


CONSOLIDATED NON-FINANCIAL STATEMENT

2017

To facilitate reading the document and deepen it the contents are some underlined words that contain references to certain sections of the document, the glossary and websites of the Banco BPM Group. 

For any information or further details, readers should send an email to **sostenibilita@bancobpm.it**

NON-FINANCIAL STATEMENT: OBLIGATION OR OPPORTUNITY?

The year 2017 was the first one in the life of the Banco BPM Group and, within a particularly challenging environment, we have already completed the first, fundamental steps of the integration, such as the IT unification, the asset management and bancassurance restructuring, the reorganisation and strengthening of our role in private and investment banking and lastly, but certainly not least, the launch of the new sales model which will result in more effective actions and quicker decision-making processes.

All of these initiatives were carried out without ever calling into question our Bank's historical heritage and foundational pillars, such as the centrality of the customer, our support for local communities and the strategic importance of the Group's personnel.

In line with Banco BPM's Articles of Association, which state that, when distributed, part of the profits may also be allocated to social development initiatives, the new sales model was redesigned and planned with a view to maintaining our characteristic vicinity to people, businesses and associations; the structural integration and reorganisation process was in turn accompanied by considerable investments in people and welfare, also using the company bonus and carrying out initiatives to favour greater work-life balance.

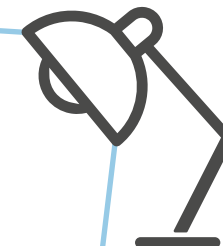
Over time, we expect to be able to meet the expectations of everyone: investors, customers, colleagues and community members, who throughout these difficult years have continued to see us as a reliable, valuable partner and to whom today we also have the duty to communicate all of our decisions, the management models adopted, the risks faced and the policies and actions carried out to achieve replicable and long-lasting results.

The importance of effective, precise and punctual communications with all stakeholders has driven the legislature require a disclosure about how the company manages topics that it deems relevant for its business, and this regulatory update gives rise to the Non-Financial Statement that we have the pleasure to present to you today.

For anyone else, this is just another new obligation to meet; for us, it is an important opportunity to dialogue with our stakeholders, increasingly engaging them in our path towards rediscovering efficiency, service quality and profitability, combining profit with the Bank's sustainable development and the economic and social contexts in which it is rooted.

Chairman of the Board of Directors of Banco BPM
Carlo Fratta Pasini

Managing Director of Banco BPM
Giuseppe Castagna



GUIDE TO READING THE REPORT

The Consolidated Non-Financial Statement of the Banco BPM Group (hereinafter also the "Statement"), prepared in compliance with art. 4 of Italian Legislative Decree 254/2016 (hereinafter also the "Decree") and according to the G4 version of the "Sustainability Reporting Guidelines" (hereinafter the GRI G4 Guidelines), contains information relating to environmental and social topics, as well as personnel, respect for human rights and the fight against corruption, which helps to ensure our readers' comprehension of the activities carried out by the Group, its performance, its results and the impact that they generate.

The Group prepared this Statement not only with the awareness of the obligations deriving from a new regulation, but also fully in the spirit of the Decree, which places emphasis on non-financial information. In this sense, for many years now the Banco Popolare and BPM Groups have engaged in sustainability reporting, deeming it indispensable not only to adopt policies and strategies to monitor the various priority non-financial areas, but also to share their approaches with all stakeholders.

To provide a representation aligned with the business and impacts deriving from Group activities, the Statement has been prepared by focusing the disclosure on the non-financial matters identified as significant in light of an analysis of materiality.

The Statement is structured into three macro-sections. The first one describes the main aspects of the Group's responsible management model in terms of its mission and business model, the Governance system, risk management, the distribution of economic value generated to stakeholders and the connection between material issues, the areas required by the Decree and the business plan.

The second section concentrates on relevant topics; in particular in the Statement, for each non-financial topic which is significant for the Group, the policies applied, the main risks and the relative mitigating actions are described, in addition to the management and organisational model and the results achieved in the course of 2017, reporting the performance indicators laid out in the GRI-G4 Guidelines ("core" option). On the other hand, the subsequent paragraphs are dedicated to methodological aspects, or the principles and criteria underlying the preparation of the document (for more details, please refer to the Methodology note).

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REFERENCE CONTEXT, BANKING SECTOR AND FUTURE CHALLENGES

According to the most recent forecasts, the Italian economy improved in 2017 with respect to the previous year (GDP up by 1.5%¹), supported in particular by a certain liveliness in investments (+3%²), which benefitted from the improvement in economic expectations and the ECB's expansionary monetary policy, and an increase in consumption (+1.4%³) favoured by an increase in consumer confidence⁴ as well as buying power (+0.5%⁵). Positive signs were also seen in the labour market: at the end of 2017, the unemployment rate was 10.8% (down compared to 11.8% in 2016) and the youth unemployment rate was 32.2%, which, although it remains high, has improved compared to the end of 2016 (39.1%). With regard to businesses, nearly 360,000 new companies were founded⁶, many of which by young entrepreneurs⁷ and in Southern Italy⁸, and industrial production rose (+3%⁹) especially in dynamic sectors such as machinery and equipment (+15.6%¹⁰).

The ECB's expansionary monetary policy favoured an increase in inflation (+1.2%¹¹) and the maintenance of low interest rates, which has made recourse to credit more advantageous for individuals and businesses alike¹². With respect to the banking sector, a still difficult economic environment along with low interest rate levels, significant adjustments on loans and a cost structure

which is difficult to constrict, have negatively influenced the profitability of lenders, driving them to gradually change their business model, which is concentrated more on revenues from services.

Nonetheless, at the end of 2017 the stock of loans disbursed by the banking sector amounted to € 1,785.9 billion, a volume higher than the € 1,728 billion in funding from customers, but down compared to the stock of loans at the end of 2016 (€ 1,802.6 billion)¹³.

In the coming years, the banking industry will continue to deal with a series of significant challenges linked to ongoing structural changes, such as technological innovation, the intense regulatory action influencing cost structures and the growing level of competitiveness in the offer of products and services (including by non-financial operators). This scenario will push banks to seek out even greater economies of scale, including through additional business combinations, so as to cover necessary investments and high cost levels.

Bank capacity to take advantage of an improving economic context to revise their business models, invest in innovation and expertise and reduce operating costs will be fundamental in the coming years to guarantee the system's sustainability and its resulting support for the Italian economy.

CURRENT CONTEXT

- Economy (slowly) recovering (GDP +1.5% in 2017 - ISTAT)
- Low interest rates (average rate on loans to retail customers and non-financial businesses at 2.69% in 2017 - ABI)
- High overhead costs (banking sector cost/income ratio of 71% in 2017 - Prometeia), significant stock of non-performing loans and low banking sector profitability
- Increasing digitalisation of the Italian population (66% of Italians are internet users, 70% own a smartphone, 30% make purchases online and 25% use mobile banking - KPMG)
- High competition of web giants in services such as retail payments and small loans

FORECASTS FOR THE COMING YEARS

- Decline in bad loans and interest rates up slightly (reduction in the ECB's QE)
- Downsizing of the bank distribution network and the number of employees
- Seeking out new skills capable of keeping pace with the digital revolution and new service models
- Expansion of the competitive range of fintech companies to innovative segments (lending based crowdfunding, automated investment services and customer support)
- Possible erosion by new operators of part of the profits deriving from bank retail activities

1. ISTAT, estimate in real terms for 2017

2. ISTAT, estimate of gross fixed investment growth in 2017

3. ISTAT, estimate of growth in household and private non-profit institution expenditure in 2017

4. ISTAT - consumer confidence at the end of 2017 reached 116.5, up compared to January 2017 (108.6) and the end of 2016 (110.6)

5. ISTAT - household buying power (Jan-Sep 2017 vs. Jan-Sep 2016)

6. Unioncamere – in 2017, the slowdown in the growth of new companies (-1.8%) was offset by a greater slowdown in closures (-3.4%), resulting in a positive balance of 46,000 businesses

7. Unioncamere – in the first 6 months of the year, almost 1 new business out of 3 is led by someone under 35

8. Unioncamere – Southern Italy represents 60% of growth

9. ISTAT - increase in industrial production on average in 2017

10. ISTAT - yoy change December 2017/2016

11. ISTAT - increase in inflation on average during the year

12. In December 2017, the average rate on Euro loans to retail customers and non-financial businesses reached the all-time low of 2.69%

13. ABI - data on loans to customers and funding in December 2017

BANCO BPM GROUP

Identity and sustainable
value creation over time



MISSION AND BUSINESS MODEL

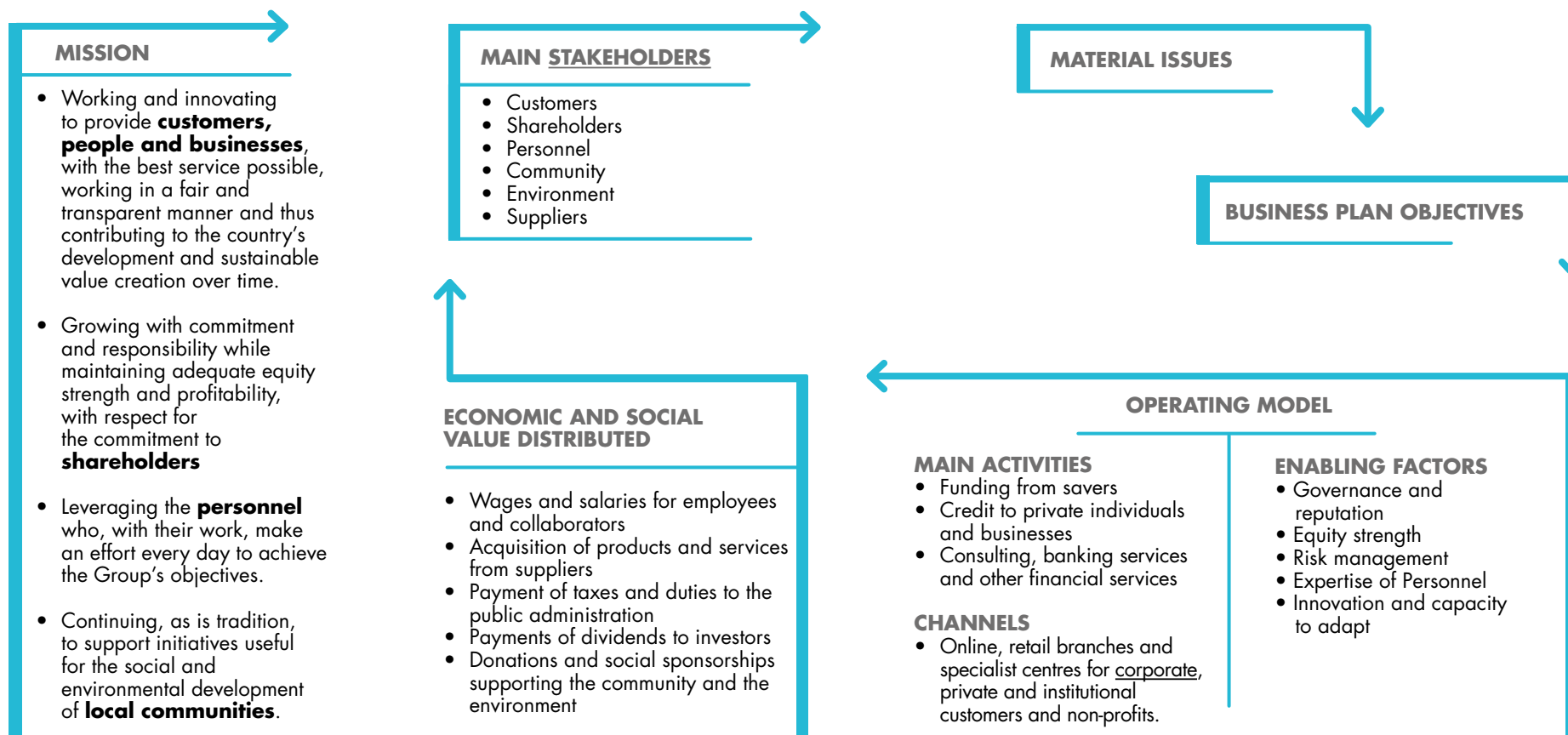
REFERENCE CONTEXT

RISKS

- Main risks (socio-political uncertainty, etc.)
- High complexity and external uncertainty

OPPORTUNITIES

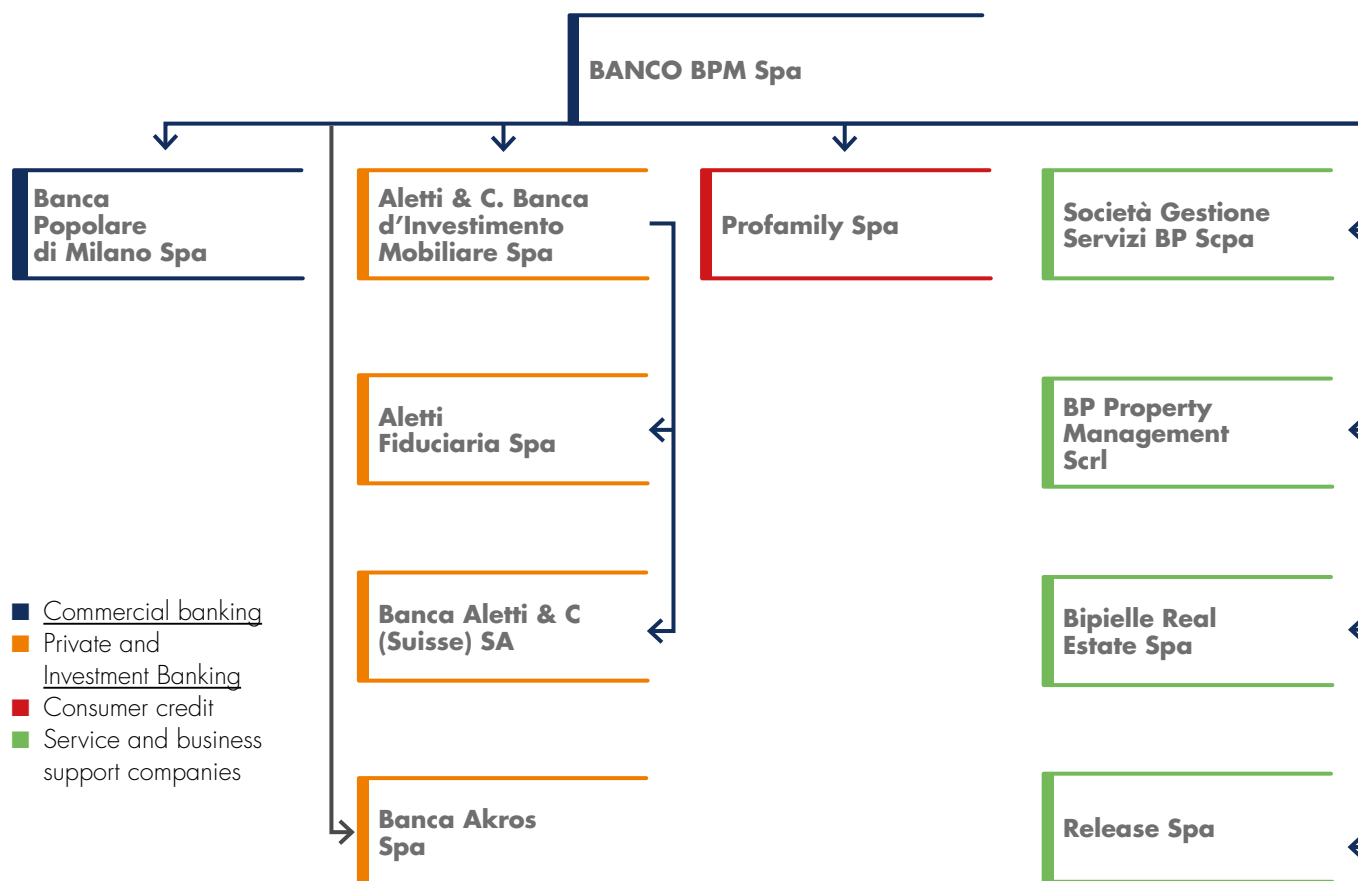
- Italian economic recovery
- Presence in more industrialised areas, driver for growth





GROUP PROFILE

The Banco BPM Group is active in financial and loan brokerage. The following figure shows exclusively the companies that are significant for the business: the commercial banks, the specialist companies and the main companies supporting operations and the business. This Statement, consistent with the consolidated financial statements, refers to all companies consolidated line-by-line as specified in the methodology note.



