inter alia, the request for the authorisation to purchase and dispose of own shares to service the share-based compensation plans and that - based on the authorisation issued by the European Central Bank in accordance with the applicable provisions of Regulation (EU) no. 575/2013 and Delegated Regulation (EU) no. 241/2014 - Banco BPM implemented its own share purchase programme to support short- and long-term incentive plans in place, which make provision for deferred portions.

In particular, please note that, in accordance with the press releases distributed most recently on 6 March 2023, as part of the above share purchase programme, Banco BPM purchased a total of 2,418,855 own shares (equal to 0.16% of the ordinary shares outstanding) on the Euronext Milan Market during the period from 28 February to 6 March 2023, inclusive, at an average unit price of 4.134186 euro, for a total value of approximately 10 million.

Following the above-mentioned transactions and taking into account the previous stock of own shares in addition to the share deliveries made in 2023 which took place as part of the implementation of the remuneration policies, as at 31 December 2023 Banco BPM directly owns 6,958,684 own shares.

2. Other information

With reference to the resolution passed by the Banco BPM Board of Directors on 6-7 February 2023 with regard to the share-based compensation plan approved by the Ordinary Shareholders' Meeting in 2022, a total of 1,011,327 shares were granted to 52 beneficiaries, of which (i) 546,985 relating to the vested up-front portion and (ii) 464,342 relating to the deferred portions, as appropriate, in the four or five years after 2023, the vesting of which remains subject to positive verification of future consolidated conditions as well as the absence of misconduct. With regard to said plan, note that the Parent Company awarded its beneficiaries 864,573 shares, of which 460,490 shares relating to the vested up-front portion and 404,083 shares relating to the deferred portions as indicated above.
The same resolution also determined the vesting of deferred portions relating to previous years (2017, 2018, 2019, 2020, 2021 and 2017-2019 LTI) for a total of 869,932 Banco BPM shares to 86 beneficiaries, of which 761,667 shares vested in favour of Parent Company beneficiaries.

2.1 Economic impact in 2023

With regard to the Share-based Incentive systems for identified staff in 2023, the Group allocated 8.7 million; the most significant amounts are attributable for 4.3 million to the 2023 short-term incentive plan and to the 2021-2023 and 2022-2024 long-term plans for 3.8 million and 1.3 million, respectively, and the difference is due to the negative adjustment of the short-term plans of previous years. It should be noted that the amount attributable to the Parent Company, for these Incentive Systems, is 7.6 million.

PART L – SEGMENT REPORTING

According to IFRS 8, companies must provide information enabling users of financial statements to assess the nature and the effects on the financial statements of their business activities and the economic contexts in which they operate.
Therefore, it is necessary to highlight the contribution of the various "operating segments" to the formation of the Group's income.
The identification of the "operating segments" of this Section is consistent with the procedures adopted by Company Management to make operating decisions and is based on internal reporting, used for allocating resources to the various segments and analysing their performance. In that view, also to improve the representation of the Group's profitability, any operating segments that are below the quantitative thresholds put forward in paragraph 13 of IFRS 8 are also highlighted.
From the same perspective, an amendment was made to the Segment Reporting structure as of 2023, which highlights the contribution of Group Finance in a dedicated segment. Until 31 December last year the contribution of Group Finance had been brought back within the Corporate Centre, in order to provide a better representation of the results of said business.

Therefore, for 2023, the operating segments taken as a reference to provide the disclosure in question are as follows:

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

For a description of the configuration of said operating segments, refer to the disclosure set out in the Section "Results by business segment" of the Report on operations of the Group.

The tables below provide the detailed income statement and balance sheet figures by segment as at 31 December 2023, compared with the corresponding figures for the previous year.
To allow a comparison on a like-for-like basis, the latter have been restated with respect to those published in the Annual Financial Report as at 31 December 2022 to incorporate:

- the impacts deriving from the retrospective application of IFRS 17 and IFRS 9 for associated insurance companies, recognised in the Insurance sector;
- the change introduced starting from 2023 in the composition of the operating segments indicated above, which sees the contribution relating to the Group Finance activities, previously disclosed in the "Corporate Centre" segment, shown in the new "Finance" segment, as envisaged by the paragraph 29 of IFRS 8.

Segment results - income statement figures

2023	Total	Retail	Corporate	Institutional	Private	Investment Banking	Insurance	Strategic Partnerships	Finance	Corporate Centre
Net interest income	3,289,228	2,126,138	584,789	163,820	37,583	47,798	(95)	(1,764)	220,196	110,763
Gains (losses) on interests in associates and joint ventures carried at equity	144,097	-	-	-	-	-	28,440	113,597	-	2,060
Financial margin	**3,433,325**	**2,126,138**	**584,789**	**163,820**	**37,583**	**47,798**	**28,345**	**111,833**	**220,196**	**112,823**
Net fee and commission income	1,860,019	1,432,851	315,747	46,533	96,797	59,274	-	-	(4,549)	(86,634)
Other net operating income	81,276	24,578	627	2,170	5	(225)	3,955	-	-	50,166
Net financial result	(79,029)	(20,044)	19,229	135	(1,468)	37,461	-	-	(122,463)	8,121
Profit (loss) on insurance business	45,851	-	-	-	-	-	45,851	-	-	-
Other operating income	**1,908,117**	**1,437,385**	**335,603**	**48,838**	**95,334**	**96,510**	**49,806**	**-**	**(127,012)**	**(28,347)**
Operating income	**5,341,442**	**3,563,523**	**920,392**	**212,658**	**132,917**	**144,308**	**78,151**	**111,833**	**93,184**	**84,476**
Personnel expenses	(1,671,952)	(1,064,066)	(80,013)	(14,178)	(62,563)	(30,040)	(2,026)	(1,639)	(10,259)	(407,168)
Other administrative expenses	(652,393)	(684,644)	(133,977)	(32,014)	(17,489)	(71,244)	(11,873)	(701)	(57,548)	357,097
Net value adjustments to property, plant and equipment and intangible assets	(246,818)	(91,317)	(2,506)	(322)	(5,314)	(546)	(7)	(40)	(209)	(146,557)
Operating expenses	**(2,571,163)**	**(1,840,027)**	**(216,496)**	**(46,514)**	**(85,366)**	**(101,830)**	**(13,906)**	**(2,380)**	**(68,016)**	**(196,628)**
Profit (loss) from operations	**2,770,279**	**1,723,496**	**703,896**	**166,144**	**47,551**	**42,478**	**64,245**	**109,453**	**25,168**	**(112,152)**
Net adjustments to loans to customers	(558,594)	(329,143)	(165,105)	(3,748)	(265)	2	-	-	-	(60,335)
Fair value gains (losses) on property, plant and equipment	(146,847)	-	-	-	-	-	-	-	-	(146,847)
Net adjustments to securities and other financial assets	(1,986)	-	-	-	-	106	-	-	1,975	(4,067)
Net provisions for risks and charges	(22,189)	(24,484)	5,597	244	(6,360)	39	(34)	-	-	2,809
Gains (losses) on interests in associates and joint ventures and other investments	342	-	-	-	-	-	-	-	-	342
Profit (loss) before tax from continuing operations	**2,041,005**	**1,369,869**	**544,388**	**162,640**	**40,926**	**42,625**	**64,211**	**109,453**	**27,143**	**(320,250)**
Taxation charge related to profit or loss from continuing operations	(604,751)	(457,188)	(180,388)	(53,814)	(14,010)	(11,565)	(7,926)	1,357	(9,185)	127,968
Profit (loss) after tax from continuing operations	**1,436,254**	**912,681**	**364,000**	**108,826**	**26,916**	**31,060**	**56,285**	**110,810**	**17,958**	**(192,282)**
Charges related to the banking system, net of taxes	(126,577)	(95,029)	(11,768)	(10,944)	(717)	(2,178)	-	-	(5,941)	-
Impact of the realignment of tax values to book values	8,802	-	-	-	-	-	-	-	-	8,802
Bancassurance impacts net of taxes	(22,245)	-	-	-	-	-	-	-	-	(22,245)
Change in own credit risk on Certificates issued by the Group, net of taxes	(3,463)	-	-	-	-	-	-	-	-	(3,463)
Purchase Price Allocation net of taxes	(28,340)	(21,740)	92	(21)	(2,314)	-	-	-	-	(4,357)
Profit (loss) for the year attributable to non-controlling interests	22	-	-	-	-	-	-	-	-	22
Parent Company's profit (loss) for the year	**1,264,453**	**795,912**	**352,324**	**97,861**	**23,885**	**28,882**	**56,285**	**110,810**	**12,017**	**(213,523)**