- Commercial banking
- Private and Investment Banking
- Consumer credit
- Service and business support companies

In 2017, the Group companies were reorganised:

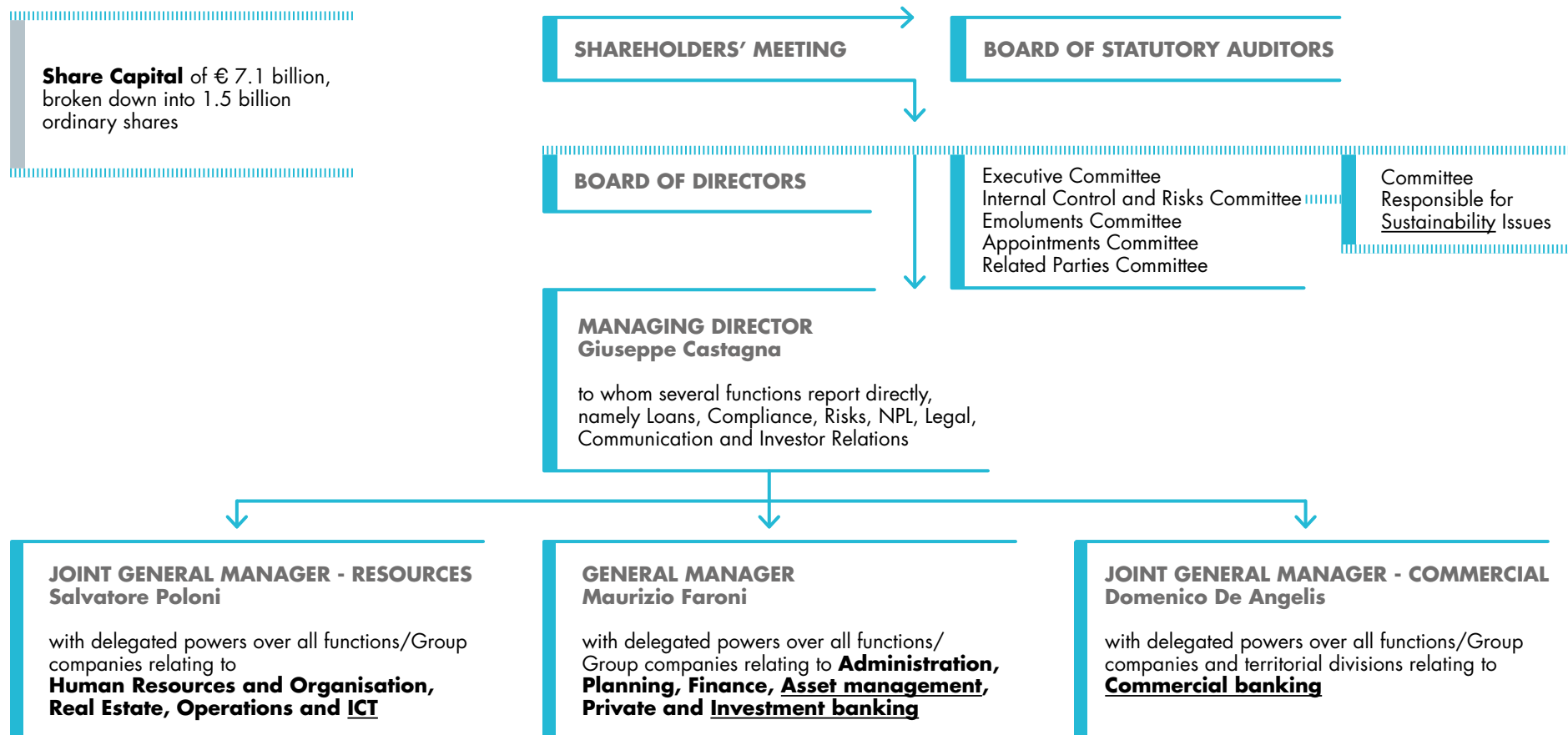
- within **commercial banking**, which represents the core business, the branches were reorganised on the basis of geographical criteria through
- with respect to **wealth management** 100% of Aletti Gestielle SGR was sold to Anima Holding and a 20-year strategic partnership agreement was entered into between the Banco BPM Group and Anima.
- with regard to **investment banking and private banking**, responsibilities were reorganised between the Group's specialist companies: Banca Aletti as the reference for private banking for the entire Group and Banca Akros, along with Banco BPM's corporate division, responsible for investment banking.



GOVERNANCE AND ORGANISATIONAL MODEL

The governance model adopted by Banco BPM is the traditional type, consisting of:

- Shareholders' Meeting: appoints the Board of Directors and the Board of Statutory Auditors, establishing their relative remuneration, meets at least once a year, and resolves on the approval of the financial statements and on the allocation and distribution of profits
- Board of Directors: responsible for strategic supervision and Group management.
- Board of Statutory Auditors: exercises the function of control relating to compliance with the law, and assesses, inter alia, the adequacy of the organisational and administrative-accounting structure of the company.





SKILLS AND EXPERIENCE OF THE BANCO BPM BOARD

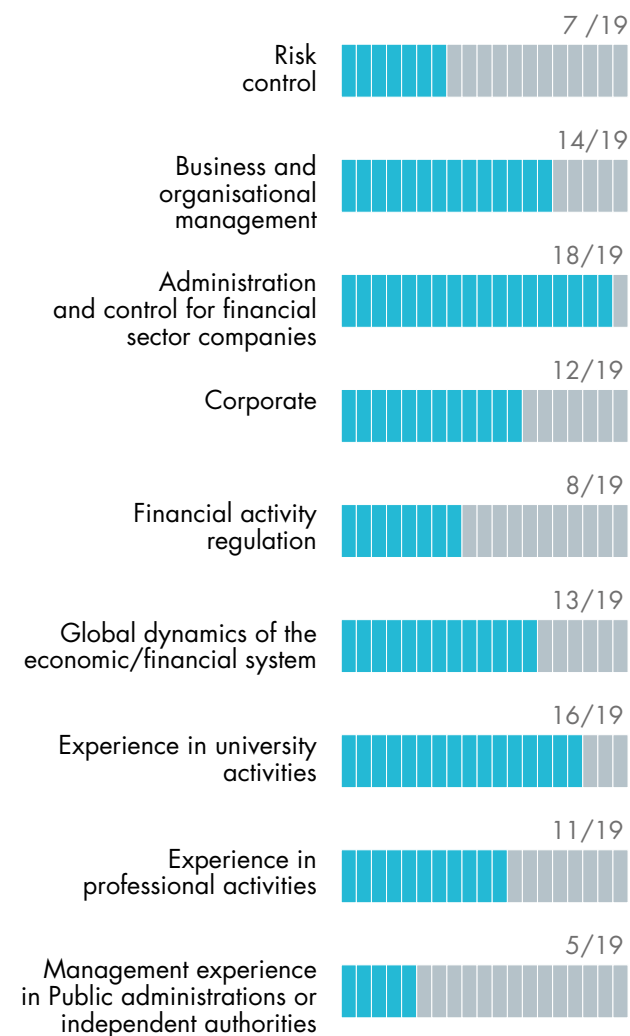
In identifying members of the Board of Directors, widespread, diversified skills are required to ensure a balanced mix of profiles and experience. The members of the Board of Directors, who typically can be no older than 75 years of age, must be suited to perform the duties of the office, in accordance with what is laid out by legislation in force and the

Articles of Association and, in particular, they must meet the requirements of professionalism, integrity and independence and respect the criteria of competence, fairness and dedication of time and the specific limits placed on the number of positions that may be held, laid out by legislation in force and the Articles of Association¹⁴.

BREAKDOWN OF THE BANCO BPM BOARD AND COMMITTEES

	BANCO BPM BOD	EXECUTIVE COMMITTEE	INTERNAL CONTROL AND RISKS COMMITTEE	EMOLUMENTS COMMITTEE	APPOINTMENTS COMMITTEE	RELATED PARTIES COMMITTEE
No. Directors	19	6	4	4	4	4
- Of whom executive	6	6	0	0	0	0
- Of whom non-executive	13	0	4	4	4	4
- Of whom independent ¹⁵	11	0	4	3	4	4
- Of whom women	7	0	2	3	1	3
- Of whom men	12	6	2	1	3	1
- Of whom < 30 years of age	0	0	0	0	0	0
- Of whom 30-50 years of age	5	0	0	1	3	1
- Of whom > 50 years of age	14	6	4	3	1	3

DIRECTORS BROKEN DOWN BY SKILLS



14. For more details <https://www.bancobpm.it/corporate-governance/documenti-societari/>

15. Art. 20.1.6. of the Articles of Association of Banco BPM contains a definition of independence which, on one hand, takes into consideration the provisions of art. 148, paragraph 3 of the Consolidated Finance Law and the recommendations contained in Borsa Italiana's Code of Self-Regulation and, on the other hand, meets the need of allowing for an easy examination of relevant situations (relating to degree of kinship, financial or professional relationships, etc.). The above-mentioned provision of the Articles of Association also contains a reference to a board resolution for the identification of quantitative and/or qualitative criteria suitable for determining the significance of certain relationships in the presence of which it is deemed that the independence requirement is not met. The resolution was adopted in January 2017.



BOARD COMMITTEES LAID OUT IN THE ARTICLES OF ASSOCIATION

Executive: committee responsible for granting loans.

Internal Control and Risks: provides support to the Board of Directors on risks and the internal control system for the entire Group. Supervision over sustainability issues is the responsibility first of all of the Internal Control and Risks Committee and in the second place directly of the Board of Directors in fulfilling its strategic supervision function.

Emoluments: has advisory and propositional duties relating to the remuneration of company representatives and periodically evaluates the adequacy, overall consistency and concrete application of the policy for the remuneration of company representatives.

Appointments: screens or develops proposals regarding the submission of lists, appoints and removes company representatives and provides support to the Board of Directors on the evaluation of the qualitative/quantitative composition and self-assessment of the bodies.

Related Parties: exercises the powers attributed to the independent directors by article 2391-bis of the Italian Civil Code and article 53 of the Consolidated Banking Law with reference to the issues of "Related Parties" and "Associated Parties".

In any case, the Board of Directors is entitled to establish further committees with advisory, investigation and propositional duties, preparing the relative Regulations.

In the course of 2017, the Board of Directors established the **Donations Committee**, which has

advisory, investigation and propositional duties, for "initiatives to support the civil and social fabric of the Verona area and those of the reference Division" and for "initiatives supporting the civil and social fabric of the Milan area and those in which BPM carried on its business before the merger", all within the limits established by art. 5 of the Articles of Association. This activity, unlike what is laid out for the other territorial divisions, is not currently carried out by Foundations.

The statutory auditors must meet all requirements of eligibility, independence, professionalism and integrity laid out for the office by legislation in force.¹⁶

COMPOSITION OF THE BANCO BPM BOARD OF STATUTORY AUDITORS

	BOARD OF STATUTORY AUDITORS BANCO BPM (Standing auditors)	BOARD OF STATUTORY AUDITORS BANCO BPM (including Alternate members)
No. Statutory Auditors	5	8
- Of whom women	2	4
- Of whom men	3	4
- Of whom < 30 years of age	0	0
- Of whom 30-50 years of age	0	1
- Of whom > 50 years of age	5	7

16. For more details <https://www.bancobpm.it/corporate-governance/documenti-societari/>



KEY INFORMATION

Banco BPM is one of the strongest banking groups in the sector, with a good operating profitability and a presence in a large part of the country.

Customers: roughly **4 million**
Of which individuals **87%**
Of which businesses **13%**
Of which more than **32,500** non-profits

Shareholders: around **380,000** shareholders¹⁷ of which **158** institutional investors owning roughly **1/3** of the share capital¹⁸

Employees: roughly **23,300**
of which women **44%**
of which men **56%**

Suppliers: around **1,300**
of which more than **80%** in Northern Italy
of which **20%** in Central Italy, the South and the islands

Funding and loans

- Loans to customers: **€ 108.2 billion**
- Direct funding: **€ 107.3 billion**

Profitability

- Income (loss) from operations: **€ 1.5 billion**
- ROE: **€ 4,92%**

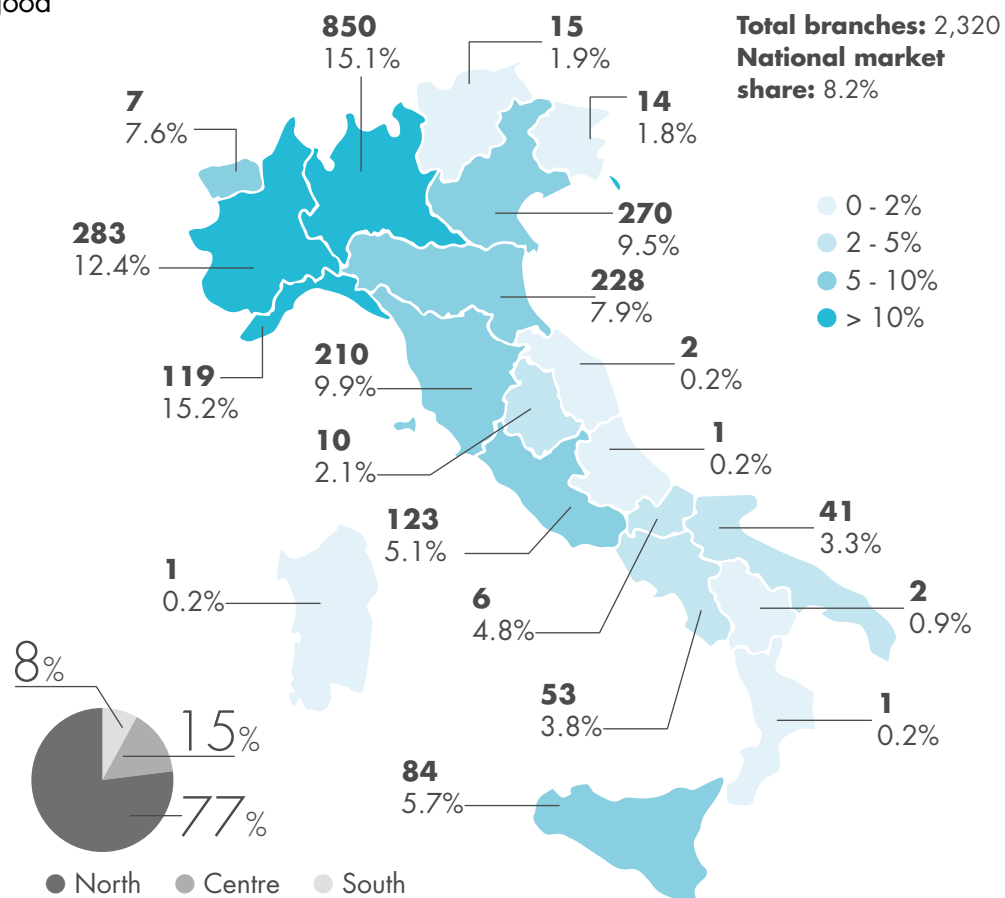
Equity strength

- Phase in CET1 ratio equal to **12.36% > 8.875%** established by the ECB for 2018
- Shareholders' equity: **€ 11.9 billion**

Risk

- Net bad loans/net loans **6%**
- Net bad loans/shareholders' equity **54.48%**

NUMBER OF BRANCHES AND BRANCH MARKET SHARE



The branch network

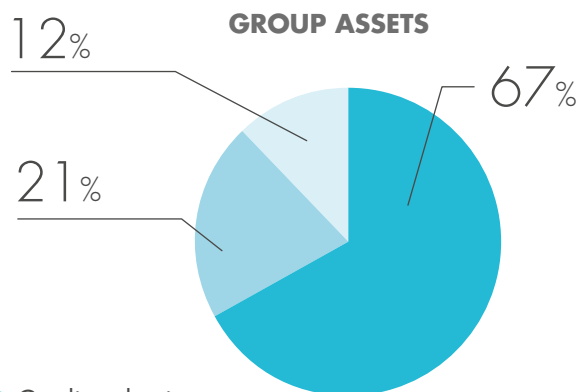
The development of a multichannel approach and the economic sustainability of the physical network has led banks to rationalise their number of branches. At the end of 2017 Banco BPM had 2,320 branches (compared to 2,347 in 2016) on the national territory. Despite the closures, the Group has a strong presence throughout the country and a leadership position in some of the country's wealthiest areas.

17. Figure that takes into account roughly 255,000 shareholders that are depositors at Banco BPM at 31/12/2017 and roughly 125,000 shareholders that are depositors at other intermediaries at 2 January 2017, the date of the share swap linked to the merger between Banco Popolare and Banca Popolare di Milano.

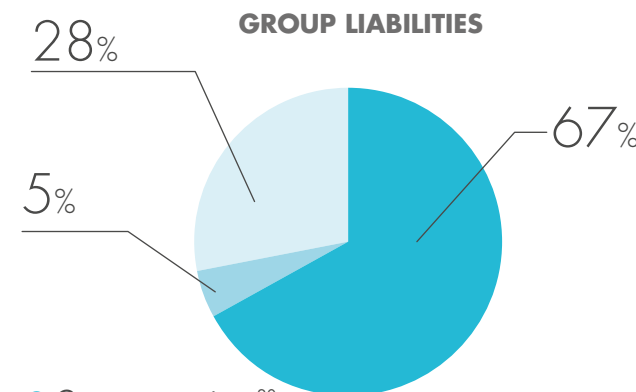
18. On the basis of publicly available information at the end of 2017, 158 institutional investors representing 33% of the share capital declared positions at Banco BPM.



The Group obtains resources primarily through customer savings, using them primarily to support household and business plans by means of credit.



- Credit to businesses and individual
- Financial assets
- Other assets¹⁹



- Customer savings²⁰
- Financial liabilities
- Other sources

The security of the parent company Banco BPM, listed on the MTA market of the Italian Stock Exchange since 2 January 2017, achieved positive annual performance of 14.3%, in line with the sector index, fluctuating between a minimum price of 2.162 and a maximum price of 3.508. The majority of the recommendations of the analysts that cover the Banco BPM security are positive.

ANALYSTS COVERING THE BANCO BPM SECURITY AT 31/12/2017

Recommendations	Analysts
Positive	Banca Imi; Barclays; Citi; Deutsche Bank; Equita Sim; Exane Bnp; Fidentiis; Goldman Sachs; Intermonte; Macquarie; Societe Generale; Ubs
Neutral	Mediobanca; Morgan Stanley; Kepler Cheuvreux; Kbw; Boa Merrill Lynch
Negative	Autonomous; Berenberg

19. "Other assets" include the following items: cash and cash equivalents, receivables due from banks, fixed assets, non-current assets held for sale and discontinued operations and other assets.

20. "Customer savings" includes the following balance sheet items: due to customers, debt securities issued and financial liabilities designated at fair value through profit and loss. "Other sources" include the following balance sheet items: due to other banks, liability provisions, liabilities associated with non-current assets held for sale and discontinued operations, shareholders' equity, minority interests and other liabilities.



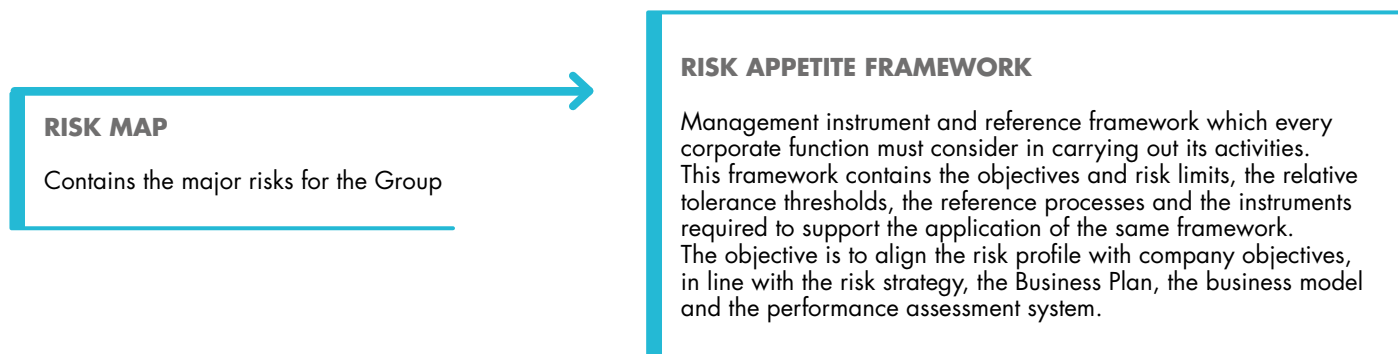
RISK MANAGEMENT

For a banking Group, the ability to correctly manage risk is essential to forging trustworthy relationships with stakeholders and to guaranteeing sustainable profitability over time. The risks relating to significant issues are addressed in the reference chapters, while this chapter provides a general overview of the overall risk management system.

In order to identify the current and outlook risks to which the Group is or could be exposed in carrying out its activities, Banco BPM has adopted a structured process calling for the involvement of the top management, the business structures and the Group companies, which leads to the definition of the risk map representing the basis for the definition of the risk appetite, the Risk

Appetite Framework.

Adequate organisational oversight mechanisms / processes / internal mitigation procedures are identified for the major risks. For quantifiable risks, internal measurement models are also developed.



RISK MAP

Contains the major risks for the Group

RISK APPETITE FRAMEWORK

Management instrument and reference framework which every corporate function must consider in carrying out its activities. This framework contains the objectives and risk limits, the relative tolerance thresholds, the reference processes and the instruments required to support the application of the same framework. The objective is to align the risk profile with company objectives, in line with the risk strategy, the Business Plan, the business model and the performance assessment system.

MAIN ACTIVITIES IN 2017

Aside from the consolidation of Risk Appetite Framework and Risk Identification processes, activities were completed to use calculation models in the new Group which were already in use for the former Banco Popolare Group, intended to estimate the capital necessary to cover the maximum loss that could arise in a given period of time with a certain probability for debt positions (advanced internal models - AIRB). In the beginning of February 2018, the Group received the Draft Decision from the ECB relating to the use of the above-mentioned models starting from the reporting at 31 March 2018. In addition, in 2017 a significant investment continued to be made in training, intended in particular:

- to spread risk culture and management throughout the company;
- for the network on the new financial consulting model and, during the IT migration, on new credit and risk processes.



MAIN RISKS MANAGED BY THE GROUP

CREDIT RISK

Risk of incurring unexpected losses following the default of individual borrowers or a deterioration of their creditworthiness.

BUSINESS RISK

Current and outlook risk linked to a potential downturn in the interest margin with respect to the objectives established due to low customer satisfaction with the products and services offered by the Group as a result of adverse market conditions.

COMPLIANCE RISK

Compliance risk, which includes the risk of money laundering and terrorism financing, is the risk of incurring legal or regulatory penalties, material financial losses or reputational damage due to the violation of binding rules (laws, regulations) or self-regulations (e.g., articles of association, code of conduct).

STRATEGIC RISK

Current or outlook risk linked to a potential downturn in profits or capital due to an inadequate position in the market or incorrect management decisions.

COUNTERPARTY RISK

Risk that the counterparty of a transaction defaults before the final settlement of the cash flows of said transaction. It includes settlement risk.

IT RISK

Represents the risk of incurring economic losses, reputational damage and the loss of market shares related to the use of information and communication technology (ICT).

OPERATING RISK

Risk that may derive from the inadequacy or failure attributable to procedures, human resources and internal systems, or caused by external events. In particular, losses resulting from fraud, human error, the interruption of operations, non-availability of systems, contractual breaches and natural disasters are included in this type of risk.

MARKET RISK

Risk of unfavourable changes in the value of a position, accounted for in the trading portfolio, due to adverse trends in interest rates, exchange rates, the inflation rate, volatility, stock prices, credit spreads, commodity prices and issuer creditworthiness.

REPUTATIONAL RISK

Risk linked to a negative perception of the bank's image by customers, shareholders, investors, financial analysts and the Supervisory Authorities which could negatively influence new business opportunities or funding activities. While the majority of risks are specific and can

be classified within specific areas of operations, reputational risk regards all of the company's activities transversally. The management of relationships with customers, personnel, the community, suppliers and shareholders, daily operations and the functioning of IT systems and

compliance with standards are all areas with possible reputational impacts. Therefore, to avoid repetition, this risk is explicitly cited within the "Contributing to the community" area, where the reputational and image promotion aspect is prevalent.



ECONOMIC VALUE GENERATED AND DISTRIBUTED

Economic value generated is distributed between the main stakeholders, i.e., the parties which have an interest in the Group.

CONSOLIDATED STATEMENT OF ECONOMIC VALUE	amounts in thousands of euro
Interest margin	1,975,122
Net fee and commission income (net of expenses for external networks)	1,958,240
Dividends and similar income	53,909
Profits (losses) on financial assets and liabilities	(49,469)
Net adjustments on loans	(1,520,957)
Other operating income/expense	3,498,186
Profits (losses) on disposal of investments	13,070
Income (loss) after tax from discontinued operations	762,262
A. TOTAL ECONOMIC VALUE GENERATED	6,690,363
Economic value distributed to employees and collaborators (including expenses for external networks)	1,782,881
Economic value distributed to suppliers	943,649
Economic value distributed to the Public Administration	(163,381)
Economic value distributed to shareholders of the subsidiaries	204
Economic value distributed to the community and the environment	535
Economic value distributed to minority interests	(9,658)
B. TOTAL ECONOMIC VALUE DISTRIBUTED	2,554,230
C. TOTAL ECONOMIC VALUE WITHHELD C = A - B	4,136,133

The economic value generated was primarily distributed to employees and collaborators and suppliers.

With respect to the central and local administrations, in 2017 the Group withheld a portion of value added equal to roughly € 164 million primarily as a result of the benefit deriving from the possibility of transforming deferred tax assets into tax credits, as permitted by Law 214/2011.

The economic value distributed to shareholders refers to the dividend of minority interests of the subsidiaries Banca Popolare di Milano and Arena Broker.

The value attributable to minority interests, an item adjusting subsidiaries which are not wholly owned, is negative primarily as a result of the share of results they achieved referring to minority interests.

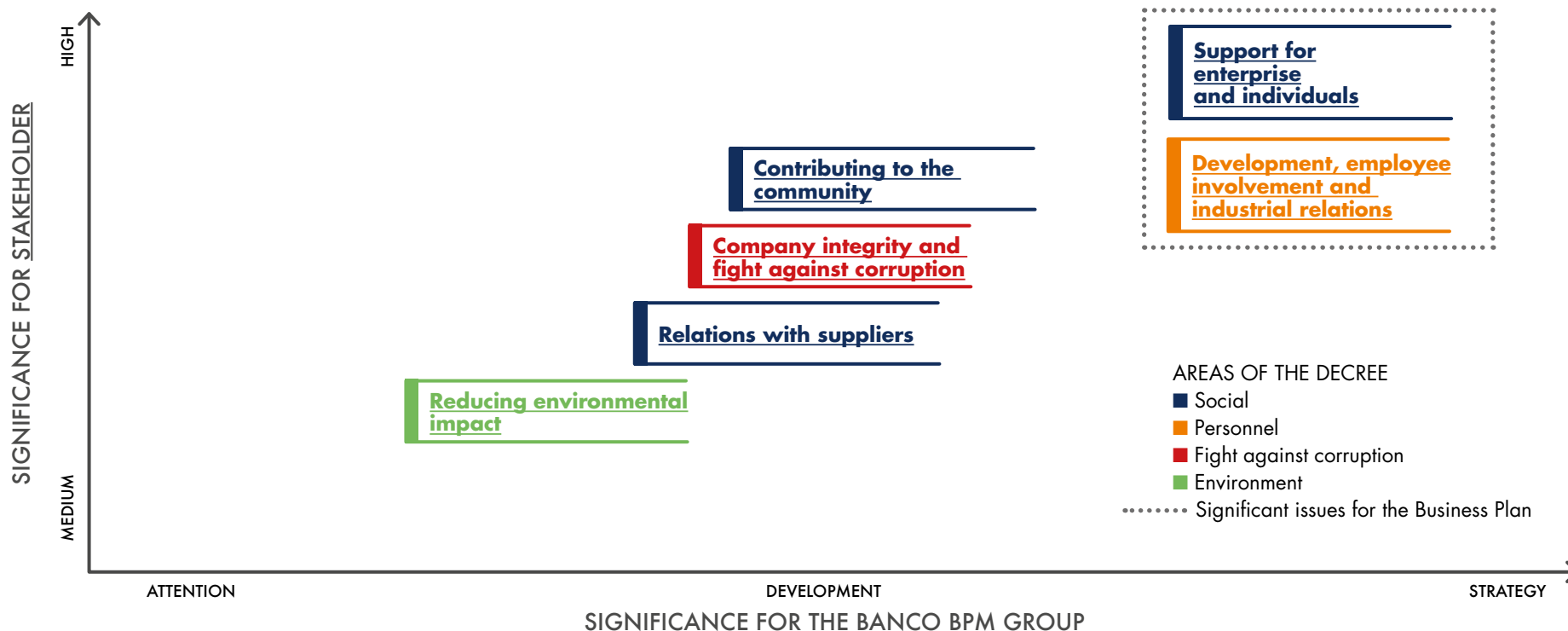
The share of value added withheld in 2017 is positive and equal to € 4,136 million, highlighting the significant equity strengthening pursued by the Group.



ANALYSIS OF MATERIALITY AND AREAS OF THE DECREE

On the basis of the areas laid out in Italian Legislative Decree 254/2016, the process of identifying the material issues was developed based on the analyses of materiality of Banco Popolare and Banca Popolare di Milano carried out in 2016. The process is in line with the reference GRI standard and the topics identified also take into account the matters deemed relevant by analysts specialised in Sustainable Investing, as well as banking sector aspects most addressed by the media. This analysis was then submitted to the Banco BPM Board of Directors for approval.

Material issues have been placed on the graph based on the importance that they have for stakeholders and for the Banco BPM Group.



Although **human rights** are laid out in Italian Legislative Decree 254/2016, they are not included amongst the issues that are relevant for the Banco BPM Group, which operates almost exclusively in Italy, a country with a high level of protection of human rights. In any event, the Group recognises the need to pay attention to the dignity of people as a central element of every activity and the Code of Ethics, aside from the observation of the principles on the matter of safeguarding human rights, specifies that all conduct must be inspired, inter alia, by respect for every individual without distinction, with this commitment also laid out in relationships with personnel, customers and suppliers. With respect to the **“Environment”** issue, Italian Legislative Decree 254/2016 requires reporting on the consumption of water resources, but this matter is not relevant for the Group in relation to the sector of operations and business strategies.



MATERIAL ISSUES AND BUSINESS PLAN

With respect to the significant issues included in the Group's 2017-2019 Business Plan, the following figure summarises the main objectives and the results achieved at the end of 2017.

MATERIAL ISSUES WITH IMPACTS ON THE BUSINESS PLAN

Support for enterprise and individuals

Development, employee involvement and industrial relations

2017 PERFORMANCE

- Roughly 4 mln customers
- € 108.2 bn in loans to support consumption and investments.
- Digital channels used by 44% of people and 66% of businesses.
- Digital innovation project launched for customers.
- More than € 77 bn in current accounts and deposits.

- Development of new skills: more than 122,000 training days.
- Generational turnover: more than 50% of planned departures took place and 161 people were hired.
- Second-level collective contract signed with agreements also in terms of flexibility and welfare.

BUSINESS PLAN OBJECTIVES AT 2019

- More than 4 mln customers
- € 110 bn in loans to support consumption and investments.
- Development of multichannel banking (>70% for private individuals and >80% for businesses).
- Investments in digital innovation > € 90 mln.
- Roughly € 80 bn in current accounts and deposits.

- Development of new skills: more than 100,000 training days per year.
- Generational turnover: more than 2,100 voluntary departures and 400 young people hired.
- Flexibility and improvement of the welfare system.

MATERIAL ISSUES





SUPPORT FOR ENTERPRISE AND INDIVIDUALS

The banks that were the foundation of Banco BPM Group have always had strong ties to their communities and to this day continue the tradition of focusing on the customer and offering solutions to real needs. Offering services to companies and individuals is the Group's core business and to succeed in establishing long-term relationships means being successful as a business and contributing to the country's development.