2022 (*)	Total	Retail	Corporate	Institutional	Private	Investment Banking	Insurance	Strategic Partnerships	Finance	Corporate Centre
Net interest income	2,314,409	1,183,947	474,250	94,552	4,091	56,509	(39)	(1,961)	536,187	(33,127)
Gains (losses) on interests in associates and joint ventures carried at equity	135,983	-	-	-	-	-	(16,101)	150,221	-	1,863
Financial margin	**2,450,392**	**1,183,947**	**474,250**	**94,552**	**4,091**	**56,509**	**(16,140)**	**148,260**	**536,187**	**(31,264)**
Net fee and commission income	1,887,322	1,442,055	278,601	50,118	97,177	50,237	-	-	1,013	(31,879)
Other net operating income	71,554	5,965	58	3,470	5	962	1,171	-	-	59,923
Net financial result	242,983	(7,529)	(18,338)	(466)	(429)	13,278	-	-	305,175	(48,708)
Profit (loss) on insurance business	21,702	-	-	-	-	-	21,702	-	-	-
Other operating income	**2,223,561**	**1,440,491**	**260,321**	**53,122**	**96,753**	**64,477**	**22,873**	**-**	**306,188**	**(20,664)**
Operating income	**4,673,953**	**2,624,438**	**734,571**	**147,674**	**100,844**	**120,986**	**6,733**	**148,260**	**842,375**	**(51,928)**
Personnel expenses	(1,602,406)	(1,046,107)	(76,838)	(13,884)	(57,159)	(29,590)	(1,638)	(1,741)	(10,132)	(365,317)
Other administrative expenses	(648,249)	(718,958)	(134,810)	(31,113)	(15,259)	(60,478)	(4,347)	(619)	(49,579)	366,914
Net value adjustments to property, plant and equipment and intangible assets	(279,736)	(107,446)	(4,102)	(607)	(3,501)	(370)	(596)	(40)	(202)	(162,872)
Operating expenses	**(2,530,391)**	**(1,872,511)**	**(215,750)**	**(45,604)**	**(75,919)**	**(90,438)**	**(6,581)**	**(2,400)**	**(59,913)**	**(161,275)**
Profit (loss) from operations	**2,143,562**	**751,927**	**518,821**	**102,070**	**24,925**	**30,548**	**152**	**145,860**	**782,462**	**(213,203)**
Net adjustments to loans to customers	(682,281)	(410,028)	(191,673)	(1,396)	541	111	-	-	-	(79,836)
Fair value gains (losses) on property, plant and equipment	(108,347)	-	-	-	-	-	-	-	-	(108,347)
Net adjustments to securities and other financial assets	(9,106)	-	-	-	-	(68)	-	-	(6,262)	(2,776)
Net provisions for risks and charges	(57,214)	(33,761)	(11,915)	(386)	(4,665)	(83)	(3)	-	-	(6,401)
Gains (losses) on interests in associates and joint ventures and other investments	2,258	-	-	-	-	-	-	-	-	2,258
Profit (loss) before tax from continuing operations	**1,288,872**	**308,138**	**315,233**	**100,288**	**20,801**	**30,508**	**149**	**145,860**	**776,200**	**(408,305)**
Taxation charge related to profit or loss from continuing operations	(407,031)	(108,011)	(105,648)	(33,160)	(7,240)	(9,227)	(4,000)	1,429	(257,237)	116,063
Profit (loss) after tax from continuing operations	**881,841**	**200,127**	**209,585**	**67,128**	**13,561**	**21,281**	**(3,851)**	**147,289**	**518,963**	**(292,242)**
Charges related to the banking system, net of taxes	(151,887)	(110,412)	(14,348)	(13,976)	(963)	(2,556)	-	-	(9,555)	(77)
Goodwill impairment	(8,132)	-	-	-	-	-	-	-	-	(8,132)
Change in own credit risk on Certificates issued by the Group, net of taxes	4,818	-	-	-	-	-	-	-	-	4,818
Purchase Price Allocation net of taxes	(42,379)	(23,926)	110	(25)	(2,490)	-	-	-	-	(16,048)
Profit (loss) for the year attributable to non-controlling interests	786	-	-	-	-	-	-	-	-	786
Parent Company's profit (loss) for the year	**685,047**	**65,789**	**195,347**	**53,127**	**10,108**	**18,725**	**(3,851)**	**147,289**	**509,408**	**(310,895)**

(*) The figures for the previous year have been restated following the retrospective application of IFRS 17 and IFRS 9 for associated insurance companies; they were also recalculated to reflect the changes introduced in the composition of the operating segments as at 31 December 2023.

The following tables show the details of fee and commission income of 2023 and the previous year disaggregated by type of service provided and defined with an operating outlook, and by IFRS 8 operating segment, in line with the disclosure requirements introduced by IFRS 15.

2023 Service type/Amounts	**Group**	**Retail**	**Corporate**	**Institutional**	**Private**	**Investment Banking**	**Insurance**	**Strategic Partnerships**	**Finance**	**Corporate Centre**
Savings products	**657,284**	**571,270**	**1,381**	**5,893**	**97,357**				**1,271**	**(19,888)**
of which:										
Indirect upfront - Network	*191,534*	*183,717*	*65*	*1,054*	*6,697*					
Administered	49,897	47,071	14	202	2,610					
Portfolio management and funds	107,006	102,818	30	675	3,483					
Life	34,630	33,828	21	177	604					
Indirect running - Network	*484,367*	*387,553*	*1,316*	*4,839*	*90,659*					
Administered	81,756	67,114	516	2,049	12,077					
Portfolio management and funds	361,216	284,969	762	2,580	72,905					
Life	41,395	35,470	38	209	5,678					
Indirect non-Commercial Network	*(18,617)*								*1,271*	*(19,888)*
Investment Banking	**79,703**					79,703				
Insurance protection	**55,890**	55,608	17	48	52					**165**
Other fees and commissions	**1,260,856**	**902,428**	**331,876**	**44,195**	**2,165**					**(19,808)**
Fee and commission income	**2,053,733**	**1,529,306**	**333,274**	**50,137**	**99,574**	**79,703**	**-**	**-**	**1,271**	**-39,531**
Fee and commission expense	**(193,714)**	**(96,455)**	**(17,527)**	**(3,604)**	**(2,777)**	**(20,429)**	**-**	**-**	**(5,820)**	**(47,103)**
Net fee and commission income	**1,860,019**	**1,432,851**	**315,747**	**46,533**	**96,797**	**59,274**	**-**	**-**	**(4,549)**	**(86,634)**

2022 (*) Service type/Amounts	**Group**	**Retail**	**Corporate**	**Institutional**	**Private**	**Investment Banking**	**Insurance**	**Strategic Partnerships**	**Finance**	**Corporate Centre**
Savings products	**666,251**	**589,316**	**1,230**	**5,537**	**98,710**	**-**	**-**	**-**	**8,003**	**(36,545)**
of which:										
Indirect upfront - Network	*209,130*	*200,977*	*89*	*1,181*	*6,883*	-	-	-	-	-
Administered	26,247	24,831	18	132	1,266	-	-	-	-	-
Portfolio management and funds	143,125	137,724	70	888	4,443	-	-	-	-	-
Life	39,758	38,422	1	161	1,174	-	-	-	-	-
Indirect running - Network	*485,663*	*388,339*	*1,141*	*4,356*	*91,827*	-	-	-	-	-
Administered	62,713	52,969	314	1,460	7,970	-	-	-	-	-
Portfolio management and funds	377,936	297,712	779	2,670	76,775	-	-	-	-	-
Life	45,014	37,658	48	226	7,082	-	-	-	-	-
Indirect non-Commercial Network	*(28,542)*	-	-	-	-	-	-	-	*8,003*	*(36,545)*
Investment Banking	**82,132**	**-**	**-**	**-**	**-**	82,132	**-**	**-**	**-**	**-**
Insurance protection	**50,252**	49,970	18	39	90	-	**-**	**-**	**-**	**135**
Other fees and commissions	**1,207,839**	**880,754**	**289,746**	**47,387**	**1,912**	**-**	**-**	**-**	**-**	**(11,960)**
Fee and commission income	**2,006,474**	**1,520,040**	**290,994**	**52,963**	**100,712**	**82,132**	**-**	**-**	**8,003**	**(48,370)**
Fee and commission expense	**(119,152)**	**(77,985)**	**(12,393)**	**(2,845)**	**(3,535)**	**(31,895)**	**-**	**-**	**(6,990)**	**16,491**
Net fee and commission income	**1,887,322**	**1,442,055**	**278,601**	**50,118**	**97,177**	**50,237**	**-**	**-**	**1,013**	**(31,879)**

(*) The figures for the previous year have been restated to reflect the changes introduced in the composition of the operating segments as at 31 December 2023.

The following tables provide the details of the item “Other fees and commissions” for 2023 and for the previous year, broken down by the type of service provided:

Other fees and commissions 2023	Group	Retail	Corporate	Institutional	Private	Investment Banking	Insurance	Strategic Partnerships	Finance	Corporate Centre
Keeping and management of current accounts, Credit Availability Fee (CDC)	**488,958**	**419,328**	**55,769**	**12,651**	**1,160**					**50**
of which:										
Credit Availability Fee (CDC)	*246,132*	198,209	43,686	3,888	349					
Keeping and management of current accounts	*242,826*	221,119	12,083	8,763	811					*50*
Commission on loans (including consumer credit) and unsecured loans Italy	**263,717**	**81,967**	**169,151**	**11,799**	**142**					**658**
of which:										
Commission on loans	*164,537*	19,362	135,322	10,095	10					*(252)*
Commission on unsecured loans	*52,165*	18,758	33,829	1,704	109					*(2,235)*
Consumer credit	*47,015*	43,847			23					*3,145*
Abroad (including unsecured loans)	**126,895**	**47,571**	**82,435**	**632**	**143**					**(3,886)**
Collection and payment services, e-money	**382,400**	**355,672**	**24,605**	**19,255**	**1,596**					**(18,728)**
of which:										
Collection and payment services	*194,237*	*157,183*	*18,831*	*12,907*	*816*					*4,500*
E-money	*188,163*	*198,489*	*5,774*	*6,348*	*780*					*(23,228)*
Other services	**(1,114)**	**(2,110)**	**(84)**	**(142)**	**(876)**					**2,098**
of which:										
Commercial refunds	*(5,067)*	*(2,908)*	*(464)*	*(156)*	*(876)*					*(663)*
Retrocessions to financial advisors										
Other	*3,953*	*798*	*380*	*14*	-					*2,761*
Total other fees and commissions	**1,260,856**	**902,428**	**331,876**	**44,195**	**2,165**	**-**	**-**	**-**	**-**	**(19,808)**

Other fees and commissions 2022	Group	Retail	Corporate	Institutional	Private	Investment Banking	Insurance	Strategic Partnerships	Finance	Corporate Centre
Keeping and management of current accounts, Credit Availability Fee (CDC)	**506,619**	**431,723**	**59,406**	**14,343**	**1,095**	**-**	**-**	**-**		**52**
of which:										
Credit Availability Fee (CDC)	*241,433*	196,102	41,145	3,918	268	-	-	-		-
Keeping and management of current accounts	*265,186*	235,621	18,261	10,425	827	-	-	-		*52*
Commission on loans (including consumer credit) and unsecured loans Italy	**255,614**	**79,523**	**158,013**	**14,552**	**115**	**-**	**-**	**-**		**3,411**
of which:										
Commission on loans	*157,219*	13,299	130,856	12,863	(6)	-	-	-		*207*
Commission on unsecured loans	*45,439*	17,245	27,157	1,688	105	-	-	-		*(756)*
Consumer credit	*52,956*	48,979	-	1	16	-	-	-		*3,960*
Abroad (including unsecured loans)	**81,617**	**35,761**	**45,612**	**589**	**175**	**-**	**-**	**-**		**(520)**
Collection and payment services, e-money	**365,990**	**336,931**	**27,133**	**18,347**	**1,459**	**-**	**-**	**-**		**(17,880)**
of which:										
Collection and payment services	*182,332*	*146,066*	*19,957*	*12,294*	*742*	-	-	-		*3,273*
E-money	*183,658*	*190,865*	*7,176*	*6,053*	*717*	-	-	-		*(21,153)*
Other services	**(2,001)**	**(3,184)**	**(418)**	**(444)**	**(932)**	**-**	**-**	**-**		**2,977**
of which:										
Commercial refunds	*(6,149)*	*(3,907)*	*(722)*	*(451)*	*(932)*	-	-	-		*(137)*
Retrocessions to financial advisors	-	-	-	-	-	-	-	-		-
Other	*4,148*	*723*	*304*	*7*	-	-	-	-		*3,114*
Total other fees and commissions	**1,207,839**	**880,754**	**289,746**	**47,387**	**1,912**	**-**	**-**	**-**		**(11,960)**

Segment results - balance sheet figures

31/12/2023	Total	Retail	Corporate	Institutional	Private	Investment Banking	Insurance	Strategic Partnerships	Finance	Corporate Centre
Loans to customers:	129,266,444	59,417,979	29,679,588	6,843,607	598,968	296,151	2,510	-	29,453,390	**2,974,251**
• loans to customers	104,015,166	59,417,979	29,439,419	6,464,184	598,968	296,151	2,510	-	4,821,704	2,974,251
• debt securities	25,251,278	-	240,169	379,423	-	-	-	-	24,631,686	-

31/12/2022 (*)	Total	Retail	Corporate	Institutional	Private	Investment Banking	Insurance	Strategic Partnerships	Finance	Corporate Centre
Loans to customers:	133,647,528	63,164,637	31,307,219	6,829,089	542,448	1,773,022	765	-	26,256,766	3,773,582
• loans to customers	107,521,998	63,164,637	31,092,530	6,704,832	542,448	1,773,022	765	-	470,182	3,773,582
• debt securities	26,125,530	-	214,689	124,257	-	-	-	-	25,786,584	-

(*) The figures for the previous year have been restated to reflect the changes introduced in the composition of the operating segments as at 31 December 2023.