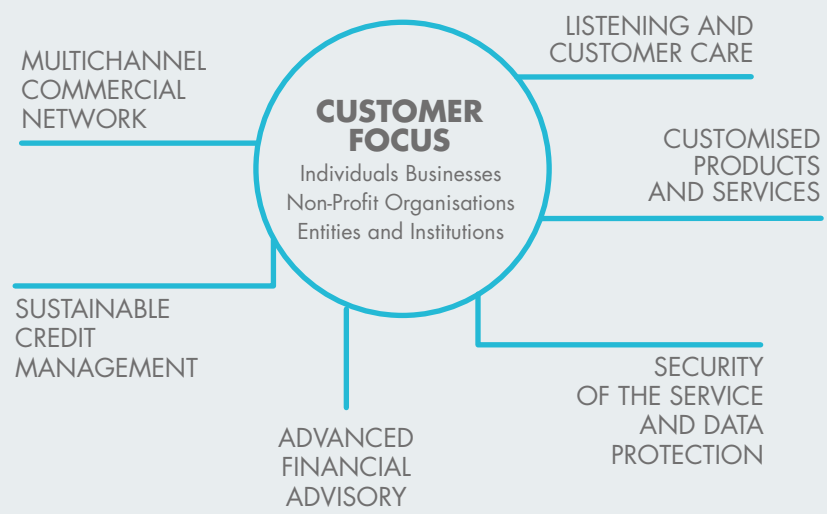
In customer relationships, Group employees are required to behave according to **criteria of proactiveness, courtesy, transparency, collaboration and listening, providing appropriate, complete, and timely** information on the products and services offered in order to develop a mutually satisfying and long-lasting relationship.

The products and services offered to the customer must correspond to his/her real needs and the use of deceptive practices or those that are intended to force his/her judgement or behaviour are not permitted. Customers are informed, clearly and thoroughly, on the products and services offered and relative conditions applied, to facilitate their understanding and informed decision-making.

Any customer complaints are treated with sensitivity as they constitute an opportunity for improvement, to resolve issues, and improve customer trust and satisfaction.



CUSTOMER MANAGEMENT MODEL





Main risks	Mitigating actions/policies applied
Credit and over-indebtedness	<ul style="list-style-type: none"> • Credit granting processes that ensure an adequate, objective, and standardised assessment of creditworthiness and risks, including through the separation of roles (proposer and decision-maker). • Adoption of credit risk measurement models and metrics that are updated and compliant with the relevant legislation. • Evaluation of debt sustainability by verifying repayment capacity. • <u>Forbearance</u> that includes the modification of contracts to allow customers in financial difficulty to meet their commitments.
Improper selling of financial products	<ul style="list-style-type: none"> • Evaluation of actual customer needs. • Adoption of <u>MIFID II</u> model and governance of all aspects related to sales of financial products (product governance).
Improper conduct of sales personnel and operational risks	<ul style="list-style-type: none"> • Principles of conduct envisaged by the Code of Ethics and internal rules regarding the behaviour of employees towards internal and external representatives and commercial transactions. • Definition, within the new network model, of new specific roles of regional and branch management as an integral part of the control process for better oversight of operational risks.
Cybersecurity and data protection and privacy	<ul style="list-style-type: none"> • Design of IT systems, analyses and investments in fraud prevention specific to each instrument/channel and customer segment. • Application of appropriate measures in the areas of digital identity, cyber incidents and apps on customers' mobile devices. • Measures for business continuity and management of personal data.

CUSTOMERS

Approximately **4 million customers**²¹ use the products and services of Banco BPM Group.

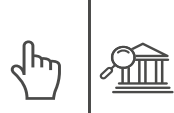
Nearly 70% of customers reside in Lombardy, Veneto, Emilia Romagna and Piedmont, among the wealthiest and most dynamic regions in the country.

There are about 3.5 million **natural persons**, one-third of whom are less than 45 years old and half of which have been customers for at least 10 years. Women represent half of customers, while foreigners are 7% and those under 25 are 6%.

21. Without Private Banking customers

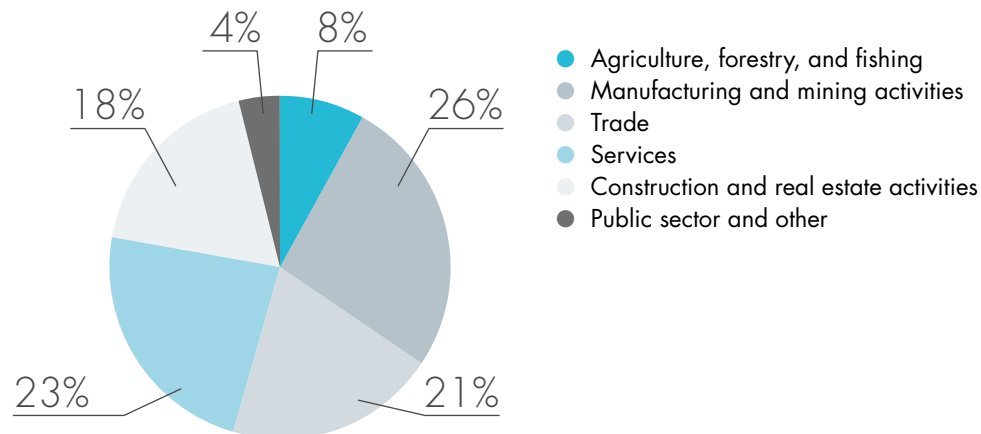
BANCO BPM GROUP CUSTOMERS

Total customers	4 million
- Of which with a long-standing relationship (>10 years)	52% of individuals and 43% of legal entities
- Of which natural persons	87.2%
- Of which legal entities	12.8%
- Of which in Northern Italy	75.1%
- Of which in Central Italy	14.2%
- Of which in Southern Italy and islands	10.3%
- Of which abroad	0.4%



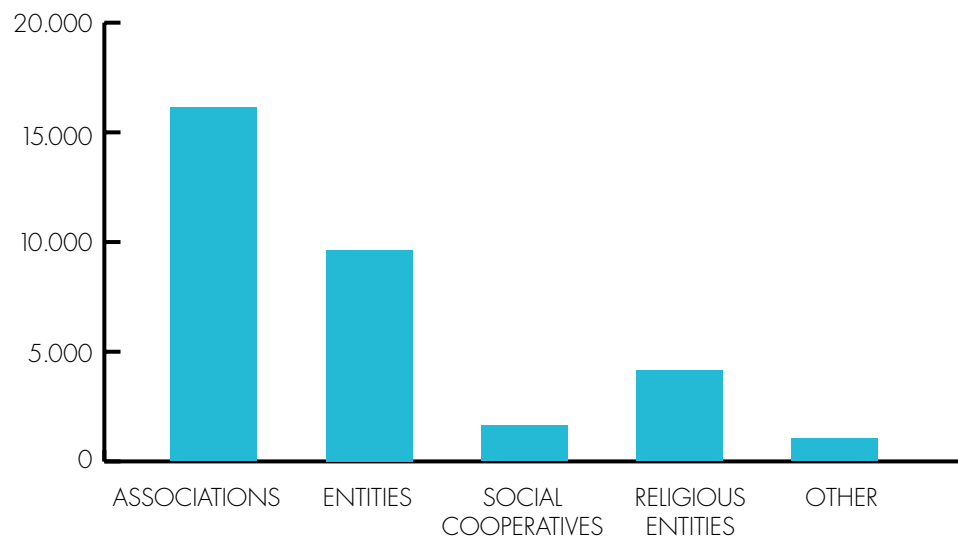
There are about 500,000 **legal entities**, the majority of which are small and medium-sized businesses operating primarily in the services and manufacturing sectors, which in recent years have made a strong contribution to GDP, exports, and employment in Italy.

DISTRIBUTION OF BUSINESSES BY ECONOMIC ACTIVITY



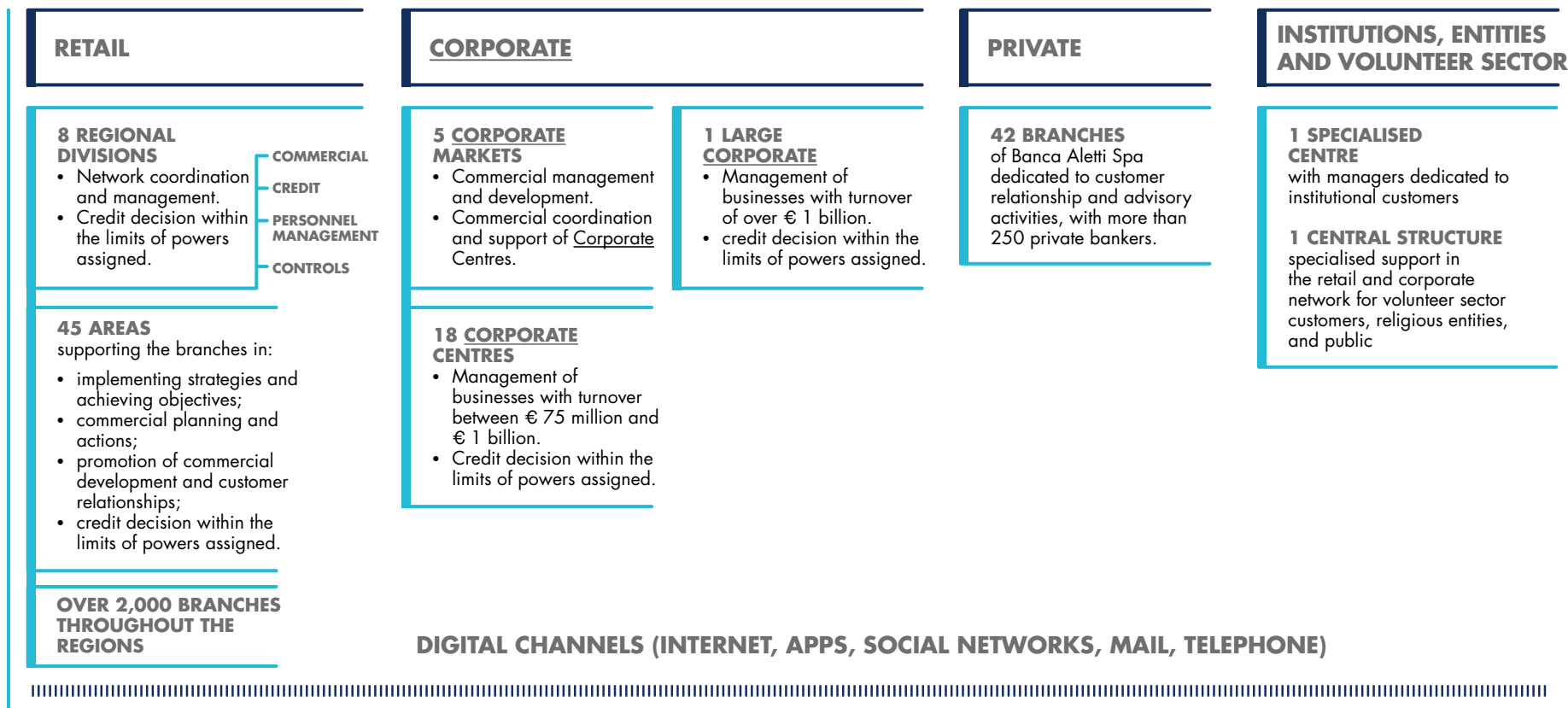
Non-profit organisations are particularly important for the Group, representing over 32,000 customers, almost half of which are associations. They have become gradually more important in recent years in terms of number, social impact, and income generated.

NON-PROFIT CUSTOMERS





COMMERCIAL MODEL



Customers can access the services and products offered by the Group through **digital channels and the network of branches and specialist centres** that have been reorganised for an effective and efficient local presence and customer focus. For households and small and medium-sized enterprises, the retail network was reorganised at the beginning of 2018 to strengthen the monitoring and coordination of the regions and, at the same time, to achieve greater effectiveness of actions as well as

operational and decision-making efficiency. With regard to businesses, new Markets and Corporate Centres were also created at the beginning of 2018 to cover the regions in order to ensure greater proximity to customers and, at the same time, offer a high level of specialised services by strengthening new dedicated commercial structures. Moreover, businesses can contact Banca Akros for corporate and investment banking services. Private customers are managed by Banca Aletti, which boasts a 190-year

history, which governs all activities of management, protection, and enhancement of families with high net worth, including through non-financial services, and the specialised Wealth Management services. Regional presence is widespread and private customers can take advantage of their dedicated service both through the physical channel and on the web, through the web advisory service. Institutional clients, religious and public entities, and non-profit organisations can use personnel dedicated to their specific needs.



The branch is still the preferred connection point for customers²², particularly for making complex decisions, however over **44% of individuals and 66% of businesses routinely use digital channels**.

The important social, technological, and regulatory changes underway have led the Group to rethink the customer service model by launching a **project known as Digital Omnichannel Transformation**, to be implemented throughout the 2017-2019 Business Plan, involving 130 employees divided into 13 teams (estimated commitment is about 70 full-time resources per year) and with investments included in the Plan amounting to € 90 million.

DIGITAL OMNICHANNEL TRANSFORMATION

REFERENCE CONTEXT

- Use of digital, in particular the mobile channel, more than doubled in recent years.
- New players in services of retail payments and small loans, development of lending-based crowdfunding, and automated investment and customer support services
- Additional disruption acceleration factors: technology (big data, open innovation, internet of things), social (social media, sharing economy, e-commerce) and regulatory (MIFID II, personal data management, and PSD2 for payment systems).

ACTIONS

OMNICHANNEL

Omnichannel model based on different types of customers and evolution of services, processes, and tools.

CUSTOMER-BASED APPROACH

Continuous and smart listening to customers and employees; continuous and new monitoring of non-banking service lines for SMEs and Mid Caps.

DIGITAL LEADER FOR SMEs/MID CAPs

Definition and development of an advanced payment/lending platform and digital services dedicated to SMEs/Mid Caps (better content, usability, and user experience).

DIGITAL BANKING/PAYMENTS

Upgrading of digital banking & payment services, in line with the new payment system regulations.

SMART PLAYER ON INDIVIDUALS

Effective use of big data to better respond to customer needs and modification of mortgage operating model.

DIGITAL CULTURE

Promotion of digital culture at all levels; evolution of skills, tools, and methods of work; better web & social communication.

BENEFITS

INDIVIDUALS

- Revamped multi-device digital platform and digital services to monitor expenses and income and receive asset management tips.
- Purchase banking products/services through various channels at every stage of the process, using digital signature and paperless mode
- Smart solutions for basic transactions, specialised advisory at the branch
- Support and advice, including out-of-branch, remotely, and outside standard hours and possibility to interact with the bank through advanced solutions and exchange proposals and documents
- Smartphone payments and personalised offers through advanced analytics

BUSINESSES

- Multi-device digital platform and digital solutions for real-time and future monitoring of cash flows.
- Integrated system for accepting retail payments through different methods.
- Managers and product specialists with frequent contact opportunities, including remotely and out-of-branch
- Digital, paperless, and multi-channel processes to exchange documents, request loans, and request/purchase products and services
- Smart solutions for cash/deposit transactions
- Digital platform for managing relationships with suppliers with digitisation of documents and advanced lending instruments
- Partnerships with fintech/specialised players in digital credit access and non-financial sectors (e.g., e-commerce, IT security, welfare, analytics)

22. The recent customer satisfaction survey showed that 69% of customers had been in a branch in the prior three months.



SUSTAINABLE CREDIT MANAGEMENT

Lending to creditworthy parties is a fundamental requirement to sustainably support the economy and ensure profitability and asset balance for the Bank. In granting credit to **businesses**, the current and future economic performance is a particularly important indicator of repayment capacity, but **non-financial information is also significant**, such as the quality of management, information transparency, product quality and innovation, corporate image, business reputation and relationships with suppliers.

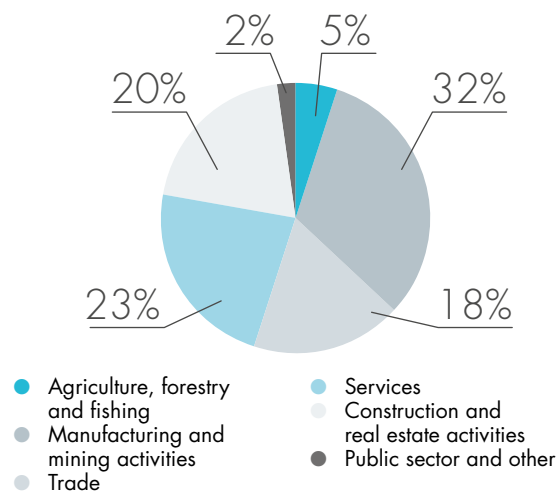
For particularly large lending transactions (or **significant transactions**), in addition to the above criteria, any issue that could negatively affect the Bank's reputation must also be taken into account. With regard to the weapons sector, lending transactions, supplemented by all appropriate information on the business and its operations, are decided directly by the Board of Directors, including for amounts that normally would not require this decision-making level. The total amount of credit to **businesses** at the end of 2017 is euro 57 billion²³, over half of which in the services and manufacturing sectors.

During the year, the Bank supported the entrepreneurial network by developing the offer of loans, customised products/services for the various types of companies, and the deployment of commercial initiatives to support specific needs or areas (such as tourism, culture, and female entrepreneurship).

The main commercial initiatives include:

- development of the agreed credit line offer, taking into account creditworthiness and economic sectors of activities;
- support to business operational activities through the granting/increase of short-term credit lines (credit facilities in current accounts, assignment of trade receivables);
- insurance solutions for SMEs to protect activities from adverse events (protection of means of production, legal disputes, protection for business and employee continuity, etc.);
- initiatives to support business customers in financially challenging periods (e.g.,: salary payment, F24, etc.);
- solutions aimed at assisting business customers in collection operations by offering competitive solutions.

LOANS TO NON-FINANCIAL BUSINESSES



With regard to **individuals**, credit granting takes into account the sustainability of the loan by verifying the minimum income required²⁴, the instalment/available margin ratio (loan instalment must not exceed certain threshold values in relation to the applicant's income net of outstanding loans) and the level of total indebtedness (verification of final indebtedness level after the possible granting of the loan, with respect to income).

In 2017, loans to individuals amounted to over € 27 billion and, within the targeted commercial initiatives, the **mortgage** offer was particularly important, amounting to € 26.5 billion at the end of the year, in addition to consumer credit for the Profamily and Agos products.

Particular attention is given to the **non-profit** sector, with loans amounting to € 800 million at the end of 2017 and for which there is a dedicated structure and a line of customised products, services and loans. Specifically, the main initiatives include the contribution of "5 per thousand" to charitable agencies and associations based on lists published by the Italian Revenue Agency; the stipulation of non-recourse transactions, in agreement with the Prefectures, to facilitate social cooperation in managing the initial reception of migrants; support for fund-raising initiatives through the activation of services dedicated to transactional banking; development of products and services aimed at the treasury financial efficiency for religious congregations through a cash-pooling approach.

24. The minimum income required must be sufficient to cover both the critical monthly household expenses envisaged in the ISTAT poverty tables as well as the loan instalment.

23. Credit figures include performing loans.



Furthermore, during 2017, the UNI EN ISO 9001:2015 Quality Certification was successfully audited for the “management and design of treasury and cash services”, which certifies the Group’s ability to provide its service according to rigorous standards, ensuring an efficient and accurate management of the processes and the continuous updating of technology standards.

Sustainably managing credit also signifies meeting the financial needs of **customers who are experiencing periods of difficulty** or who do not meet the requirements to access credit under ordinary conditions. In particular, the following assistance is offered:

- forbearance to individuals and businesses in temporary difficulty that allow them to benefit from a reduction/extension of commitments assumed with the Bank to prevent possible default and preserve the ongoing relationship.

- subsidised loans to households, SMEs and small-cap companies, aimed at facilitating access to credit or reducing the cost through public guarantees (e.g., Guarantee Fund for SMEs, ISMEA Guarantee Funds, European Fund for Investments, SACE, First Home Guarantee Fund, etc.) or through funding activities at favourable conditions (e.g., funds from the European Investment Bank or Cassa Depositi e Prestiti).

In addition, loans are disbursed with the use of special provisions to individuals and businesses that

suffered damages from disasters which, at the end of 2017, amounted € 281.4 million in loans for a total of 3,624 transactions.

Moreover, the Group has put in place agreements with Anti-Usury Foundations that support economic enterprises in difficulty through assistance and granting guarantees to banks to facilitate credit access.

At the end of 2017, there are 15 agreements with Anti-Usury Foundations, involving 492 transactions for a total of € 6.8 million of loans.

Type of assistance	Number of transactions outstanding at end of 2017 (active loans)	Loan stock at end of 2017 (active loans)
Loans backed by DIRECT PUBLIC GUARANTEES	12,136	€ 2.4 billion
Loans backed by PLEDGES FROM GUARANTEE AGENCIES (mainly CONFIDI)	23,527	€ 888.9 million
Loans granted with SPECIAL PROVISIONS	12,131	€ 2.2 billion
Loans backed by CONTRIBUTIONS FOR LOW-INTEREST LOANS	4,722	€ 499.5 million
TOTAL	52,516	€ 6 billion



ADVANCED FINANCIAL ADVISORY

With regard to the offer of financial products, in 2017 the Group created the foundations for standardisation, beginning in January 2018, of the advisory model for the entire Banco BPM network, based primarily on the suitability analysis of the customer's portfolio to the actual financial needs and risk profile, and an architecture of

product offers aimed at achieving effective portfolio diversification. In order to create an intelligence centre that could coordinate and support the network and develop the offer, a specialist company for the Group was created within Banca Aletti, as part of wealth management and private banking, an organisational

measure for the entire Group. This reorganisation enabled the Group able to quickly adapt to MIFID II regulations, which have the objective of improving transparency of negotiations and strengthening protections for investors, in some cases developing activities that exceed the regulatory standards.

LAW

BANCO BPM

<p>PRODUCT GOVERNANCE</p>	<p>Distribution intermediaries acquire all information necessary to fully understand the characteristics of financial instruments produced by third parties in order to sell them in the true interests of customers, making assessments on the compatibility of the products with the customer's needs and characteristics.</p>	<p>In addition to oversight on the disclosure of product characteristics in line with regulations, for newly created financial products, analyses are performed on the effective correspondence with customer needs (in terms of risk, return, time horizon, etc.) and includes approval by a specific Committee. The advisory model takes into consideration the customer's objectives for the entire portfolio rather than for the individual product and proposes a broad offer for improved diversification.</p>
<p>TRANSPARENCY</p>	<p>Transparency on returns, costs, and fees related to investment or accessory services, and detailed information on portfolio returns and fees to intermediaries.</p>	<p>All information sheets for financial products that are intended for customers were updated and the inherent advisory costs were specified.</p>
<p>RISK PROFIL</p>	<p>Continuous process of understanding the customer that entails multiple stages of product cost/benefit analyses.</p>	<p>In relation to financial advisory, the sale of financial products is subject to the positive result of an interview with the customer to understand, not only his/her financial situation, but also the main data on personal assets and income: 1) knowledge of/experience with financial instruments; 2) risk appetite, including in terms of willingness to accept possible fluctuations; 3) willingness to incur capital losses, including on risky bond investments; 4) reference time horizon, in terms of availability of amounts invested.</p>
<p>INCENTIVES</p>	<p>More stringent elements are required to demonstrate and satisfy the requirement for higher service quality that is the basis of the incentive product companies pay to distributors, and which must be considered as part of the service cost.</p>	<p>The requirements identified are the advisory service and daily portfolio monitoring and the suitability indicators that are the basis of the Group's Advanced Advisory Model.</p>
<p>TRAINING</p>	<p>Requirements for knowledge and skills of personnel in the investment advisory service.</p>	<p>An assessment was carried out of all managers in order to determine if the regulatory requirements were met. Training on the new MIFID II regulations and the new advisory model was provided to approximately 4,600 employees in the Banco BPM network.</p>
<p>INFORMATION SYSTEMS</p>	<p>Strengthening of controls on any financial transaction involving a retail investor-customer, through entry and digital archiving of transactions - including those planned and not carried out - to be kept for at least 7 years and available for the regulatory authority within 72 hours of the request. Details on the type of buyer-customers must be sent to management companies.</p>	<p>Upgrade of all financial advisory system and archival registration of transactions carried out with customers, consistent with regulatory requirements.</p>



With regard to social impacts generated by the Group's loan disbursement, there is no policy for preventive screening for human rights issues in relation to customers receiving credit. However, as part of asset management, investment opportunities are offered to customers that take into account ESG criteria (environmental, social, and corporate governance). In 2017, more than 42,000 customers own units of the ethical investment funds Etica SGR and Eurizon SGR, with assets managed of over € 560 million.

PRODUCTS MEETING ESG CRITERIA DISTRIBUTED BY THE GROUP



ETHICAL FUNDS SELLED BY BANCO BPM GROUP

Etica SGR

- Etica Equity
- Etica Balanced
- Etica Balanced Income
- Etica Mixed Bond
- Etica Short-Term Bond

Eurizon SGR

- Eurizon Ethical Diversified
- Eurizon Ethical Bond
- Eurizon Ethical Equity/Global

In order to contribute to customers' **financial awareness**, a survey was carried out on the topics of greatest interest, involving both the employees of the Banco BPM network and a sample of individuals (about 2,000 including both customers and non-customers) representing the Italian population. Among the main findings, most individuals stated that better knowledge of the issues in the survey is useful (mainly banking products). Furthermore, it was found that the lack of trust in the banking sector is offset by a good relationship with the respondents' own banks (whose language is appropriate, but for which the informational role could be improved) and with their bank representative, which remains the main information channel for the purchase of new products/services.

The survey results, shared with the Bank's top management, will be the starting point for carrying out **local initiatives** specifically aimed at individuals.

CUSTOMISED PRODUCTS AND SERVICES

The CRM system allows customer profiles to be identified and managed in order to satisfy specific needs while creating value for the Bank.

The Group is able to offer a wide range of banking and financial products and services also for specific customer segments. In particular, special products for customers with specific requirements and needs, including current accounts for pensioners (approximately 25,000), savings accounts, and accounts for young people (over 55,000), and basic current accounts (over 7,100).

- BRUCOCONTO: savings account dedicated to children, without management fees and an interest rate that is very attractive for limited deposits
- LET'S BANK: current account aimed at adolescents between 12 and 17 years of age, which includes a series of banking services with no fees, to begin saving and managing their first payments independently.
- BASIC ACCOUNT: current account for individuals with no bank account and low-income households at low costs, to manage basic transactions that include services such as debit cards, phone and internet services, and banking and direct debiting.
- DEPOSIT ACCOUNT: current account at favourable conditions for new pensioner-customers, which includes a full range of services at no cost.



To facilitate access to banking products and services for visually impaired and blind people, the Group has:

- developed the mobile app for Apple devices (iOS systems) with accessible functions for visually impaired and blind users using Apple's VoiceOver technology. This application, developed in collaboration with the Italian Blind and Visually

Impaired Union of Verona and subsequently improved as a result of suggestions from a visually impaired customer, reads the information on screen and interacts with customers through a synthetic voice and a set of simplified commands;

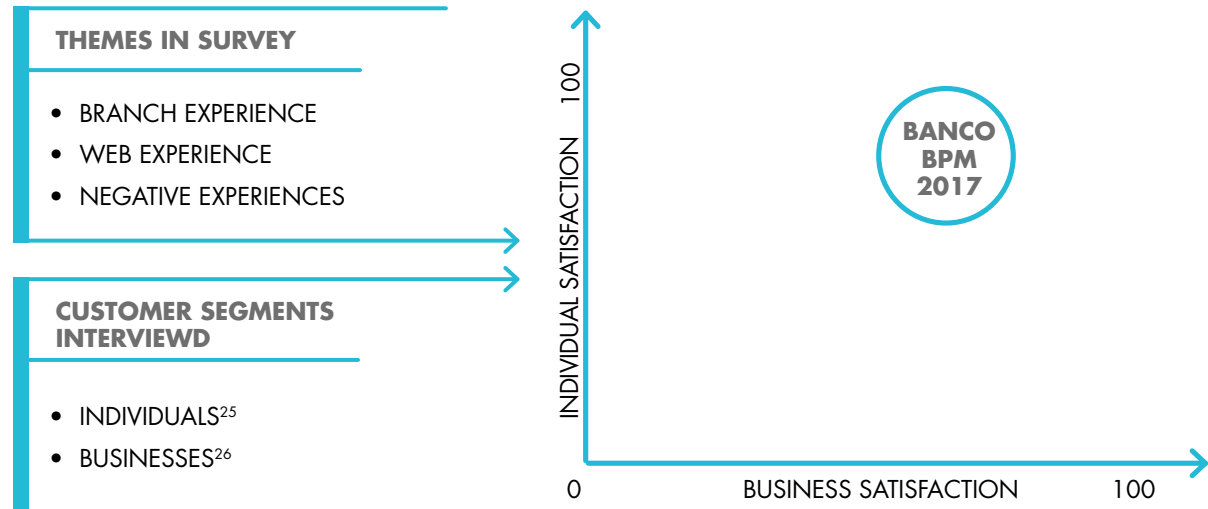
- provided visually impaired and blind customers with OTP (one-time password) devices equipped with an advanced

- display and a synthetic voice that speaks the generated code (through the internal speaker or via earphones for greater privacy).

In addition, nearly all ATMs comply with the characteristics (video height, keyboard height, positioning of lateral keys for the screen) envisaged in COGEBAN regulations for adequate accessibility of people with disabilities.

LISTENING AND CUSTOMER CARE

The quality of the customer relationship is monitored through indicators such as feedback on **customer satisfaction** and **complaints** from customers. Customer satisfaction is measured through telephone interviews conducted by a leading research institute. Specifically, a survey is conducted on different themes (e.g.: products, image, branches, etc.) in order to calculate a numerical index, from 0 to 100, which measures the degree of customer satisfaction (perceived quality). The results of the survey are published monthly on an internal portal available to the entire sales network and Bank management. The customer satisfaction indicator is one of the KPIs included in the employee incentive system. In 2017, approximately 140,000 Banco BPM customers and 40,000 BPM Spa customers were interviewed (on both networks, for both individuals and businesses). The interviews conducted confirmed more than satisfactory levels of satisfaction on both networks, though partly affected by the temporary impact of IT migration for BPM Spa customers.



The excellent results in 2017 for satisfaction recorded in almost all customer segments are confirmed by a high level of service (quality delivered) related to the customer experience in the branch, with performance superior to the benchmark in almost all aspects surveyed (entrance and reception, visual appearance and decoration, relationship and active listening; consultancy; and commercial orientation) and results, which although positive, **could be improved for the web experience.**

25. Universals and Affluents
26. Small businesses and POEs



Complaints represent an opportunity for dialogue and identification of areas for improvement. In 2017, more than half of complaints were accepted (fully or partially), with an average complaint processing time much lower than the maximum limit imposed by regulations, which provides 30 days for banking claims, 60 days for complaints regarding investment products, and 45 days for insurance products.

During the year, complaints related to IT migration, which ceased during the last quarter of 2017, and disputes relating to the sale of diamonds (764 complaints not included in the data shown in the Banco BPM Group Complaints table) were the most significant.

COMPLAINTS BANCO BPM GROUP	2017
Complaints received (number)	8,346
- of which for banking services	7,494
- of which for investment products	741
- of which for insurance products	111
Complaints processed ²⁷	8,438
- accepted	2,693
- partially accepted	1,984
- rejected	3,761
Complaint processing time (average days)	
- of which for banking services	17
- of which for investment products	19
- of which for insurance products	18

SALE OF DIAMONDS

With regard to reporting of customers interested in the purchase of diamonds **by the former Banco Popolare Group to IDB** (Intermarket Diamond Business), on 30 October 2017, the proceedings before the Italian Anti-Trust Authority ("AGCM") were completed, with a measure that verified the existence of an unfair commercial practice pursuant to arts. 20 and 21, paragraph 1, letter b), c), d) and f), as well as arts. 22 and 23, paragraph 1, lett. t) of the Consumer Code. This provision entailed the imposition of a financial penalty to Banco BPM for € 3.350 million (in addition to penalties for IDB and other reporting banks). The Bank paid the fine in accordance with the terms of law and, on 28 December, filed an appeal with the Regional Administrative Court against the Anti-Trust Authority's measure.

27. The number of complaints processed is different from the number of the complaints received because the number of complaints processed considers also of those complaints received in 2016 but processed in 2017.



IT INTEGRATION

In July, the IT integration for commercial transactions was completed, involving over 1 million customers and approximately 600 branches of Banca Popolare di Milano Spa. The malfunctions that occurred were not related to technical or security issues of the information system, but, for the most part, were due to changes introduced in the new user interface and, in limited cases, to some types of prepaid cards. To support this sensitive phase, the following activities were carried out:

- training and coaching activities for 3,000 resources, including over 2,000 recipients of specific training activities by role, aimed at learning new procedures, and over 1,000 resources involved in tutoring, to support Migration start-up.
- Preliminary communication and information campaign using, in addition to explanatory emails and communications, a dedicated website with operating instructions and a video tutorial for the first access to home banking.
- Strengthening and expansion of customer assistance channels, such as the call centre enhancement for response and user re-contact capabilities, with the extension of service hours, increase in the total workforce and concentration in the support areas most affected by the change.