31/12/2023	Total	Retail	Corporate	Institutional	Private	Investment Banking	Insurance	Strategic Partnerships	Finance	Corporate Centre
Direct funding	120,770,064	78,895,521	7,196,953	11,536,204	1,889,894	803,101	-	-	19,627,852	820,539

31/12/2022 (*)	Total	Retail	Corporate	Institutional	Private	Investment Banking	Insurance	Strategic Partnerships	Finance	Corporate Centre
Direct funding	120,639,083	82,910,556	7,506,563	11,032,058	2,674,626	1,838,956	-	-	14,307,895	368,429

(*) The figures for the previous year have been restated to reflect the changes introduced in the composition of the operating segments as at 31 December 2023.

31/12/2023	Total	Retail	Corporate	Institutional	Private	Investment Banking	Insurance	Strategic Partnerships	Finance	Corporate Centre
Interests in associates and joint ventures	1,454,249	-	-	-	-	-	136,892	1,296,992	-	20,365

31/12/2022 (*)	Total	Retail	Corporate	Institutional	Private	Investment Banking	Insurance	Strategic Partnerships	Finance	Corporate Centre
Interests in associates and joint ventures	1,652,548	-	-	-	-	-	353,351	1,279,312	-	19,885

(*) The figures for the previous year have been restated following the retrospective application of IFRS 17 and IFRS 9 for associated insurance companies; they were also recalculated to reflect the changes introduced in the composition of the operating segments as at 31 December 2023.

Note that the activities and operating income are mainly achieved in Italy, confirming the deep roots throughout the country, considered to be the main area of action of the Group. The incidence of activities and operating income achieved abroad is to be considered negligible.

PART M – DISCLOSURE ON LEASES

Section 1 – Lessee

QUALITATIVE INFORMATION

The IFRS 16 scope of Banco BPM Group includes the lease contracts on the property units mainly intended for commercial activities (branches), which account for around 96% of the rights of use relating to leases. There was a marginal amount of other contracts, relating to the hiring of the company car fleet and the rights of use of technological equipment.

Short-term or low value lease contracts are recorded according to that set out in par. 6 of IFRS 16. The related costs are indicated in table 12.5 "Other administrative expenses: breakdown".

QUANTITATIVE INFORMATION

According to that set out in Bank of Italy Circular 262, the information required by accounting standard IFRS 16, relating to contracts in which the Group is the lessee, contained in these Notes to the consolidated financial statements, in the sections indicated below:

- the information on rights of use acquired through leases is contained in Part B, Assets – Section 9, Table 9.1 "Property, plant and equipment used in operations: breakdown of assets at cost" and in Table 9.6 bis "Property, plant and equipment used in operations - Rights of use acquired through leases: annual changes";
- the information on lease payables is contained in Part B, Liabilities – Section 1, Table 1.6 "Lease payables";
- the information on interest expense on lease payables is contained in Part C – Section 1 – Table 1.3 "Interest and similar expense: breakdown";
- the information on the depreciation of the rights of use and the related asset classes is contained in Part B, Assets – Section 9, Table 9.6 bis "Property, plant and equipment used in operations - Rights of use acquired through leases: annual changes", under item C.2 "Depreciation".

At the reporting date, there are no material amounts relating to lease commitments.

Section 2 – Lessor

QUALITATIVE INFORMATION

The Group has both finance lease contracts and operating lease contracts in force.

Finance lease operations, which include the contracts of the former Banca Italease and Release (transferred to the Parent Company Banco BPM), are in run-off as a result of the Group's decision to no longer directly disburse that type of financing.

Operating leases refer to commercial leases connected to properties not used for business activities, mainly with regard to properties acquired by way of *datio in solutum* (transfer in lieu of payment) against previous credit exposures or to properties previously used for administrative/commercial activities for which there has been a change of destination (e.g. closure of a branch).

QUANTITATIVE INFORMATION

1. Information on the balance sheet and income statement

1. Information on the balance sheet and income statement

According to that set out in Bank of Italy Circular no. 262, the information required by accounting standard IFRS 16, relating to contracts in which the Group is the lessor, contained in these Notes to the consolidated financial statements, in the sections indicated below:

- the information on loans for leases is contained in Part B, Assets – Section 4, Table 4.1 "Financial assets at amortised cost: breakdown by product for loans to banks" and Table 4.2 "Financial assets at amortised cost: breakdown by product for loans to customers";
- the information on assets granted through operating leases is contained in Part B, Assets – Section 9, at the bottom of Table 9.4 "Property, plant and equipment held for investment purposes: breakdown of assets at fair value through profit and loss", with the related specifics provided at the bottom of that table;
- the information on interest income on loans for leases is contained in Part C – Section 1 – Table 1.1 "Interest and similar income: breakdown";
- the information on income from operating leases is contained in Part C – Section 16, Table 16.2 "Other operating income: breakdown".

2. Finance leases

2.1 Classification of payments to be received by time band and reconciliation with loans for leases posted under assets

Time bands	Total 31/12/2023 Lease payments to be received	Total 31/12/2022 Lease payments to be received
Up to 1 year	223,269	301,125
From over 1 year to 2 years	70,246	152,012
From over 2 years to 3 years	77,629	77,998
From over 3 years to 4 years	54,368	85,404
From over 4 years to 5 years	52,308	63,106
Over 5 years	112,715	193,786
Total lease payments to be received	**590,535**	**873,431**
Reconciliation with loans		
Financial profits not accrued (-)	(71,852)	(92,871)
Residual non-guaranteed value (-)	-	-
Loans for leases	**518,683**	**780,560**

Loans for leases recorded a gradual decrease, in relation to the Group's decision to no longer directly disburse that type of financing.

2.2 Other information

There is no other information to report.

3. Operating leases

The table shows the classification by time band of the forecasts regarding the payments to be received for the properties leased by the Group, referring to the non-discounted value of the lease payment (without VAT), according to the initial duration of the contracts or the renewal period.

The lease payments that will be received by the Group, based on the actual duration of the contract, are recognised in the income statement under item "230. Other operating expenses/income" on an accrual basis.

3.1 Classification by time band of payments to be received

Time bands	Total 31/12/2023 Lease payments to be received	Total 31/12/2022 Lease payments to be received
Up to 1 year	38,060	32,143
From over 1 year to 2 years	33,520	23,371
From over 2 years to 3 years	32,509	18,687
From over 3 years to 4 years	31,119	16,990
From over 4 years to 5 years	21,825	8,902
Over 5 years	62,455	8,206
Total	**219,488**	**108,299**

3.2 Other information

There is no other information to report.

OTHER INFORMATION

Disclosure regarding public disbursements pursuant to Art. 1, paragraph 125 of Law 124 of 4 August 2017 ("Annual market and competition law")

In compliance with that stated in Art. 1, paragraph 125 of Law 124 of 4 August 2017, the amounts received by the Parent Company and its subsidiaries during 2023, in the form of "subsidies, contributions, paid positions and in any case economic advantages of any type" are provided below.

Group company	**Type of contributions**	**Granting authority**	**Amounts received in 2023 *(figures in euro)***
Banco BPM	Aid for personnel training (*)	FBA (Bank and Insurance Fund)	3,205,184
Banco BPM	Aid for personnel training (**)	ANPAL (National Agency for Active Labour Policies)	65,064
Terme Ioniche Società Agricola S.r.l.	Agricultural aid (***)	Disbursed by the European Union through ARCEA (Agency of the Region of Calabria for Agricultural Aid), as the paying body	111,678
Sagim S.r.l. Società Agricola	Agricultural aid (***)	Disbursed by the European Union through ARTEA (Tuscan Regional Agency for Agricultural Aid), as the paying body	188,896

(*) Aid for personnel training requested in 2022 and 2023 and paid in November and December 2023.
(**) Aid for training requested in 2020 and paid in June 2023, as an integration following recalculation.
(***) In particular, these are public resources from EU sources, in which the Italian public administration takes on the role of payer.

To that end, note that in the table, in line with the provisions of the law in question, economic advantages of less than the threshold of 10,000 euro are not stated. This threshold should be understood to refer to all the advantages that the Parent Company or each company in the Group received from the same authority in 2023, whether the benefit was disbursed in one tranche or in several tranches.

Declaration of the Chief Executive Officer and the Manager Responsible for Preparing the Company's Financial Reports

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AND ITS SUBSEQUENT AMENDMENTS AND SUPPLEMENTS

1. The undersigned, Giuseppe Castagna, as Chief Executive Officer of Banco BPM S.p.A. and Gianpietro Val, as Manager responsible for preparing the Company's financial reports of Banco BPM S.p.A., hereby certify, also in consideration of the provisions of Art. 154-bis, paragraphs 3 and 4, of Italian Legislative Decree no. 58 dated 24 February 1998:

- the adequacy in relation to the characteristics of the company and
- the effective application

of the administrative and accounting procedures for the formation of the consolidated financial statements of Banco BPM S.p.A. in 2023.

2. The assessment of the adequacy and the verification of the effective application of the administrative and accounting procedures for the formation of the consolidated financial statements of Banco BPM S.p.A. as at 31 December 2023 were based on an internal model set in place by Banco BPM S.p.A., developed on the basis of the "Internal Control – Integrated Framework (COSO)" and, for the IT component, the "Control Objectives for IT and related Technology (COBIT)", which represent the standards for the internal audit system generally accepted at international level.