SECURITY OF THE SERVICE AND DATA PROTECTION

In 2017 the **IT integration** process was carried out, while **maintaining a high level of security**, which is considered a fundamental element for the growth, innovation, and competitiveness of the business. In this context, pre-existing solutions were standardised, adopting the best solutions in the original IT systems and adapting the systems to new regulations. The activities performed focused on applying adequate technical-organisational-procedural measures regarding digital identity, cyber incidents, and new mobile applications. In addition, initiatives continued for fraud prevention, through the use of increasingly sophisticated

automation (i.e., analytics), in the field of identity management and security architectures for the development of advanced security mechanisms to protect assets managed, as well as training and awareness initiatives. In relation to **business continuity**, the Group focused on the oversight and management of potential negative events through resilient solutions, continuous support to process/activity contact persons, and monitoring employees' skills and training activities. **In 2017, there were no violations that could have caused serious damage.**

The Group manages personal data in compliance

with relevant legislation. In particular, in the area of privacy, the General Data Protection Regulation (GDPR) represents an important innovation, as the new European Privacy Regulation which will take effect from 25 May 2018 introducing new rights for individuals, new oversight roles, and new obligations for companies.

In 2017, a report and a complaint were presented to the Privacy Guarantor, for which the authority determined that the Group was not responsible.



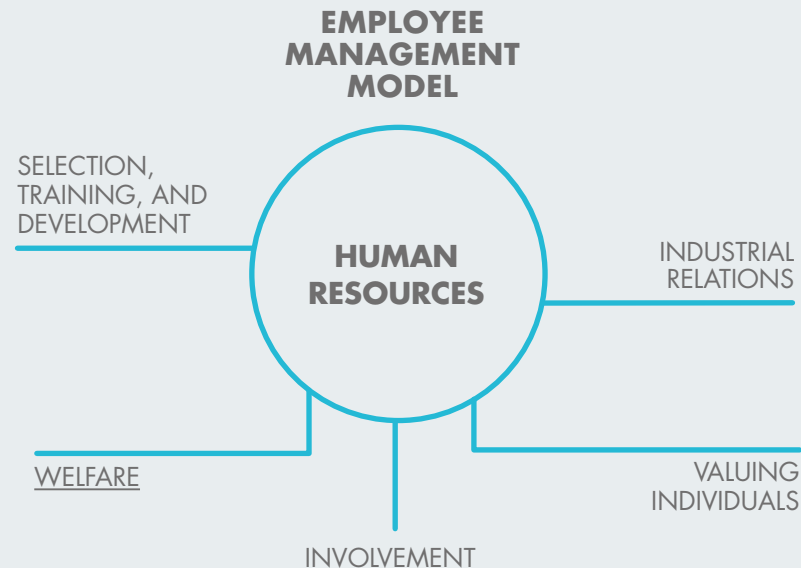
DEVELOPMENT, EMPLOYEE INVOLVEMENT AND INDUSTRIAL RELATIONS

One of the challenges of the merger Business Plan is not only maintaining the level of employment, but also the quality of work.

In reality, the merger of the Banco Popolare and BPM Groups did generate certain overlaps, redundancies, and the need for new professional roles, which represents an important objective for the Group.

This challenge was addressed in coherence with a policy aimed at valuing employees, recognising and developing skills, providing motivation and fostering a system of valuable relationships that would also benefit corporate objectives²⁸.

Respect for the individuality and the dignity of each employee is critical to develop a work environment based on mutual trust and loyalty. Personnel are hired and managed without discrimination and harassment, in compliance with objective criteria of skills and professionalism, ensuring equal opportunities for all and in observance of governing regulations in the field of labour law. A positive working environment is promoted, which values individuality and interpersonal relationships and encourages the strengthening of the sense of belonging and of team spirit²⁹.



28. Governance regulations - general principles

29. Banco BPM Code of Ethics



Main risks	Mitigating actions/policies applied
Unsuitable professional profiles and loss of key resources	<ul style="list-style-type: none"> • Proper selection, training, and valuing of individuals
Conflict between social partners	<ul style="list-style-type: none"> • Dialogue and negotiation with trade unions (OOSS).
Health and safety (physical and psychological)	<ul style="list-style-type: none"> • Organisational measures, psychological support, controls and ad hoc regulations. • Investments for branch security. • Training activities aimed at raising awareness and individual responsibility in relation to specific risks as well as possible role assignments.

The personnel management model is designed to follow employees throughout their life cycle with the company and create long-term relationships: almost all employees are hired on a permanent basis and are covered by the national labour agreement for credit institutions, as well as by supplementary agreements. At the end of 2017, there were more than 23,000 Group employees, the majority of which concentrated in Lombardy and Veneto. Approximately 65% of employees are dedicated to the commercial network and almost all employees have a secondary school diploma or a university degree.

Group employees	2017
Total employees (number)	23,263
Breakdown by contract (%)	
Permanent	99.4
Fixed-term	0.1
Apprentice	0.5
Total	100
Breakdown by gender (%)	
Women	44.4
Men	55.6
Total	100
Breakdown by geographical area (%)	
Northern Italy	80.2
Central Italy	13.2
Southern Italy and Islands	6.5
Foreign	0.1
Total	100

47 years
 AVERAGE AGE
 women 45
 men 48

20 years
 AVERAGE YEARS OF SERVICE
 women 20
 men 21

36%
 EMPLOYEES WITH UNIVERSITY DEGREES
 38% women
 34% men

1,532
 EMPLOYEES IN PROTECTED CATEGORIES
 With diploma or university degree 86%

914,000
 TRAINING HOURS
 46,5% women
 53,5% men



SELECTION, TRAINING, AND DEVELOPMENT

The banking sector is experiencing in a phase of profound change that in the coming years will result in the need to acquire interpersonal, technology, and cross-functional skills in various areas. For this reason, selection and training of employees has focused on fostering integration between the two Groups, while at the same time determining the professional and managerial skills that are considered critical for the future. In 2017, 161 people were hired, most of whom were young and with a high level of education (over 70% have a university degree, master's degree, or doctorate), while 1,500 employees were terminated (almost 80% of the Solidarity Fund).

CONTEXT FACTORS

- Consumers searching for the best solutions
- Digital transformation
- Need for rapid decisions and answers
- Reputation and communication are essential
- Need for managerial mindset
- Horizontal development needs

DISTINCTIVE SKILLS FOR THE FUTURE

- Social and inter-cultural intelligence
- Critical, innovative, and proactive thinking
- Ability to plan and achieve a goal
- Digital competencies
- Cross-functional and collaboration skills
- Self-motivation

2017 BANCO BPM GROUP	HIRES	TERMINATIONS
Total (number)	161	1,506
Breakdown by gender (%)		
Hiring of men	49.7	62.7
Hiring of women	50.3	37.3
Total	100	100
Breakdown by age (%)		
Less than 30 years old	81.4	1.9
from 30 to 50 years old	13.7	9.5
over 50 years old	4.9	88.6
Total	100	100
Breakdown by geographical area (%)		
Northern Italy	76.4	83.5
Central Italy	14.9	10.9
Southern Italy and Islands	8.7	5.6
Total	100	100



With regard to training, the main initiatives focused on support for integration and the business through the launch a professional retraining programme aimed at ensuring employability and developing distinctive skills.



SUPPORT FOR INTEGRATION AND THE BUSINESS

- Training on new commercial roles and the reorganisation of BPM Spa private banking network into Banca Aletti.
- Support for the process of IT migration of the network (retail and corporate) and central structures (particularly loans, NPL, operations, audit, and anti-money laundering).
- Legislative and regulatory changes regarding MIFID II and ESMA on the assessment of financial knowledge and skills.
- Risk culture.
- Specialised training (e.g., management of non-performing loans, debt collection and complex credit transactions).
- Mandatory and qualification training (e.g., anti-money laundering, workplace safety, administrative liability of institutions, etc.).

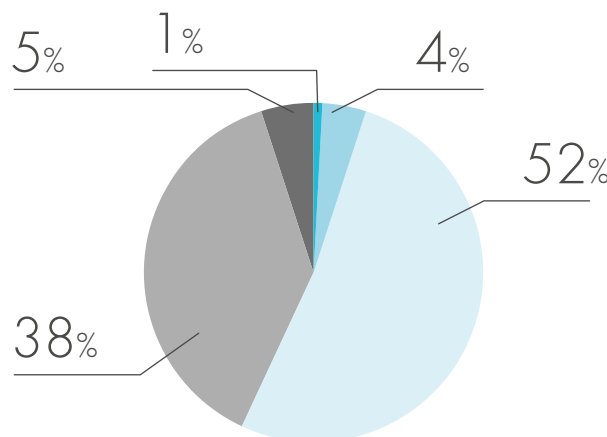
DEVELOPING DISTINCTIVE SKILLS FOR THE FUTURE

- Development of cross-functional skills (e.g., digital skills, negotiation skills, work flexibility, definition and achievement of objectives).
- Begin a reflection on the culture of inclusion and the focus on people.
- Initiatives for Brand Ambassadors on brand awareness; digital innovation & omnichannel banking; social media strategy; soft skills (public speaking, negotiation, planning, motivation).
- Training programme to support young people in recognising their talents and behavioural systems.

In 2017, 914,000 hours of training were provided at Group level, over 39 hours per employee (41 for women, 38 for men). In particular, the average training hours increase as the job classification decreases: 15 hours for executives, more than 35 hours for managers, and over 42 hours for employees in professional areas and other employees.

More than 60% of training was held in the classroom and concerned topics not legally mandated but rather based on the Group's needs and with the support of specialised external trainers. Furthermore, about half of the training hours were dedicated to developing technical-professional skills.

TRAINING CONTENT



- Managerial
- Commercial
- Technical-professional
- Mandatory
- Relational-skills development



INDUSTRIAL RELATIONS

Constant dialogue with social partners played a crucial role in the integration process, which allowed us to implement a set of actions to combine operational efficiency with attention to individuals.

Management of redundancies and generational turnover

In addition to the 2,100 voluntary terminations included in the Business Plan through the Solidarity Fund (SF), an additional 76 Group employees were granted access to the Fund, allowing the business to bring forward into 2017 the hiring of 161 individuals against a total of 400 forecasted over the duration of the Plan. Participation in the SF has been supported by subsidies of particular social value for the relevant parties, better than measures envisaged by the law: in addition to the extraordinary benefits due according to the measures envisaged for the industry, recognition of a financial programme that ensures all employees involved 85% of the last monthly salary and continuation of the payment of employer contributions for supplementary health care and supplementary pensions.

Group reorganisation activities

In relation to changes in the credit sector, a dialogue was initiated with trade unions (with a total duration of 50 days, as required by art. 21 of the CCNL of 31/03/2015) to align the Group's companies with the organisational model approved by the Parent Company and to optimise operating efficiency, including by improving skills and launching the new model for the Group's commercial and distribution network starting in 2018.

Work-life balance

Work flexibility measures were initiated and implemented, such as the part-time contract and the partially paid voluntary leave, combining the need to contain labour costs in the Business Plan with the need for work-life balance.

Professional training and redeployment

Confirming the focus on training as a tool for professional development and redeployment, a specific agreement was developed for access to the Inter-Professional Joint Fund to support 3 training programmes aimed at promoting the culture of change. Furthermore, training activities have been planned for the management or development of equal opportunity and diversity.

Company Social Bonus

As part of governing regulatory provisions on variable compensation, representational economic amounts may be paid to be used for goods and services.

Workplace health and safety

In the framework of the requirements envisaged in Italian Legislative Decree 81/2008 for the prevention of health and safety risk factors in the workplace, a dialogue was initiated with trade unions to define a single Group system of procedures for carrying out the duties assigned to the Employee Safety Representative.

Launch of second-level negotiations

In the last quarter a first important part of the unified second-level legislation was defined through dialogue with trade unions regarding professional roles for the new commercial network model, mobility, work-life balance (part time, periods of leave, bank hours, and smart working).



WELFARE

Although the characteristics are still different, in 2017 the main corporate welfare initiatives for former Banco Popolare and former BPM employees were:



As part of work-life balance, certain measures have been promoted to help reconcile work and private life, such as work schedule flexibility, part-time contracts, and leaves. In 2017, 3,275 employees took advantage of part-time schedules, of which 95% were women, and 5,132 employees benefited from the partially paid voluntary leave, for an average of 9 days each. In addition, testing on "smart working" continued, which entails working from home or a branch near home, allowing 55 colleagues (excluding those who are in permanent telework arrangements) to save time, fuel, and CO2 emissions.

This also includes the **Parenting Project**, a programme to support parents on maternity or parental leave, designed to ensure continuity in the relationship with the company before, during, and after the leave, with the aim of supporting professional skills gained over time and valuing new skills acquired in the "role" of parent.

With regard to **supplementary pensions**, employees may voluntarily participate in the Group's reference pension funds (Bipiemme Pension Fund, Arti & Mestieri Pension Fund, Banco Popolare Group Pension Fund), with the benefit of a contribution from the Bank.

ARES cooperatives (former BPM) and Group social clubs (former BP) offer **cultural and recreational activities** as well as summer holidays for children, including at favourable conditions to their members (Group employees and their families).

The **Social Bonus** represents additional economic compensation to supplement normal remuneration and allows employees (excluding executives) to access, through a dedicated portal, a "representational amount" to cover goods and services such as books and expenses for children's education, vouchers, as well as health care and supplementary pension assistance.

Insurance policies are also stipulated to protect employees in the event of an accident in and outside the workplace and in the event of disability resulting from illness, as well as covering the repayment of outstanding debts contracted by employees with the Bank in case of premature death and coverage of the risks of non-occupational accidents for employees participating in the redundancy fund.

The physical and mental **health and safety** of employees is a key element affecting the quality of life, but also has an impact on organisational well-being and on the corporate risk system and, for this reason, is monitored by the Group. Personnel, whose physical security and moral integrity are considered primary values, are guaranteed working conditions that respect personal dignity, in suitable working environments. Employees can also take advantage of financial support for medical expenses.



To promote healthy lifestyles, an important collaboration was developed in 2017 with AVIS Milan, which allowed many employees in the Milan offices to donate at work, resulting in the collection of nearly 80 blood bags and, at the same time, perform a check on their own state of health. Given the importance of the initiative, the Bank plans to extend the project to other Group offices.

Other initiatives for promoting and protecting well-being include an **internal psychological support service** and the **Persona Project** (in collaboration with the Don Calabria di Verona Multipurpose Centre) that offers **psychological treatment** to any employees who request it, in order to develop a plan to improve their personal and professional lives. Particular attention is given to employees involved

in robberies, which have decreased significantly in recent years following investments in branch security (23 incidents in 2017), including a specific psychological and/or medical assistance programme aimed at emotional guidance and preventing the manifestation of post-traumatic stress disorders.

At the Group level, there were 295 **accidents**³⁰ in 2017 (of which 55% involved women and 45% men), 77% of which are ongoing, 2 of which were very serious and caused the death of two men in Lombardy. Absence days due to accidents represent about 3.5% of the total, while the absence due to **illness** represents more than 80% of total absence. The absenteeism rate³¹ was 4% for the Group.

In particular, the Group guarantees a work environment that complies with relevant regulations by monitoring, managing, and preventing risks associated with professional activities. Measures envisaged by specific regulations regarding risk assessment and mitigation were carried out, preventive measures were reviewed, and action plans relating to organisational factors (technology, organisation, operating conditions) were implemented. These activities were accompanied by training initiatives involving 7,200 employees for a total of 43,000 training hours.

W@W “Well-being at Work” is an awareness initiative for healthy lifestyles aimed at Group employees to be carried out through intranet communications, newsletters and posters, customised training courses, involvement of company cafeterias, and reorganisation of refreshment points. The goal is to raise awareness on the importance of well-being as a fundamental tool that can influence the individual’s lifestyle, generating positive effects on work efficiency.

WORKPLACE SAFETY	MEN	WOMEN	TOTAL
Accident rate ³²	6.20	10.53	8.02
Severity index ³³	0.17	0.28	0.22

ACCIDENTS (%)	MEN	WOMEN	TOTAL
Northern Italy	71.4	79.6	75.9
Central Italy	20.3	14.8	17.3
Southern Italy and Islands	8.3	5.6	6.8
Total	100	100	100

30. Health and safety data does not include companies in liquidation, as well as Banca Aletti & C. (Suisse) S.A. and Terme Ioniche S.r.l., as they are currently not included in the Group’s reporting systems.

31. Absence days/working days in %

32. number of accidents/total working hours * 1,000,000.

33. days lost due to accidents/total working hours * 1,000.



INVOLVEMENT

Involving people is an increasingly critical factor for the success of organisations, particularly during periods of change, in which it is necessary to build and share a common business culture.

The corporate intranet and internal events have proved to be useful tools for promoting and sharing objectives and strategies, laying the foundations for the development of a shared identity and making information timely and accessible to all employees. Among the events and initiatives carried out in 2017, the following were particularly important:

- the "Road Show", a tour to present the new Group, held in the Bank's main regions and which will continue in 2018;
- involvement events, including team building exercises, organised for management (e.g., workshop for Banca Aletti employees and events involving network colleagues);
- "Lunch with Giuseppe Castagna", an informal lunch, in which a small group of employees has the opportunity to meet the Managing Director with the aim of stimulating dialogue and discussion, fostering integration and understanding the most important issues;
- recreational activities and sharing of social initiatives, aimed at reinforcing the sense of belonging and facilitating contacts between colleagues from different areas, such as "Jingle Bank", (Christmas event for employees' children) and "Volontariato" (corporate volunteer days during working hours).

INVOLVEMENT NUMBERS

PARTICIPATION IN INITIATIVES AND EVENTS



Lunch with Giuseppe Castagna:

100 employees

Main corporate events:

1,000 employees

8 Road Shows:

2,750 individuals registered

Business volunteerism:

305 employees

Jingle Bank:

over 5,000 children involved

CORPORATE INTRANET



Home page views:
over **3.6 million**

Views of top news:
around 592,000

VALUING INDIVIDUALS

The performance evaluation is an opportunity for dialogue between the employee and his/her direct manager in which the quality and the methods of work and the results achieved are measured.

In 2017, almost all the Group's employees were evaluated (over 22,000 people, equal to 95% of the total) in reference to the previous year, although through different systems.

EMPLOYEES EVALUATED BY GENDER AND CLASSIFICATION (%)	MEN	WOMEN	GROUP
Executives	93	97	94
Managers	98	97	97
Professional roles and other personnel	95	93	94
Total	96	94	95



Employees expect to see their professionalism recognised through **economic benefits**: the CCNL and the second-level negotiations applied in the business, without distinction between men and women, allow, in compliance with remuneration policies in force, subject to the occurrence of predefined financial parameters consistent with the reference framework for determining the risk appetite, envisage the payment of variable compensation that the managers of the structures assign to employees who have most distinguished themselves in achieving their structure's qualitative-quantitative objectives.

There are no significant differences in the remuneration of men and women in the categories "managers" and "professional roles and other employees", which together account for almost 99% of the workforce. On the other hand, a gender difference of 23% is found at the executive level.

With regard to **diversity**, a process of inclusion was launched in 2017, designed to make the individual the focus of the organisation, identifying the Group's unique success factor as the individual characteristics of its resources and talents. In particular, training initiatives are ongoing that are designed to achieve long-term cultural-organisational change, aimed at diversity, well-being, and inclusion, through the creation of a group of "cultural ambassadors" and raising awareness with managers.

A series of initiatives has been launched with regard to **young people** (under 30), representing almost 4% of the company employees and more than 80% of new hires, nearly all of which have a high level of education. Their induction includes training courses concerning both technical and cross-functional skills (soft skills), essential for development over the long term.

BREAKDOWN OF EMPLOYEE CATEGORY BY GENDER

Executives



Managers



Professional roles and other employees



● Women

● Men

RATIO OF FEMALE/MALE COMPENSATION (EXCLUDING PART-TIME)	2017
Executives	0.77
Managers	0.92
Professional roles and other employees	1

BREAKDOWN BY GENDER AND CLASSIFICATION (%)	Men	Women
Executives	2.4	0.3
Managers	48.0	26.2
Professional roles and other employees	49.6	73.5
Total	100	100

BREAKDOWN BY AGE AND CLASSIFICATION (%)	< 30 years	30-50 years old	>50 years old
Executives	0	0.5	2.7
Managers	0.2	30.4	51.1
Professional roles and other employees	99.8	69.1	46.2
Total	100	100	100



COMPANY INTEGRITY AND FIGHT AGAINST CORRUPTION



FUNDAMENTAL PRINCIPLES OF THE CODE OF ETHICS

INTEGRITY AND HONESTY

Compliance with applicable laws, internal regulations, and professional ethics; proper management of personal data and confidentiality of information.

IMPARTIALITY

Prohibition, in internal and external relations, to adopt any form of discrimination related to nationality, gender, age, physical or mental disability, sexual orientation, political or trade union opinions, philosophical tenets, or religious beliefs.

PROFESSIONALISM, PROMOTION, AND PROTECTION OF RESOURCES

Promotion and pursuit of the utmost professionalism for directors, auditors, employees, and collaborators; hiring through objective criteria and equal opportunities; prevention and sanctioning of behaviours harmful to the individual; health and safety, both physical and psychological, for people working in the Group.

ENVIRONMENTAL PROTECTION

Awareness of the environmental impact of our business.

TRANSPARENCY AND COMPLETENESS

Timely, accurate, and understandable communication of both financial and non-financial information.

KEY REGULATIONS

- Organisation, Management, and Control Model pursuant to Italian Legislative Decree 231/01 and Code of Ethics
- Procedure Regulation for transactions with Related Parties
- Procedure Regulation and Policies for controls on risk activities and conflicts of interest with Related Parties
- Anti-Corruption Regulation
- Anti-Money-Laundering Regulation

For additional information: <http://www.bancobpm.it/corporate-governance/documenti-societari/>



Company integrity is embodied in the ability to govern actions consistent with the stated principles and values and with the system of rules and laws internal and external to the organisation.

Models, codes, standards, and procedures monitor conduct in the various operational areas, all published on the company intranet and continuously updated, for which control functions regularly verify compliance and application, and training initiatives are developed to explain their content.

The general principles governing the relations between Banco BPM and stakeholders are contained in the Code of Ethics, which is an integral part of the Organisational, Management and Control Model pursuant to Italian Legislative Decree 231/01, with the aim of preventing crimes committed in the interest or for the benefit of institutions. This regulation includes, among other things, a ban on donations to political parties, trade unions, and initiatives that have a predominantly political purpose.

In some areas that are particularly sensitive as a result of the activity performed, regulatory requirements have been extended by issuing voluntary self-regulatory standards, such as those concerning anti-corruption, anti-money laundering, terrorism financing, and conflicts of interest.

All Banco BPM Group companies are required to incorporate the system of rules envisaged, including the organisational safeguards the Group has decided to adopt voluntarily, adapting them to the specific nature of the activity carried out.

Respect for human rights is part of proper corporate conduct. The Code of Ethics requires that the Group commits to comply with regulations in force in the various business areas and the principles regarding the protection of human rights, employment protection, and the fight against corruption, organised crime, and

Main risks

Mitigation actions/policies applied

Non-compliance with laws and regulations

- Organisational controls for monitoring external regulations and internal updates/adaptations
- Organisational controls to check the proper application of standards
- Employee communication and training

Non-compliance with self-regulatory standards

- Organisational controls to update standards and controls on the proper application of standards
- Employee communication and training

terrorism. Any conduct, in exercising business activities, that is contrary to rules related criminal offences should be understood as a violation of the Code of Ethics.

The control system, consisting of the set of rules, functions, resources, processes, and internal procedures, plays a central role in that it:

- **represents a fundamental component of knowledge to guarantee full awareness and responsibility for the effective supervision of business risks;**
- **guides strategies and company policies and, thus, the organisational context;**
- **monitors the functionality of management systems and compliance with prudential supervisory authorities, supporting the promotion of a proper culture of risk, legality, and corporate values.**

The players involved in the Internal Control System are the corporate bodies, committees, Board of Directors and management committees, corporate control functions, as well as all functions that, by legislative,

regulatory, statutory, or self-regulatory provisions, have control responsibilities.

The risk culture has a prominent position and applies not only to corporate control functions but involves the entire organisation (corporate bodies, structures, hierarchical levels, personnel), in the development and application of methods for identifying, measuring, communicating, and managing risks.

Control over the functioning and compliance with the Organisation, Management and Control Model of each Group company that has a 231/01 system is the responsibility of the relevant supervisory authority, to which reports are sent on the commission of offences or events and/or behaviours that are not consistent with the adopted model.



An additional channel for reporting any behaviour that does not comply with the rules **is the Violation Reporting System (or Whistleblowing)**, which allows each employee to report actions or events that may constitute a violation of the rules governing banking activity, ensuring confidentiality and protection of the parties involved.



VIOLATION REPORTING SYSTEMS

- Reporting system to 231/01 Supervisory Board: 4 reports were received in 2017,
- for which 1 report led to in-depth analyses.
- Violation Reporting System (Whistleblowing): 5 reports were received in 2017, for which 3 reports led to in-depth analyses that are still underway.

Banks play an important role in preventing corruption and combating money laundering, which are important phenomena because they limit the development and growth of society.

The contribution that the banking system, in general, can provide is represented by its central role in the exchange of cash flows, in addition to the governance of its behaviour as a business organisation active in its communities.

The Group's clear position on these issues is expressed, firstly, in the Code of Ethics, where any behaviour that supports corruption and/or collusion is clearly forbidden, as is maintaining relationships with parties implicated in unlawful activities, among which, in particular, money laundering.

In order to adopt a global approach to preventing the risk of money laundering and corruption, Group companies have adopted self-regulatory standards that extend and reinforce the regulatory provisions, with particular reference to risk-adjusted analyses performed in relation to counterparties.

Cases of suspected corruption are analysed and communicated to the functions involved. Similarly, cases of suspected money laundering are identified and managed through specific IT applications and/or through anomaly indicators, and each suspicious transaction/counterparty results in the adoption of stricter procedures, up through the suspension or termination of the business relationship. The Anti-Corruption Regulation and the Anti-Money Laundering Regulation, published on the internet and on the company intranet and brought to the attention of all employees, require senior managers, employees, collaborators, and third parties connected

in any way with the Group, to adopt behaviour inspired by sound principles of honesty, integrity, propriety, professionalism, transparency, and loyalty, in order to combat, in the most effective manner possible, harmful practices.

With regard to anti-corruption, the integration process offers the opportunity to redesign those processes at greatest risk, also taking into account industry best practices.

With regard to anti-money laundering, the creation of Banco BPM Group entailed the need to structure a new Group Anti-Money Laundering Model to provide a suitable and appropriate response to oversight objectives for the risk of money laundering and financing terrorism. The Group's control functions prepare annual and/or multi-year audit plans based on the assessment of, among other things, the corruption and money laundering risks inherent in the various operating areas and/or regulatory frameworks.

RESULTS



Anti-corruption:

- Over 91,600 training hours provided, involving more than 14,000 employees;
- No. of terminations for corruption: zero.



Anti-money laundering:

- Over 80,600 training hours provided, involving more than 9,700 employees;
- Automatic checks as part of collecting/modifying identification data prior to opening of ongoing relationships and continuous controls.



CONTRIBUTING TO THE COMMUNITY

Banco BPM was created from the merger of historic cooperative banks with a strong tradition of supporting the economic and social fabric and even after the change in legal form, has maintained the commitment, typical of cooperative banks, to strengthen local communities. In fact, the Articles of Association provide for the **contribution of up to 2.5% of net profit for the purpose of assistance, charity, and public interest** in the regions in which the Bank has the greatest presence, assigning to each of them, directly or through statutory foundations, a fixed quota.



COMMUNITY MANAGEMENT MODEL



STATUTORY FOUNDATIONS AND RELATIVE REGIONS

Banca Popolare di Lodi Foundation:

Lodi, Parma, Cremona³⁴, Piacenza, Genova, Tuscany and Umbria.

Banca Popolare di Novara Foundation:

Piedmont, Lazio, Central/Southern Italy.

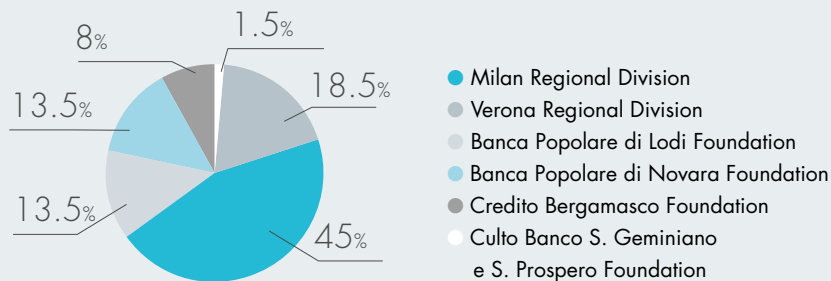
Credito Bergamasco Foundation:

Bergamo, Brescia and Como.

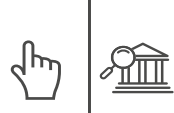
Culto Banco S. Geminiano e S. Prospero Foundation:

Emilia Romagna and Pesaro Urbino

ALLOCATION OF NET PROFIT ACCORDING TO THE ARTICLES OF ASSOCIATION



34. In accordance with the Articles of Association, BPL Foundation donates 1/8 of its quota to the BP Cremona Foundation and the Popolare Crema Association for the region.



With regard to 2017, based on the 2016 financial statements, it was not possible to allocate a portion of profits to the foundations for charitable purposes. Nevertheless, drawing on available funds, **the Group allocated over € 2 million to the community in terms of donations and sponsorships for socially important initiatives³⁵.**

The recipients are chosen based on the Group’s reference values, the merit of proposed initiatives, and social needs to which it chooses to make a contribution. In carrying out the various actions that Banco BPM undertakes, particular attention is given to avoiding possible reputational risks, as well as risks of corruption and conflicts of interest. To accurately monitor and control the benefit from the supported projects, the integrity of the beneficiary entities, and the social and economic impact of each contribution, the procedure for allocating donations granted directly by Banco BPM and sponsorships are ensured through formal and detailed processes, which involve the Donation Disbursement Committee and the Sponsorship Committee, respectively. Several **cultural** initiatives were supported in 2017,

including the collaboration with “La Milaneseana”, a free series of events to experience and express knowledge and arts, and “Fuoricinema” in Milan, a charitable film marathon, in which the public can meet actors and directors and participate in a charity auction.

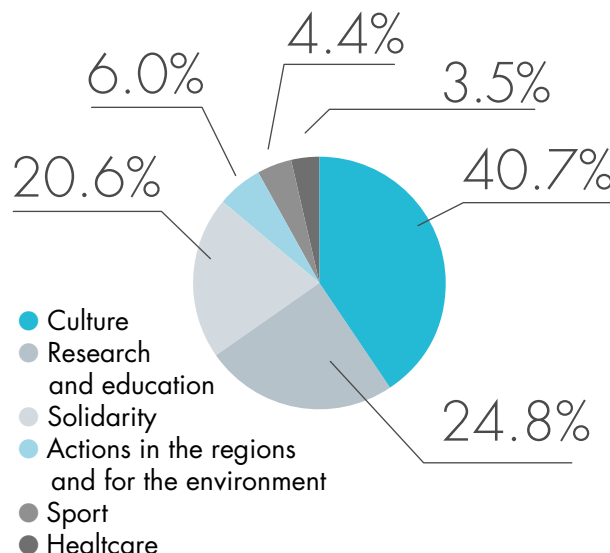
The conference of international authors, known as

“Strange Couples” was also supported, in which two authors, through readings and performances, relate the stories of great couples from the world’s literary classics to participants. The events were held in Milan, Verona and Naples.

In Veneto, important cultural events were held in the areas of theatre and entertainment, such as the 69th edition of the “Veronese Theatrical Summer” and the “Festival of Beauty”. Banco BPM’s organisational and artistic contribution in setting up the exhibition “Nel Segno dell’Ottocento” at the CASTELVECCHIO Museum in Verona: 68 drawings by various artists, mostly unpublished and surprisingly beautiful, which enabled the visitor to discover Italian nineteenth century graphic art.

Support continued for the major philharmonic orchestras such as the LA VERDI orchestra, the ARENA Foundation in Verona, the Verona Philharmonic Theatre winter season, and the ROSSINI choir in Modena.

Also, in relation to culture, the 15th edition of the “Tocati - International Festival of Street Games” was



Main risks	Mitigation actions/policies applied
Reputational and untrustworthy counterparties	<ul style="list-style-type: none"> • Verification of the validity of the initiative and the members of the governing bodies of the proposing entities. • A priori exclusion of certain types of applicants and initiatives related to controversial subjects.
Conflicts of interest and corruption	<ul style="list-style-type: none"> • Verification of related parties through specific, centralised procedures. • Prohibitions against cash payments and against individuals as beneficiaries. • Current regulations that incorporate the provisions contained in the Regulations on Anti-Money Laundering and Anti-Corruption.