3. We also hereby certify that:

- the consolidated financial statements of Banco BPM S.p.A. as at 31 December 2023:
  a) were drawn up in compliance with the applicable international accounting standards recognised in the European Community as per EC Regulation no. 1606/2002 of the European Parliament and Council, dated 19 July 2002;
  b) comply with the results of the accounting records and journal entries;
  c) are suitable for providing a true and fair view of the balance sheet, income statement and financial situation of the issuer and of all the companies included within the scope of consolidation.
- the report on operations includes a reliable analysis of operating performance and results, as well as the situation of the issuer, Banco BPM S.p.A., and of all of the companies included within the scope of consolidation, together with a description of the main risks and uncertainties to which the same are exposed.

Verona, Italy, 27 February 2024

Signed by	Signed by
Giuseppe Castagna	Gianpietro Val
Chief Executive Officer	Manager responsible for preparing the Company's financial reports

Independent Auditors' Report on the consolidated financial statements

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of
Banco BPM SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Banco BPM Group (hereinafter the "Group"), which comprise the consolidated balance sheet as of 31 December 2023, the consolidated income statement, statement of consolidated comprehensive income, statement of changes in consolidated shareholders' equity, the consolidated cash flow statement for the year then ended, and notes thereto, which include relevant information on accounting policies applied.

In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position as of 31 December 2023 and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of Banco BPM SpA (hereinafter the "Bank") pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon and we do not provide a separate opinion on these matters.

Key audit matters	*Auditing procedures performed in response to key audit matters*

Valuation of performing loans to customers measured at amortised cost

Notes to the consolidated financial statements:
Part A - Accounting policies
Part B – Information on the consolidated balance sheet – Assets, Section 4
Part C – Information on the consolidated income statement, Section 8
Part E – Information on risks and related hedging policies

Performing loans to customers (Stage 1 and Stage 2) as of 31 December 2023 amount to Euro 102,049 million and represent the most relevant part of the financial statements line item 40 b) *"Financial assets at amortised cost – Loans to customers"* which totals Euro 129,266 million corresponding to 64 per cent of total assets. Net impairment losses booked in the year for these loans, amount to Euro 27.7 million and represent directors' best estimate in order to determine expected credit losses at the reporting date on the basis of the applicable reporting standards.

Valuation processes and methods adopted are characterized by a high degree of judgement and require the estimation of several variables. The use of significant assumptions is particularly relevant for measuring the significant increase in credit risk ("*SICR*"), allocating loan portfolios to the different risk stages ("*Staging*") and determining assumptions and inputs to the models used for the expected credit loss ("*ECL*") calculation.

In the current year, in addition to the recurring process of updating the input data and of refining of risk parameters, the Group made some changes, revised some estimation processes compared to previous year and also applied "*post model adjustments/management overlays*". These actions were deemed necessary to improve the predictiveness of the models in use, to consider the uncertainties in the macroeconomic environment as well as some additional risk factors not adequately captured by models in use, including climate change related credit risk. Considering the materiality of the amount, the

In performing our audit procedures, we considered internal control relevant to the financial reporting process.

Our audit procedures were defined taking into account the methodological changes introduced during the year, as well as adjustments to existing methodologies and models in use for the valuation of the loan portfolio.

To address this key audit matter, we performed the following relevant procedures, with the support of the experts of the PwC network as needed:

- Assessment of the adequacy of the IT environment and test of the operating effectiveness of the applicable key controls over the systems and computer applications used by the Bank for the valuation of loans to customers;
- Understanding and evaluation of the design of key controls related to the monitoring, classification and impairment valuation of loans to customers and tests of their operating effectiveness;
- Critical assessment of the control activities carried out during the year by internal control functions, of the related outcomes and of the remedial actions undertaken;
- Tests, for a sample of loan, of the reasonableness of their classification as performing (Stage 1 and Stage 2) on the basis of the available information about debtor's status and of other supporting evidences, including external information;
- Understanding and assessment of the appropriateness of the policies, criteria and models used for determining *SICR*, *Staging* and *ECL*. Special attention was paid to the changes introduced during the year to

Key audit matters	*Auditing procedures performed in response to key audit matters*
high complexity of the estimation processes and the high degree of judgement involved, as well as the process of fine-tuning and refinement of criteria and models adopted, we considered the valuation of these loans as a key audit matter.	criteria and models in use, to methods for determining *"post model adjustments/management overlays"* applied as well as to their reasonableness; • Understanding and review of the methods used for defining the key estimation parameters for the models used, to determine the ECL and assessment of the updates and refinements introduced during the year. In particular, we assessed the reasonableness of macroeconomic scenarios assumed, also by checking their consistency with external sources, as well as their probabilities weighting, also in the light of the uncertainties in the macroeconomic environment. Furthermore, for off-balance sheet exposures, we performed specific procedures aimed at verifying the appropriate application of credit conversion factors; • Assessment of the correct application of the defined criteria, of the completeness and accuracy of the data used for the *ECL* calculation, as well as of any computation performed outside the IT systems; • Comparative and trend analysis of the volumes of loans to customers and related coverage ratios, also by comparing data of previous years and information related to the main sector peers; • Review of ECL sensitivity analyses to the macroeconomic scenarios that influence the risk parameters of the models used; • Test of the completeness and adequacy of financial statements disclosures in accordance with International Financial Reporting Standards, the applicable regulatory framework and the communications and recommendations issued by the Supervisory Authorities.

Key audit matters	*Auditing procedures performed in response to key audit matters*
Valuation of non-performing loans (unlikely-to-pay and bad loans) measured at amortised cost *Notes to the consolidated financial statements:* *Part A - Accounting policies* *Part B – Information on the consolidated balance sheet – Assets, Sections 4 and 12* *Part C – Information on the consolidated income statement, Section 8* *Part E – Information on risks and related hedging policies* Non-Performing loans (Stage 3) as of 31 December 2023 amount to Euro 1,966 million. Net impairment losses booked in the year for these loans, amount to Euro 486 million and represent directors' best estimate in order to determine expected credit losses for these loans at the reporting date on the basis of the applicable reporting standards. Valuation processes and methods, assessed both on an individual basis and on a flat rate basis, are characterized by a high degree of judgement and require the estimation of several variables. The use of significant assumptions is particularly relevant for assessing future cash flows, recovery times and for determining the recoverable amount of any collaterals. In particular, where Group's strategy is also based on the recovery through disposals of portfolios, the valuation is performed with a multi-scenario approach reflecting cash flows arising from internal work-out activities as well as cash flows expected from the disposal. Considering the materiality of the non-performing loans, the complexity of the valuation processes and the high degree of judgement of the assumptions and hypotheses required for o determining the key variables, we considered the valuation of these loans as a key audit matter.	In performing our audit procedures, we considered internal control relevant to the financial reporting process. To address this key audit matter, we performed the following relevant procedures: ● Assessment of the adequacy of the IT environment and tests of the operating effectiveness of the applicable key controls over the systems and computer applications used for the valuation of loans to customers; ● Understanding and evaluation of the design of key controls related to the monitoring, classification and impairment valuation of loans to customers and tests of their operating effectiveness; ● Understanding and assessment of the appropriateness of the policies, criteria and models used for determining the *ECL*; ● Assessment of the correct application of the defined criteria as well as of the completeness and accuracy of the data used in the *ECL* calculation; ● Tests, for a sample of loan, of the reasonableness of their classification among the different regulatory categories also on the basis of the available information about debtor's status and of other supporting evidences, including external information; ● Assessment of the reasonableness of the method adopted for defining possible alternative recovery scenarios (disposal or work-out), of their consistency with disposal targets defined by the directors and of the probabilities assigned, as well as test of the correct calculation of the *ECL* on the basis of the weighted average of future probable cash flows expected from internal work-out and disposal scenarios;

Key audit matters	*Auditing procedures performed in response to key audit matters*
	• In relation to the work-out scenario, for each category required by the applicable financial and regulatory reporting framework, tests, for a sample of loans assessed on an individual basis, of the reasonableness of the assumptions made for determining future cash flows from work-out activity, valuation of collaterals and recovery times. For non-performing loans assessed on a flat rate basis, test of the correct determination of key model parameters as well as of the completeness and the accuracy of related key data inputs; • Comparative and trend analysis of the volumes of loans to customers and related coverage ratios, performed also by comparing data of previous years and information related to main sector peers; • Analysis of subsequent events occurred after the reference date of financial statements; • Test of the completeness and adequacy of financial statements disclosures in accordance with International Financial Reporting Standards, the applicable regulatory framework and the communications and recommendations issued by the Supervisory Authorities.
Valuation of financial instruments held for trading not listed in active markets and measured at fair value on a recurring basis *Notes to the consolidated financial statements:* *Part A – Accounting policies* *Part B – Information on the consolidated balance sheet – Assets, Section 2, Liabilities, Section 2* *Part C – Information on the consolidated income statement, Section 4* Financial instruments held for trading and not listed in active markets whose fair values were determined using models with data and parameters both directly observable and not directly observable in the market (instruments	In performing our audit procedures, we considered internal control relevant to the financial reporting process. Specifically, to address this key matter, we performed the following relevant procedures with the support of experts of the PwC network as needed: • Assessment of the adequacy of the IT environment and tests of the operational effectiveness of key controls over the systems and computer applications used for the valuation of financial instruments;

Key audit matters	*Auditing procedures performed in response to key audit matters*
with levels 2 and 3 of the fair value hierarchy) represent assets for Euro 1,858 million and liabilities for Euro 20,681 million, corresponding respectively to about 0.9 per cent of total assets and 10.2 per cent of total liabilities. The financial instruments carrying amounts, which represent directors' best estimate of the fair value of these instruments at the reporting date determined in accordance with the applicable reporting standards, are mainly attributable to the portfolio of the subsidiary Banca Akros SpA. Throughout the course of our audit, we paid special attention to the valuation of these financial instruments held by Banca Akros SpA, focusing primarily on those characterised by a high degree of complexity (structured securities and derivatives). This was considered a key audit matter due to the materiality of the amounts, the number and complexity of the valuation models used and the significant estimates and assumptions required. The valuation models used, in addition to being numerous and different in relation to the type of instrument, require specific qualitative and quantitative assumptions that could determine significantly different outcomes. Furthermore, the valuation models used, even if well-known and acknowledged in the practice, could be extremely sensitive to inputs and assumptions and, given their nature, incorporate a risk of incorrect valuation.	• Understanding and evaluation of the design of controls relevant to the identification, measurement and monitoring of the risk related to valuation and recognition of financial instruments, as well as the operational effectiveness of those controls; • Understanding and critical assessment of the policies adopted to determine the fair value of financial instruments; • Review of the valuation techniques and models used as well as of the criteria applied for determining significant assumptions and data inputs, and assessment of their consistency with the market practice and financial sector literature; • Specific substantive procedures on the related accounting balances, including independent fair values calculation for a sample of level 2 and level 3 financial instruments, aimed at verifying the reasonableness of directors' valuations. Special attention was paid to qualitative and quantitative assumptions and inputs used (interest rate curves, credit and liquidity spreads, adjustments for credit ratings, volatility parameters, other market information); • Test of the completeness and adequacy of disclosures closely related to this key matter also considering requirements of the applicable financial reporting standards.
Valuation of insurance liabilities and first-time adoption of IFRS 17 *Notes to the consolidated financial statements:* *Part A – Accounting Policies* *Part B – Information on the consolidate balance sheet, Section 11, Liabilities* *Part C – Information on the consolidated income statement, Sections 10, 11 and 17* *Part G – Business combinations regarding companies or divisions*	In performing our audit procedures, we considered internal control relevant to the financial reporting process, to define appropriate audit procedures under the circumstances. More specifically, we understood and evaluated the design of relevant controls over monitoring, classification and valuation of insurance liabilities and verified the

Key audit matters	*Auditing procedures performed in response to key audit matters*
Insurance liabilities as of 31 December 2023, amount to Euro 12,240 million and are attributable to liabilities for remaining coverage mainly related to life-business of the subsidiaries Banco BPM Vita SpA and Vera Vita SpA. The latter was included into the Group scope of consolidation during the year, following the business combination occurred in December; as a consequence, following the acquisition date defined for accounting purposes, balance sheet items of the company are reflected in the consolidated financial statements on a line-by-line basis, while its contribution to the income statement is limited to the interest held up to the business combination date. Starting from 1st January 2023, the Group has adopted the International Financial Reporting Standard IFRS 17 - "Insurance Contracts" which replaces the International Financial Reporting Standard IFRS 4 - "Insurance Contracts" and introduces new rules for recognition, measurement, and presentation for insurance contracts in scope for the standard. Liabilities for remaining coverage include the Present Value of Future Cash Flows ("PVFCF"), adjusted in order to take into account the non-financial risks (Risk Adjustments – "RA") and the Contractual Service Margin ("CSM"), which represents the unearned profit that the entity will recognise as it provides insurance contract services in the future. IFRS 17 is characterized by high interpretative and operational complexity due to several aspects requiring a high degree of judgement, including: • the valuation of liabilities for remaining coverage of insurance contracts assessed with the "General Model - GM" or the "Variable Fee Approach - VFA". This valuation requires the use of statistical-actuarial methodologies and calculation models characterized by a high degree of judgement for the selection of parameters to be used (such as surrender hypothesis,	operational effectiveness of such controls. Considering that the Group has adopted the IFRS 17 starting from 1st January 2023, we paid special attention to the understanding and evaluating the activities planned and carried out by the Group for the implementation of the new accounting standard, as well as the related governance and control activities put in place by the management. In particular, our audit procedures covered the opening balances as of the first-time adoption date, in order to verify the transition from IFRS 4. These procedures included, among the others, the assessment of the compliance of accounting policies applied under the new standard, the comparison of methodologies and assumptions applied by the management with market best practices, as well as tests of the accounting adjustments made and of the related disclosure provided. With specific reference to the valuation of liabilities for remaining coverage, we carried out, among the others, also with the support of experts of the PwC Network, the following audit procedures: • Test of the accuracy and completeness of the data bases used, performing, for a sample of premiums, substantive procedures aimed at comparing the information included in the Group's IT system with the relating supporting evidence obtained; • Assessment of methods and assumptions underlying the calculation of liabilities for remaining coverage for each component, also through the analysis of key performance indicators; • For a sample of insurance contracts, independent re-calculation of the PVFCF of liabilities for remaining coverage; • Analysis of the valuation criteria of coverage units for the amortization of the CSM in the income statement;

Key audit matters	*Auditing procedures performed in response to key audit matters*
mortality rates, additional payments, expected expenses, expected claims and discount rates) for estimating future cash flows and adjustment for non-financial risk; • the valuation of the amortization of the CSM as revenues in the income statement for insurance services provided, whom determination is also characterized by a high degree of judgement in identifying coverage units. Given the materiality of the amount, the complexity of the estimation processes (also considering the first-time adoption of IFRS 17), the valuation of insurance liabilities has been considered a key audit matter.	• Analysis, on a sample basis, of the movements in liabilities for remaining coverage at the beginning and at the end of the period; • Assessment of the onerous contracts and of the related Units of Account determination criteria; • Assessment of the completeness and adequacy of disclosures closely related to this key matter also considering requirements of the applicable financial reporting standards.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern.
In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate the parent company Banco BPM SpA or to cease operations or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate the related risks, or safeguards applied.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report

Additional Disclosures required by Article 10 of Regulation (EU) No. 537/2014

On 15 October 2016 the shareholders of Banco Popolare Società Cooperativa and Banca Popolare di Milano Scarl in general meeting engaged us to perform the statutory audit of the Bank's and the consolidated financial statements for the years ending 31 December 2017 to 31 December 2025.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Bank in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion on compliance with the provisions of Commission Delegated Regulation (EU) 2019/815

The directors of Banco BPM SpA are responsible for the application of the provisions of Commission Delegated Regulation (EU) 2019/815 concerning regulatory technical standards on the specification of a single electronic reporting format (ESEF - European Single Electronic Format) (hereinafter, the "Commission Delegated Regulation") to the consolidated financial statements as of 31 December 2023, to be included in the annual report.

We have performed the procedures specified in auditing standard (SA Italia) No. 700B in order to express an opinion on the compliance of the consolidated financial statements with the provisions of the Commission Delegated Regulation.

In our opinion, the consolidated financial statements as of 31 December 2023 have been prepared in XHTML format and have been marked up, in all significant respects, in compliance with the provisions of the Commission Delegated Regulation.

Due to certain technical limitations, some information included in the notes to the consolidated financial statements when extracted from the XHTML format to an XBRL instance may not be reproduced in an identical manner with respect to the corresponding information presented in the consolidated financial statements in XHTML format.

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

The directors of Banco BPM SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of Banco BPM Group as of 31 December 2023, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of Banco BPM Group as of 31 December 2023 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of Banco BPM Group as of 31 December 2023 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Statement in accordance with article 4 of Consob's Regulation implementing Legislative Decree No. 254 of 30 December 2016

The directors of Banco BPM SpA are responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016.

We have verified that the directors approved the non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Milan, 19 March 2024

PricewaterhouseCoopers SpA

Signed by

Pierfrancesco Anglani
(Partner)

As disclosed by the Directors, the accompanying consolidated financial statements of Banco BPM SpA constitute a non-official version which is not compliant with the provisions of the Commission Delegated Regulation (EU) 2019/815. This independent auditor's report has been translated into the English language solely for the convenience of international readers. Accordingly, only the original text in Italian language is authoritative.

Attachments

List of IAS/IFRS endorsed by the European Commission as at 31 December 2023

Accounting standards		Endorsement Regulation (*)	amendments
IAS 1	Presentation of Financial Statements	1803/2023	2822/2023 (***)
IAS 2	Inventories	1803/2023	
IAS 7	Statement of Cash Flows	1803/2023	
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	1803/2023	
IAS 10	Events After the Reporting Period	1803/2023	
IAS 12	Income Taxes	1803/2023	2468/2023
IAS 16	Property, Plant and Equipment	1803/2023	
IAS 19	Employee Benefits	1803/2023	
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance	1803/2023	
IAS 21	The Effects of Changes in Foreign Exchange Rates	1803/2023	
IAS 23	Borrowing Costs	1803/2023	
IAS 24	Related Party Disclosures	1803/2023	
IAS 26	Accounting and Reporting by Retirement Benefit Plans	1803/2023	
IAS 27	Separate Financial Statements	1803/2023	
IAS 28	Investments in Associates and Joint Ventures	1803/2023	
IAS 29	Financial Reporting in Hyperinflationary Economies	1803/2023	
IAS 32	Financial Instruments: Presentation	1803/2023	
IAS 33	Earnings per Share	1803/2023	
IAS 34	Interim Financial Reporting	1803/2023	
IAS 36	Impairment of Assets	1803/2023	
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	1803/2023	
IAS 38	Intangible Assets	1803/2023	
IAS 39	Financial Instruments: Recognition and Measurement (with the exception of several provisions relating to accounting for hedging transactions) (**)	1803/2023	
IAS 40	Investment Property	1803/2023	
IAS 41	Agriculture	1803/2023	
IFRS 1	First-time Adoption of International Financial Reporting Standards	1803/2023	
IFRS 2	Share-based Payments	1803/2023	
IFRS 3	Business Combinations	1803/2023	
IFRS 4	Insurance Contracts	1803/2023	
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1803/2023	
IFRS 6	Exploration for and Evaluation of Mineral Resources	1803/2023	
IFRS 7	Financial Instruments: Disclosures	1803/2023	
IFRS 8	Operating Segments	1803/2023	
IFRS 9	Financial Instruments	1803/2023	
IFRS 10	Consolidated Financial Statements	1803/2023	
IFRS 11	Joint Arrangements	1803/2023	
IFRS 12	Disclosure of Interests in Other Entities	1803/2023	
IFRS 13	Fair Value Measurement	1803/2023	
IFRS 15	Revenue from Contracts with Customers	1803/2023	
IFRS 16	Leases	1803/2023	2579/2023 (***)
IFRS 17	Insurance Contracts	1803/2023	

(*) Regulation (EU) no. 1803 of 13 August 2023 repealed Regulation (EC) no. 1126/2008 of the Commission, which adopts the international accounting standards and the related interpretations issued or adopted by the IASB until 15 October 2008. This regulation was amended to include the standards and related interpretations issued or adopted by the IASB, and adopted by the Commission until 8 September 2022, in accordance with Regulation (EC) no. 1606/2002. Having undergone numerous amendments, in order to simplify EU legislation on international accounting standards, it was deemed appropriate, for reasons of clarity and transparency, to replace Regulation no. 1126/2008.

Regulation no. 1803/2023 also incorporates IFRS 17 and relative amendments. Note that, during the endorsement phase, an option was introduced to exempt intergenerationally-mutualised and cash flow matched contracts from the annual cohort requirement, not permitted by the version of the standard approved by the IASB (carve-out option).

(**) With the entry into force of IFRS 9 "Financial Instruments", only the portion of IAS 39 regarding accounting for fair value hedging transactions remains in force.

(***) Regulations endorsed at the date of approval of the financial statements, but applicable following 1 January 2024.

Interpretations		Endorsement Regulation (*) amendments
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	1803/2023
IFRIC 2	Members' Shares in Co-operative Entities and Similar Instruments	1803/2023
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1803/2023
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	1803/2023
IFRIC 7	Applying the Restatement Approach under IAS 29 - Financial Reporting in Hyperinflationary Economies	1803/2023
IFRIC 10	Interim Financial Reporting and Impairment	1803/2023
IFRIC 12	Service Concession Arrangements	1803/2023
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1803/2023
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1803/2023
IFRIC 17	Distributions of Non-Cash Assets to Owners	1803/2023
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1803/2023
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1803/2023
IFRIC 21	Levies	1803/2023
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1803/2023
IFRIC 23	Uncertainty over Income Tax Treatments	1803/2023
SIC 7	Introduction of the Euro	1803/2023
SIC 10	Government Assistance – No Specific Relation to Operating Activities	1803/2023
SIC 15	Operating Leases – Incentives	1803/2023
SIC 25	Income Taxes – Changes in the Tax Status of an Entity or its Shareholders	1803/2023
SIC 29	Service Concession Arrangements: Disclosures	1803/2023
SIC 32	Intangible Assets – Web Site Costs	1803/2023

(*) Regulation (EU) no. 1803 of 13 August 2023 repealed Regulation (EC) no. 1126/2008 of the Commission, which adopts the international accounting standards and the related interpretations issued or adopted by the IASB until 15 October 2008. This regulation was amended to include the standards and related interpretations issued or adopted by the IASB, and adopted by the Commission until 8 September 2022, in accordance with Regulation (EC) no. 1606/2002. Having undergone numerous amendments, in order to simplify EU legislation on international accounting standards, it was deemed appropriate, for reasons of clarity and transparency, to replace Regulation no. 1126/2008.

Regulation no. 1803/2023 also incorporates IFRS 17 and relative amendments. Note that, during the endorsement phase, an option was introduced to exempt intergenerationally-mutualised and cash flow matched contracts from the annual cohort requirement, not permitted by the version of the standard approved by the IASB (carve-out option).

Reconciliation between the items in the consolidated balance sheet and the reclassified consolidated balance sheet as at 31 December 2023

Asset items ***(thousands of euro)***		**31/12/2023**
10.	Cash and cash equivalents	18,297,496
	Cash and cash equivalents	**18,297,496**
40. a)	Financial assets at amortised cost: loans to banks	5,926,109
	minus: debt securities due to banks at amortised cost	(1,784,469)
	minus: financial assets at AC pertaining to insurance companies - loans to banks	(10)
	Loans at AC: loans to banks	**4,141,630**
40. b)	Financial assets at amortised cost: loans to customers	129,266,444
	plus: senior securities from sales of non-performing loans	1,414,073
	minus: debt securities due to customers at amortised cost	(25,251,278)
	minus: financial assets at AC pertaining to insurance companies - loans to customers	(2,510)
	Loans at AC: loans to customers	**105,426,729**
20.	Financial assets at fair value through profit and loss	12,767,534
50.	Hedging derivatives	980,017
	minus: financial assets at fair value through profit and loss pertaining to insurance companies	(6,355,562)
	Financial assets and hedging derivatives at FV through Profit and Loss	**7,391,989**
30.	Financial assets measured at fair value through other comprehensive income	19,679,644
	minus: financial assets measured at fair value through other comprehensive income pertaining to insurance companies	(8,986,926)
	Financial assets at FV through OCI	**10,692,718**
	plus: debt securities due to banks and customers at amortised cost	27,035,747
	minus: senior securities from sales of non-performing loans	(1,414,073)
	Financial assets at AC	**25,621,674**
	plus: financial assets at AC pertaining to insurance companies - loans to banks	10
	plus: financial assets at AC pertaining to insurance companies - loans to customers	2,510
	plus: financial assets at fair value through profit and loss pertaining to insurance companies	6,355,562
	plus: financial assets measured at fair value through other comprehensive income pertaining to insurance companies	8,986,926
	Financial assets pertaining to insurance companies	**15,345,008**
70.	Interests in associates and joint ventures	1,454,249
	Interests in associates and joint ventures	**1,454,249**
90.	Property, plant and equipment	2,857,953
	Property, plant and equipment	**2,857,953**
100.	Intangible assets	1,257,425
	Intangible assets	**1,257,425**
110.	Tax assets	4,201,154
	Tax assets	**4,201,154**
120.	Non-current assets and disposal groups held for sale	468,685
	Non-current assets and disposal groups held for sale	**468,685**
60.	Fair value change of financial assets in macro fair value hedge portfolios (+/-)	(68,964)
80.	Insurance assets	37,124
130.	Other assets	5,007,103
	Other asset items	**4,975,263**
	Total assets	**202,131,973**

Liability items (thousands of euro)		31/12/2023
10. b)	Financial liabilities at amortised cost: due to customers	102,530,321
	minus: lease payables due to customers	(665,439)
	minus: due to customers pertaining to insurance companies	(2,918)
	Due to customers	**101,861,964**
10. c)	Financial liabilities at amortised cost: debt securities in issue	18,889,805
30.	Financial liabilities designated at fair value	6,580,165
	minus: protected capital certificates	(3,761,749)
	minus: financial liabilities at fair value pertaining to insurance companies	(2,800,121)
	Securities and financial liabilities designated at fair value	**18,908,100**
	Direct bank funding	**120,770,064**
	plus: financial liabilities at fair value pertaining to insurance companies	2,800,121
110.	Insurance liabilities	12,239,641
	Direct funding from insurance business and insurance liabilities	**15,039,762**
10. a)	Financial liabilities at amortised cost: due to banks	21,765,750
	minus: lease payables due to banks	(5,334)
	minus: due to banks pertaining to insurance companies	(69,643)
	Due to banks	**21,690,773**
	plus: lease payables due to banks	5,334
	plus: lease payables due to customers	665,439
	Lease payables	**670,773**
20.	Financial liabilities held for trading	20,894,156
	plus: protected capital certificates	3,761,749
40.	Hedging derivatives	1,041,678
	Other financial liabilities designated at fair value	**25,697,583**
	plus: due to customers pertaining to insurance companies	2,918
	plus: due to banks pertaining to insurance companies	69,643
	Other financial liabilities pertaining to insurance companies	**72,561**
90.	Provisions for employee severance pay	246,192
100.	Provisions for risks and charges	648,649
	Liability provisions	**894,841**
60.	Tax liabilities	453,929
	Tax liabilities	**453,929**
70.	Liabilities associated with assets classified as held for sale	212,011
	Liabilities associated with assets classified as held for sale	**212,011**
50.	Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	(710,938)
80.	Other liabilities	3,302,454
	Other liability items	**2,591,516**
	Total liabilities	**188,093,813**
190.	Non-controlling interests (+/-)	68
	Non-controlling interests	**68**
120.	Valuation reserves	(276,378)
140.	Equity instruments	1,465,843
150.	Reserves	4,507,110
170.	Share capital	7,100,000
180.	Own shares (-)	(22,936)
200.	Profit (loss) for the year (+/-)	1,264,453
	Group shareholders' equity	**14,038,092**
	Total liabilities and shareholders' equity	**202,131,973**

Reconciliation between the items in the consolidated income statement and the reclassified consolidated income statement schedule for 2023

2023	Income statement	Reclassifications		Reclassified income statement
Net interest income				**3,289,228**
10. Interest and similar income	6,559,149	9,216	(a)	
		(90,824)	(i)	
20. Interest and similar expense	(3,188,347)	34	(i)	
Gains (losses) on interests in associates and joint ventures carried at equity				**144,097**
250. Gains (losses) of associates and joint ventures		144,097	(b)	
Financial margin				**3,433,325**
Net fee and commission income				**1,860,019**
40. Fee and commission income	1,992,338	50,257	(c)	
		11,138	(i)	
50. Fee and commission expense	(202,201)	4,618	(d)	
		3,869	(i)	
Other net operating income				**81,276**
230. Other operating expenses/income	357,001	(274,089)	(e)	
		(3,463)	(f)	
		1,827	(i)	
Net financial result				**(79,029)**
70. Dividends and similar income	79,489			
80. Net trading income	84,615	(50,257)	(c)	
		(4,618)	(d)	
		5,174	(g)	
90. Fair value gains/losses on hedging derivatives	(1,246)			
100. Gains (Losses) on disposal or repurchase	(26,383)	45,546	(h)	
110. Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss	(112,065)	(99,284)	(i)	
Profit (loss) on insurance business				**45,851**
160. Profit (loss) on insurance services	31,040			
170. Balance of revenues and costs of a financial nature relating to insurance activities	(144,544)			
		191,409	(i)	
		(32,054)	(r)	
Other operating income				**1,908,117**
Operating income				**5,341,442**
Personnel expenses				**(1,671,952)**
190 a) Personnel expenses	(1,657,170)	(4,996)	(l)	
		(13,249)	(i)	
		3,463	(f)	
Other administrative expenses				**(652,393)**
190 b) Other administrative expenses	(1,115,658)	4,996	(l)	
		274,089	(e)	
		187,533	(m)	
		(3,353)	(i)	
Net value adjustments to property, plant and equipment and intangible assets				**(246,818)**
210. Depreciation and impairment losses on property, plant and equipment	(145,990)	(2,099)	(i)	
220. Amortisation and impairment losses on intangible assets	(131,717)	32,988	(a)	
Operating expenses				**(2,571,163)**

2023	Income statement	Reclassifications		Reclassified income statement
Profit (loss) from operations				**2,770,279**
Net adjustments to loans to customers				**(558,594)**
130 a) Net credit impairment losses/recoveries relating to financial assets at amortised cost	(515,231)	(344)	(n)	
		409	(o)	
		1,653	(p)	
		(45,546)	(h)	
140. Gains (losses) from contractual modification without derecognition	465			
Fair value gains (losses) on property, plant and equipment				**(146,847)**
260. Fair value gains (losses) on property, plant and equipment and intangible assets	(146,847)			
Net adjustments to securities and other financial assets				**(1,986)**
130 b) Net credit impairment losses/recoveries relating to financial assets measured at fair value through other comprehensive income	(800)	344	(n)	
		(409)	(o)	
		(1,653)	(p)	
		532	(i)	
Net provisions for risks and charges				**(22,189)**
200. Net provisions for risks and charges	(9,689)	(12,500)	(r)	
Gains (losses) on interests in associates and joint ventures and other investments				**342**
250. Gains (losses) of associates and joint ventures	40,817	(144,097)	(b)	
		72,994	(r)	
280. Gains (losses) on disposal of investments	30,628			
Profit (loss) before tax from continuing operations				**2,041,005**
Taxation charge related to profit or loss from continuing operations				**(604,751)**
300. Taxation charge related to profit or loss from continuing operations	(513,223)	(60,956)	(m)	
		(13,864)	(a)	
		(1,711)	(g)	
		(8,802)	(q)	
		(6,195)	(r)	
Profit (loss) after tax from continuing operations				**1,436,254**
Charges related to the banking system, net of taxes		(126,577)	(m)	**(126,577)**
Impact of the realignment of tax values to book values		8,802	(q)	**8,802**
Bancassurance impacts net of taxes		(22,245)	(r)	**(22,245)**
Change in own credit risk on Certificates issued by the Group, net of taxes		(3,463)	(g)	**(3,463)**
Purchase Price Allocation net of taxes		(28,340)	(a)	**(28,340)**
Profit (loss) for the year attributable to non-controlling interests				**22**
340. Profit (loss) for the year attributable to non-controlling interests	22			
Parent Company's profit (loss) for the year	**1,264,453**	**-**		**1,264,453**

The letters shown in the column "Reclassifications" are provided for easier understanding of the reclassifications made.

With regard to the above statement of reconciliation, the main classifications are illustrated below:

- **"Net interest income"** is represented by the algebraic balance of interest and similar income (item 10) and interest and similar expense (item 20), net of the PPA relating to loans to customers, amounting to 9.2 million (a), classified within the new reclassified income statement item "Purchase Price Allocation net of taxes", and of interest income (90.8 million) and expense (0.03 million) pertaining to insurance companies, shown in item "Profit (loss) on insurance business" (i);

- **"Gains (losses) on interests in associates and joint ventures carried at equity"** shows the portion of profits (losses) pertaining to investee companies carried at equity (included in item 250) totalling 144.1 million (b), and together with the net interest income, the aggregate is defined as the **"Financial margin"**;
- **"Net fee and commission income"** is represented by the algebraic balance of fee and commission income (item 40) and fee and commission expense (item 50); it also includes the reclassification of the upfront fees relating to the placement of Certificates through the Group network (50.3 million (c)) and through third-party networks (4.6 million (d)) from item 80 of the official schedule "Net trading income". The item in question is shown net of fee and commission income (11.1 million) and expense (3.9 million) pertaining to insurance companies, shown in "Profit (loss) on insurance business" (i);
- "**Other net operating income**" is represented by the financial statement item 230 "Other operating expenses/income", net of recoveries on indirect taxes, legal fees and other expenses, totalling 274.1 million (e), which for the purpose of the reclassification, are shown net of "Other administrative expenses", and of the recovery of training costs of 3.5 million (f) reclassified net of "Personnel expenses", and the share of net expenses (1.8 million) pertaining to insurance companies, shown in the item "Profit (loss) on insurance business" (i);
- the income statement item **"Net financial result"** includes "Dividends and similar income " (item 70), "Net trading income" (item 80), net of both the reclassification of the amounts of fees on the placement of Certificates for a total of 50.3 million (c) and 4.6 million (d), re-attributed to net fee and commission income, and the impact deriving from the change in own credit risk on issues of Certificates for 5.2 million (g), re-attributed to the ad hoc item of the reclassified income statement called "Change in own credit risk on Certificates issued by the Group, net of taxes". The aggregate in question also includes "Fair value gains/losses on hedging derivatives" (item 90), "Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss" (item 110) and "gains/losses on disposal or repurchase" (item 100) net of gains on disposal of loans not represented by debt securities, equal to 45.5 million (h), re-attributed to the management aggregate "Net adjustments to loans to customers". The items of net financial result pertaining to insurance companies are also excluded, corresponding to 99.3 million (i), shown under "Profit (loss) on insurance business";
- **"Profit (loss) on insurance business"** corresponds to financial statement items "160 Profit (loss) on insurance services" and "170 Balance of revenues and costs of a financial nature relating to insurance activities", plus the share relating to interest income and expense, to fee and commission income and expense, to other income and expense and to the net financial result pertaining to insurance companies, as illustrated above (i). The aggregate also includes the share of personnel expenses, other administrative expenses, net value adjustments to property, plant and equipment and intangible assets and other income and expense attributable to the insurance business, included in the Contractual Service Margin pursuant to IFRS 17, presented as a separate item in the reclassified income statement; the total contribution to the item in question is 191.4 million (i). Lastly, the effects attributable to the transactions finalised in December 2023 for the reorganisation of the bancassurance business are excluded from this aggregate, shown as a new item of the reclassified income statement called "Bancassurance impacts net of taxes" for 32.1 million (r);
- **"Personnel expenses"** is represented by the financial statement item "190 a) Personnel expenses" and by several charges functionally related to personnel, amounting to 5.0 million (l), recognised in the financial statements under item 190 b) "Other administrative expenses" and by the recovery of training costs of 3.5 million (f), recorded under item "230 Other operating expenses/income", as described above. The aggregate in question also includes the share of personnel expenses attributable to the insurance business relating to the Contractual Service Margin (13.2 million) set forth in IFRS 17 and shown under the item "Profit (loss) on insurance business" (i);
- **"Other administrative expenses"** is represented by the financial statement item 190 b), net of recoveries on indirect taxes, legal fees and other expenses, totalling 274.1 million (e), included in the item "230 Other operating expenses/income", as described above, and of several charges connected to personnel, recognised in the reclassified item "Personnel expenses" for 5.0 million (l). "Banking industry" charges totalling 187.5 million (m) represented by contributions to the Resolution Funds are also excluded and are shown, net of the related tax effect, in the separate item "Charges related to the banking system, net of taxes". The aggregate in question also includes the share of other administrative expenses attributable to the insurance business relating to the Contractual Service Margin (3.4 million) set forth in IFRS 17 and shown under the item "Profit (loss) on insurance business" (i);

- "**Net value adjustments to property, plant and equipment and intangible assets**" corresponds to the accounting items 210 and 220, net of adjustments to intangibles with a finite useful life (client relationships and value of business acquired), allocated to the reclassified income statement item "Purchase Price Allocation net of taxes", amounting to 33.0 million (a). The aggregate in question also includes the share of value adjustments attributable to the insurance business relating to the Contractual Service Margin (2.1 million) set forth in IFRS 17 and shown under the item "Profit (loss) on insurance business" (i);
- the total of "**Net adjustments to loans to customers**" and "**Net adjustments to securities and other financial assets**" starts from income statement items 130 "Net credit impairment losses/recoveries" and 140 "Gains (losses) from contractual modification without derecognition". Specifically, "Net adjustments to loans to customers" include adjustments to exposures classified in the portfolio of financial assets at amortised cost - loans to customers - loans (amounting to 515.2 million), the negative result of disposals of loans, amounting to 45.5 million (h) (included in item 100), as well as gains (losses) from contractual modification without derecognition (item 140 of the income statement). Instead, this excludes net impairment losses on exposures classified in the portfolio of financial assets at amortised cost represented by debt securities, totalling 1.7 million (p), as well as net impairment losses on exposures classified in the portfolio of financial assets at amortised cost – loans to banks – loans and securities (n) and (o) totalling 0.1 million, all fully presented in the item of the reclassified income statement "Net adjustments to securities and other financial assets";
- "**Fair value gains (losses) on property, plant and equipment**" correspond to item 260 of the official income statement;
- the aggregate of "**Net adjustments to securities and other financial assets**" includes net impairment losses on exposures classified in the portfolio of financial assets at amortised cost – loans to banks - loans and securities (n) and (o) totalling 0.1 million, as well as net impairment losses on exposures classified in the portfolio of financial assets at amortised cost consisting of debt securities (included in item 130) issued by customers (p) totalling 1.7 million. Lastly, the item in question includes net adjustments on securities and other financial assets pertaining to insurance companies shown in the reclassified income statement item "Net adjustments to securities and other financial assets" for 0.5 million (i);
- **"Net provisions for risks and charges"** correspond to item 200 of the official income statement. This item was cleared of the effects attributable to the transactions finalised in December 2023 for the reorganisation of the bancassurance business, shown as a new item of the reclassified income statement called "Bancassurance impacts net of taxes" for 12.5 million (r);
- "**Gains (losses) on interests in associates and joint ventures and other investments**" correspond to item 280 of the official income statement and to the gains (losses) on disposal of interests in associates and joint ventures and other investments carried at equity (item 250 of the official income statement), net of the portion of gains (losses) of the investees carried at equity, overall a positive 144.1 million (b) included in the reclassified aggregate "Gains (losses) on interests in associates and joint ventures carried at equity". This item was cleared of the effects attributable to the transactions finalised in December 2023 for the reorganisation of the bancassurance business, shown as a new item of the reclassified income statement called "Bancassurance impacts net of taxes" for 73.0 million (r);
- the item "**Taxation charge related to profit or loss from continuing operations**" corresponds to item 300 of the official income statement, separating out the negative tax effects relating to "banking industry charges" for 61.0 million (m), the PPA for 13.9 million (a) and the impact of the change in credit risk on Certificates issued for 1.7 million (g). The aggregate in question also does not include the impact of the realignment of tax values to book values, equal to 8.8 million (q), and the tax effects relating to the aforementioned reorganisation of the bancassurance business, equal to 6.2 million (r), shown in the new items of the reclassified income statement entitled "Impact of the realignment of tax values to book values" and "Bancassurance impacts net of taxes", respectively;
- the item "**Charges related to the banking system, net of taxes**" includes charges for a total of 187.5 million (m) recognised in the accounts in item 190 b) of the official income statement, net of the related tax effect, amounting to 61.0 million (m);
- the item "Impact of the realignment of tax values to book values" includes the effect of the realignment of tax values to book values deriving from the expiry at the end of 2023 of the so-called recapture period, envisaged by the legislation on the realignment of tax values to book values of properties, a realignment carried out in previous years;

- the item **"Bancassurance impacts net of taxes"** includes the effects attributable to the transactions finalised in December 2023 for the reorganisation of the bancassurance business, originally recognised in items 170., 200., 250. and 300. of the official income statement, as previously illustrated;
- the item "**Change in own credit risk on Certificates issued by the Group, net of taxes**" shows the economic impact of a change in own credit risk related to the issue of Certificates, recognised in the accounts in item 80. of the official income statement for 5.2 million (g), net of the related tax effect, amounting to -1.7 million (g);
- lastly, the item "**Purchase Price Allocation net of taxes**" includes the effects of the PPA relating to loans, amounting to -9.2 million (a) and the client relationship and VoBA, amounting to -33.0 million (a), net of the relative tax effects, amounting to 13.9 million (a).

Consolidated balance sheet: contribution of insurance companies

Asset items (thousands of euro)	**31/12/2023**	**of which contribution of insurance companies**
10. Cash and cash equivalents	18,297,496	19,384
20. Financial assets at fair value through profit and loss	12,767,534	3,933,524
a) financial assets held for trading	4,354,003	-
c) other financial assets mandatorily measured at fair value	8,413,531	3,933,524
30. Financial assets measured at fair value through other comprehensive income	19,679,644	5,327,469
40. Financial assets at amortised cost	135,192,553	(138,300)
a) loans to banks	5,926,109	-
b) loans to customers	129,266,444	(138,300)
50. Hedging derivatives	980,017	-
60. Fair value change of financial assets in macro fair value hedge portfolios (+/-)	(68,964)	-
70. Interests in associates and joint ventures	1,454,249	-
80. Insurance assets	37,124	29,246
a) insurance contracts issued - assets	29,209	29,209
b) reinsurance assets	7,915	37
90. Property, plant and equipment	2,857,953	2,556
100. Intangible assets	1,257,425	18,900
of which: goodwill	56,709	-
110. Tax assets	4,201,154	135,067
a) current	351,374	82,140
b) deferred	3,849,780	52,927
120. Non-current assets and disposal groups held for sale	468,685	-
130. Other assets	5,007,103	141,635 (*)
Total assets	**202,131,973**	**9,469,481**

(*) The item includes the effect of cancellations of intra-group accounts and of other consolidation adjustments in relation to insurance companies.

Liabilities and shareholders' equity items (thousands of euro)	**31/12/2023**	**of which contribution of insurance companies**
10. Financial liabilities at amortised cost	143,185,876	(294,096)
a) due to banks	21,765,750	58,389
b) due to customers	102,530,321	(37,162)
c) debt securities in issue	18,889,805	(315,323)
20. Financial liabilities held for trading	20,894,156	(39,061)
30. Financial liabilities designated at fair value	6,580,165	1,391,132
40. Hedging derivatives	1,041,678	-
50. Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	(710,938)	-
60. Tax liabilities	453,929	151,587
a) current	63,342	58,882
b) deferred	390,587	92,705
70. Liabilities associated with assets classified as held for sale	212,011	-
80. Other liabilities	3,302,454	71,725 (*)
90. Provisions for employee severance pay	246,192	-
100. Provisions for risks and charges	648,649	653
a) commitments and guarantees given	133,798	(2)
b) post-employment benefits and similar obligations	91,743	-
c) other provisions	423,108	655
110. Insurance liabilities	12,239,641	7,783,778
a) insurance contracts issued - liabilities	12,239,630	7,783,767
b) reinsurance liabilities	11	11
120. Valuation reserves	(276,378)	-
140. Equity instruments	1,465,843	-
150. Reserves	4,507,110	410,949
170. Share capital	7,100,000	-
180. Own shares (-)	(22,936)	-
190. Non-controlling interests (+/-)	68	-
200. Profit (loss) for the year (+/-)	1,264,453	(7,186)
Total liabilities and shareholders' equity	**202,131,973**	**9,469,481**

(*) The item includes the effect of cancellations of intra-group accounts and of other consolidation adjustments in relation to insurance companies.

Country by Country Reporting

The regulations for country by country reporting, introduced with Art. 89 of Directive 2013/36/EU (CRD IV), implemented in Italy with the 4th update to Bank of Italy Circular 285 of 17 December 2013 (Part One, Title III, Chapter 2), involves an annual obligation to publish the information set out in letters a), b), c), d), e) and f) of Art. 89 of CRD IV.

To that end, the required information is provided, broken down by individual letter.

(A) Name of companies and nature of business

The activities carried out by Banco BPM Group are indicated in the following table, which refers to that indicated in Art. 317 of Regulation no. 575/2013 of the European Parliament and of the Council (CRR), integrated with additional specific business activities.
These activities are grouped, based on criteria of prevalence, with the "business segments" which, in brief, refer to the Group's internal management structure and are referred to in the Report on Operations (section "Results by business segment", as well as in "Part L - Segment Reporting" in the Notes to the Consolidated Financial Statements as at 31 December 2023).

Taken from the CRR: par. 4, Art. 317, Table 2		Banco BPM Group business segments								
Business line	**List of activities**	**Retail**	**Corporate**	**Institutional**	**Private**	**Investment Banking**	**Insurance**	**Strategic Partnerships**	**Finance**	**Corporate Centre**
Corporate Finance	Underwriting commitments of financial instruments or placement of financial instruments on the basis of an irrevocable commitment		✓			✓				
	Services associated with underwriting commitments		✓			✓				
	Investment advisory		✓			✓				
	Investment research and financial analysis and other forms of general advisory activities involving transactions in financial instruments		✓			✓				
Trading and sales	Own account trading					✓			✓	
	Receipt and transmission of orders regarding one or more financial instruments	✓			✓	✓				
	Execution of orders for customers	✓			✓	✓				
	Placement of financial instruments without irrevocable commitments	✓			✓	✓				
	Management of multilateral trading facilities									
Retail brokerage (with natural persons or SMEs meeting the criteria set under Art. 123 for the retail exposures class)	Receipt and transmission of orders regarding one or more financial instruments	✓			✓	✓				
	Execution of orders for customers	✓			✓	✓				
	Placement of financial instruments without irrevocable commitments	✓			✓	✓				
Commercial banking	Collection of deposits or other repayable funds	✓	✓	✓						
	Lending transactions	✓	✓	✓						
	Finance leases							✓		✓
	Issuing of guarantees and unsecured guarantees	✓	✓	✓						
Retail banking (with natural persons or SMEs meeting the	Collection of deposits or other repayable funds	✓			✓					
	Lending transactions	✓						✓		

Taken from the CRR: par. 4, Art. 317, Table 2		Banco BPM Group business segments								
Business line	**List of activities**	**Retail**	**Corporate**	**Institutional**	**Private**	**Investment Banking**	**Insurance**	**Strategic Partnerships**	**Finance**	**Corporate Centre**
criteria set under Art. 123 for the retail exposures class)	Finance leases	✓						✓		✓
	Issuing of guarantees and unsecured guarantees	✓								
Payment and settlement	Payment services	✓	✓							
	Issuing and management of means of payment	✓	✓							
Agency services	Custody and administration of financial instruments for customers, including custody and associated services such as management of cash/collateral					✓				✓
Asset management	Portfolio management							✓		
	UCITS management									✓
	Other forms of portfolio management						✓	✓		
Other services and support activity	Treasury management and own account funding								✓	
	Equity interest portfolio management									✓
	IT asset management									✓
	Real estate asset management and maintenance									✓

With reference to the main content, the business segment:

- "Retail" includes management and marketing of banking and financial products/services and loan brokering mainly aimed at private customers and small businesses. These activities are for the most part carried out by the Parent Company's Commercial Network;
- "Corporate" includes management and marketing of banking and financial products/services and loan brokering aimed at medium and large-sized companies. These activities are for the most part carried out by the Parent Company's Commercial Network;
- "Institutional" includes management and marketing of banking and financial products/services and loan brokering aimed at bodies and institutions (UCITs, SICAVs, insurance companies, pension funds, banking foundations). Those activities are conducted in an equal amount by the Commercial Network of the Parent Company, for "local institutional" counterparties, and by specialised branches, for "systemically-important institutional" counterparties;
- "Private" includes management and marketing of banking and financial products/services and loan brokering aimed at private customers with assets that, individually and/or within their business, amount to at least 1 million euro. These activities are carried out by the subsidiary Banca Aletti;
- "Investment Banking" includes the structuring of financial products, access to regulated markets, support and development of specialised financial services. These activities are carried out by Banca Akros and by Oaklins Italy;
- the "Insurance" segment includes the contribution of the interests held in Vera Vita, Vera Assicurazioni, Banco BPM Vita and Banco BPM Assicurazioni;
- "Strategic Partnerships" includes the contribution of the interests held in Agos Ducato, Alba Leasing, SelmaBipiemme Leasing, Gardant Liberty Servicing and Anima Holding;
- "Finance" includes activities relating to the portfolio of owned securities, treasury, the Group's Asset and Liability Management and the stock of bond issues placed on institutional markets;
- in addition to governance and support functions, "Corporate Centre" also includes activities relating to the Group's leasing business, equity interests not allocated to "Strategic Partnerships" and companies operating in the real estate sector.

To a marginal extent with respect to the Group's total volumes, certain retail activities included in the above classifications are also conducted by the foreign subsidiary Banca Aletti & C. (Suisse) S.A. (specialised financial services for private customers). With reference to 31 December 2023, the impact of foreign business can be considered negligible, both in terms of total consolidated assets and total consolidated income.

(B) Turnover

Turnover refers to Operating income, as under item 120 of the consolidated income statement, which amounted to 5,185.3 million as at 31 December 2023 (4,276.2 million as at 31 December 2022, restated for a like-for-like comparison). Please see the Consolidated Income Statement schedule for 2023.

(C) Number of FTE employees

In terms of full-time equivalent employees, the figure as at 31 December 2023 totalled 18,772, including Co.Co.Pro. (temporary contracts) and internship contracts (19,157 as at 31 December 2022).

(D) Profit or loss before tax

The Group's profit (loss) before tax corresponds to the sum of items 290 and 320 of the consolidated income statement, which is +1,777.6 million (+1,005.0 million as at 31 December 2022, restated for a like-for-like comparison). Please see the Consolidated Income Statement schedule for 2023.

(E) Taxes on profit or loss

The tax on the Group's profit for 2023 corresponds to the amount shown in item 300 of the consolidated income statement, which is a negative figure of -513.2 million (-320.7 million as at 31 December 2022, restated for a like-for-like comparison). Please see the Consolidated Income Statement schedule for 2023.

The following table provides details of income taxes for the year broken down by country

Taxes on Group profit - breakdown by country ***(in millions of euro)***	**2023**	**2022**
Italy	(513.4)	(320.9)
Switzerland	0.2	0.2
Other countries	-	-
Total	**(513.2)**	**(320.7)**

As shown in the Notes to the consolidated financial statements, Part C - Information on the consolidated income statement, Section 21 - Taxation charge related to profit or loss from continuing operations - Item 300, note that the only taxes relating to foreign countries refer to the taxes determined according to Swiss tax regulations by the subsidiaries Bipielle Bank (Suisse) S.A. in liquidation and Banca Aletti & C. (Suisse) S.A. based in Switzerland, of 0.2 million (0.2 million as at 31 December 2022).

(F) Public grants received

During 2023, Banco BPM Group received public grants to provide personnel training courses totalling 3.3 million (3.5 million as at 31 December 2022).

To that end, note that in the listing of these grants, in compliance with the provisions established for preparing the disclosure in question, transactions carried out with central banks for the purposes of financial stability are excluded, as are operations with the objective of facilitating the mechanism used to transmit monetary policy.

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