35. The value of donations and sponsorships differs from the value in the table of economic value generated and distributed, under the item “Economic value distributed to the community and for the environment”, as it shows the amount effectively disbursed in 2017, based on cash flows.



held, one of the most important events for traditional games around the globe, which welcomes over 250,000 people to Verona every year.

Local initiatives have also been supported, significant for their community structure, such as the O CASTELLO Cultural Association of Chiavari (Genova), which puts on shows in the local dialect, and the STRADA SAN GERMANO Association, in Tavullia (Pesaro-Urbino), which organises several cultural initiatives and events in San Germano, including a micro-festival, a theatrical series, and drama programmes with schools.

Education and research are key elements for the professional future of young people and for the country. Promoting projects in these areas is an important and necessary commitment for institutions such as Banco BPM, as they support and develop the structure of local communities.

In particular, two projects dedicated to educational and professional guidance for young people were funded in 2017: "Cartolandia" in Bergamo and "Itinera" in Verona, the latter organised by the Provincial Academic and Career Guidance Committee. Support was also provided through certain scholarships with the University of Modena and Reggio and the University of Verona, the latter for three-year research doctorates, and with the INTERCULTURA charitable foundation, for qualifying students. In addition, collaboration continued with the University of Verona to carry out research on business networks and a degree course on the management of family businesses was supported.

In the Modena region, the "Con merita" project continued, now in its third year, which has provided about seventy scholarships to deserving students in their last year of secondary school.

In terms of youth unemployment and hardship, issues closely related to education and training, an interesting

project, "Mani in pasta", was funded, in collaboration with the City of Milan. The project aims to provide practical assistance to achieve career independence, creating vocational training courses for young people who are not in school, not employed, and not receiving any kind of training (known as NEET), many of whom are very young immigrants, who are more at risk, as they are far from their social and cultural support systems.

An important project was deployed in 2017 in which Banco BPM joined AIRC, the Italian Association for Cancer Research, to finance various initiatives: "Azalea della Ricerca", "I Cioccolatini della Ricerca" and "Giovani Ricercatori". The latter, created during the Christmas season, was also supported through a communication campaign across the Banco BPM branch network, on websites, social channels, at Group ATMs and through free materials distributed at Christmas. The campaign, entitled "Grazie", has provided visibility to 12 projects by young researchers and invited customers to support AIRC together with Banco BPM, through a dedicated current account. A play was also organised in Rome with the actor Enrico Brignano to support the project.

Solidarity initiatives include the continuation of funding for the refurbishment of CASA CHIARAVALLE, the largest property ever confiscated from the Mafia, whose renovation will result in housing and offer job opportunities for people in need.

The collaboration with ABIO Children in Hospital Association was especially interesting, and involved not only a financial contribution, but also the "Jingle Bank" event, a day in which employees celebrate Christmas in the office with their children. At the end of the day, numerous games were donated to the association, which in turn provided them to children in paediatric wards

throughout the country. In Reggio Emilia, two impressive organisations were supported: the Durante and Dopo di Noi Foundation, which helps people with disabilities of various kinds to develop independence and limit their reliance on others, and the Dar Voce Association for the "All inclusive sport" project, which aims to include children and youngsters with disabilities in the sport clubs of Reggio Emilia.

In the **area of sport**, support for the "Acquario" project continued in 2017, a programme that prepares certain athletes prior to major international competitions and, at the same time, supports the growth of sports offered in Milan for people with disabilities. In addition, funding is provided to numerous local sports associations to promote the values of sport among children and others; these include ASD PAPERINO, a football school for children in Prato, the LUCCA FRIENDS OF BASKETBALL, ASD TREPPO GRANDE, in Udine, to support amateur youth sport and the CHIRIGNAGO amateur athletic association in the Venice region, which organises the "Run for Monica" commemorative.

In the **healthcare** sector, the Group supported various initiatives to purchase medical equipment, such as defibrillators and ambulances, or to support specific healthcare organisations, which through their work, create a support network for the community, in areas not covered by public healthcare. Among these we report the USPIDALET Association of Alessandria, whose objective is to provide treatment with innovative equipment, in a comfortable environment, without having to make long and expensive trips to distant healthcare facilities, contributions to DOCTORS WITHOUT BORDERS, and DOCTORS FOR PEACE for the "Right to Smile" project, providing oral care for elderly people living in poverty.



The **actions in communities** provide concrete help to specific organisations in diverse and broad-ranging initiatives, including: renovation of heating systems for parish meeting rooms, refurbishing a war memorial with the National Alpine Association, and contributions to various grass-roots organisations. Lastly, the Group has maintained its collaboration with FAI, focusing in particular in 2017 on the project "Remember to Save Italy", which aims to protect the artistic and natural heritage of Italy.

The model for action in applied by Banco BPM Group is expressed not only in economic support: in fact, the

companies of the Group regularly make their sites as well as cultural and professional resources available to non-profit organisations, schools, universities, and municipalities, cultural and professional fields to achieve objectives of significant social value, to promote culture, education and research, and to spread the positive values of sport. In particular, the regional foundations are provided offices, technology infrastructures and human resources, free of charge.

The **artistic assets owned by the Group** are also made available to the community through tours of offices and are loaned for free for exhibitions and artistic events. There are about 20,000 works,

consisting mainly of paintings, prints, sculptures, and objects such as coins, corals, and furniture, which belong to different eras ranging from the fifteenth to the twenty-first century. Some of the artists include: G. F. Barbieri (Guercino), A. Canova, G. Prevati, É. Manet, C. Carrà, G. De Chirico and A. Pomodoro

OTHER INITIATIVES

CONFERENCES



- Over 400 conferences organised in Group facilities, of which 374 with spaces and equipment provided free of charge;
- 75,000 estimated participants.

ARTISTIC ASSETS



- 62 works of art loaned for free to 13 exhibitions;
- 21 restored works.

GUIDED TOURS



- Offer of free guided tours inside the Group's offices;
- Over 3,400 students welcomed during school visits.

CORPORATE VOLUNTEERISM



- 304 employees involved in 30 offices throughout the regions
- 37 initiatives carried out with 28 associations;
- 7,880 kg of food collected through the Colletta Alimentare project in the company;
- 80 blood bags collected in the company offices through the collaboration with AVIS

INITIATIVES FOR SCHOOLS AND YOUNG PEOPLE



- Training programmes for university students;
- Employer branding and career day initiatives;
- Alternating work/school initiatives for 300 students.



Banco BPM Group is associated with various **non-profit associations, foundations and NGOs** that contribute, in many different ways, to creating shared value. In particular, approximately € 1 million was allocated to membership fees in voluntary, and not "trade", associations in 2017. Some of these operate in areas that are relevant to the bank's activities (e.g., AIR - Italian Association of Investor Relations, and Assochange - Italian Change Management Association), others in the dissemination of ideas, promotion of corporate social responsibility, and in the cultural sphere.

These include:

FEDUF Foundation for Financial Education:

created on the initiative of the Italian Banking Association, as a non-profit organisation promoting financial education, in its broadest sense, as developing informed and pro-active economic education for citizens, in order to develop and promote financial and economic education.

SODALITAS Foundation: has the objective of contributing to changing the role of businesses as social actors, and not merely economic, as well as to support the Italian non-profit sector, making the strengths of the business culture available in service to civil society.

VALORE D: the first association of companies that promotes diversity, and female talent and leadership for the growth of companies and the country, through four lines of action:

- adopt corporate welfare tools to create work environments that are innovative, flexible and attentive to people's needs;
- implement diversity inclusion policies to enhance each person's skills and talents;

- promote inclusive, balanced leadership and governance models to encourage participation and dialogue within companies;
- propose innovative models to guide the education of girls and overcome gender stereotypes.

POLDI PEZZOLI Artistic Foundation: started in 1881, it currently manages the museum and masterpieces of the Poldi Pezzoli collection. Its statutory duties include the study, research, conservation and restoration of the works, enriching its collections through new acquisitions and donations, lifelong learning, educating the public, and promoting and enhancing the institution.

ASPEN INSTITUTE Italy: an independent, international non-profit association, created in the United States in 1950 by a group of intellectuals and businessmen determined to re-launch dialogue, knowledge, and humanistic values in a complex and evolving international geopolitical reality. The institute began its activities in Italy in 1984 with a strong transatlantic focus, still very much present today.

CUOA Foundation: a management school, which provides training and development activities for the entrepreneurial and managerial culture, as well as an incubator of ideas and relationships where people and companies can begin a path of common growth.

VOLONTARIAMO PROJECT

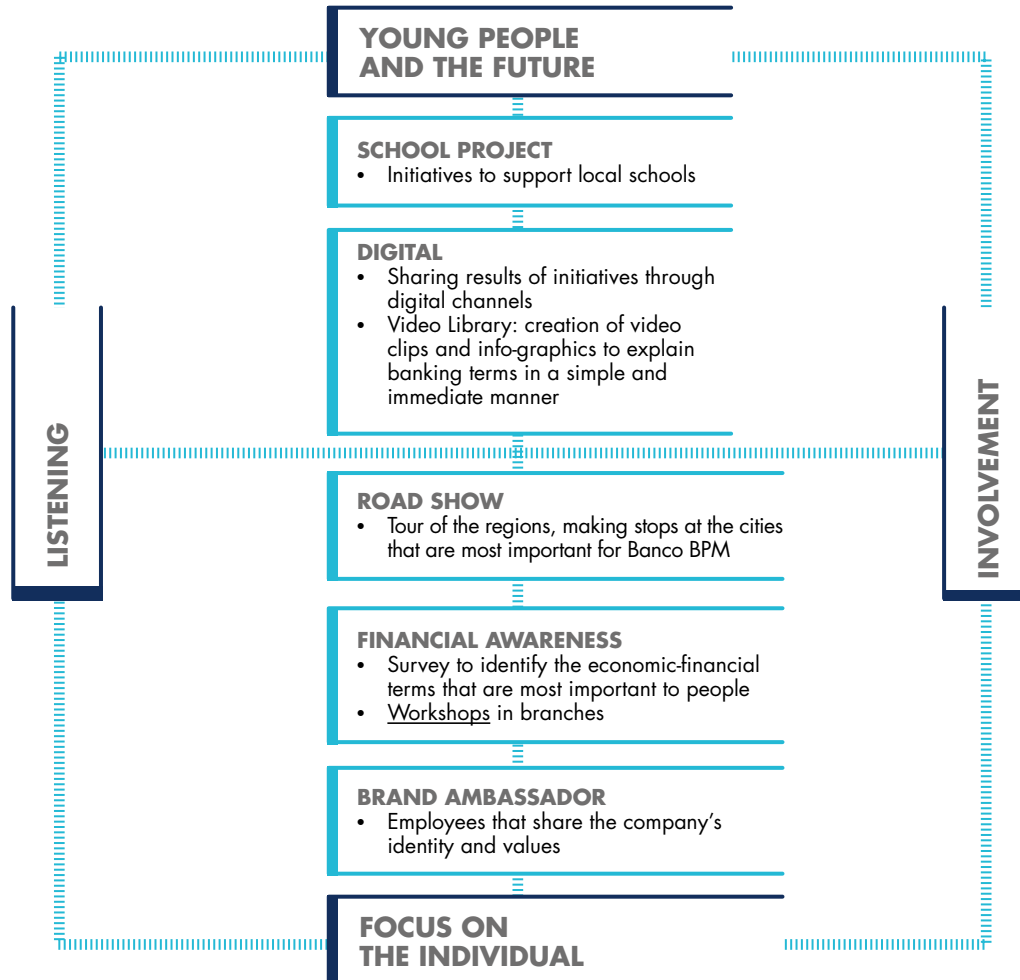
The corporate volunteerism project continued in 2017, allowing Group employees participate in volunteer activities during working hours.

Volunteer days were an opportunity for awareness and building a sense of belonging for Group employees and the opportunity to collaborate with non-profit organisations in the area. The activities of the associations involved are wide ranging, from the environment to animals, from the care of children to the elderly, and thus the volunteer days covered various activities such as food and clothing distribution, gardening, cleaning, as well as support for recreational activities for the elderly, the disabled and children. The collaboration with Banco Alimentare to collect food items in the company was particularly appreciated.



THE IDENTITY PROJECT “THE BANK OF ...”

Banco BPM Group launched a project to strengthen and share with the community the corporate identity of the new Banco BPM Group. In consideration of the traditional relationships with communities and local characteristics of the different entities that today make up Banco BPM, 4 fundamental drivers and a series of initiatives have been identified:



The new institutional and commercial campaigns reflect the values and identity of the new Group, which focuses on individuals and businesses.





RELATIONS WITH SUPPLIERS

Almost all Group suppliers (99.8%) reside in Italy, with a distribution that mirrors the Group’s geographical placement.

Suppliers are selected solely from companies and professionals that meet the necessary integrity, professionalism, technical and reputational requirements.

Under no circumstances does the Group maintain supply relations with entities involved in unlawful activities or in activities that, directly or indirectly, exploit people, hinder human development or contribute to the violation of human rights.

In order to standardise supply policies, criteria and methodologies between all Group companies, the Group Purchasing Department has been created, which manages the relationship with suppliers through meetings and discussions with specialist buyers, organised by macro product categories (Technology, Consumer Goods and Services, Real Estate).



CANDIDATURE
Italian and foreign companies and professionals can put themselves forward as candidates directly through the portal, or on recommendation.

SELECTION
To be listed on the Register, suppliers must meet the integrity, professionalism, technical and reputational requirements.



COMMERCIAL TENDERS
Suppliers listed in the Register must enter into competition in order to identify the service with the best quality-price ratio.

One of the objectives of the Group Purchasing Department, following the merger, was to create a Single Suppliers Register that is not only a data repository tool but also a management, evaluation and monitoring application. BPM Group through the website, by putting themselves forward as candidates or as a result of a recommendation by the functions concerned with purchasing or the individual buyers.



Main risks	Mitigating actions/policies applied
Compliance	<ul style="list-style-type: none"> • Verification of contracts • Systematic controls regarding anti-money laundering • Verification of compliance with the legislative obligations regarding workplace health and safety
Labour law	<ul style="list-style-type: none"> • Verification of excessive economic dependence
Unreliable counterparty	<ul style="list-style-type: none"> • Verification of integrity, professionalism, technical and reputational requirement • Verification of information on quality and environmental certifications • Verification of level of professional updating • Verification of economic and financial consistency

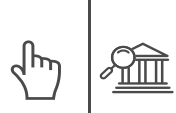
In addition to the transmission of general, technical, organisational and economic-equity data, candidates must declare that they are aware of the Organisation, Management and Control Model as well as the Code of Ethics, and undertake to engage in conduct that complies with the principles and regulations contained in said documents. In addition, all suppliers are required to fully comply with the regulations governing the protection of workers' rights and, in particular, the collective labour contracts for the relevant category, the provisions governing social security, accident prevention and insurance and specific regulations on workplace health and safety. In this regard, they are required to provide the appropriate documentation in which they state that they operate in full compliance with the applicable legislation governing the following areas:

- protection of workplace health and safety;
- protection of the environment;
- anti-money laundering.

Once the registration process is completed, the supplier is evaluated and, if deemed suitable, inserted in the Group Suppliers Register. The commercial proposals with the best quality/price ratio are selected from these contacts. Information on the quality and environmental certifications held by suppliers is also held in the Suppliers Register, hence allowing the Group to choose the parties it wishes to collaborate with, also on the basis of their attention to social and environmental aspects. To mitigate the potential risk of the economic dependence of the supplier, a control has been put in place on every Group supplier, identifying as an alert

threshold 30% of the supplier turnover generated from the services and products supplied to the Group with respect to the total turnover of the supplier. **In 2017, the number of suppliers with commercial relations with the Group totalled 1,265, with total turnover of € 693 million.** In line with the geographical presence of the Group companies, 80% of suppliers are situated in the North (63% in Lombardy and Veneto), responsible for 85% of total turnover (72% in Lombardy and Veneto). In line with the Business Plan, supplies of technology account for a significant portion of total turnover at Group level.

Product categories by number of suppliers and turnover	Suppliers	Turnover
Services	38.2	17.9
Properties	34.7	37.3
Technologies	27.1	44.8
Total	100	100



REDUCING ENVIRONMENTAL IMPACTS

The Banco BPM Group, sensitive to the protection of the environment as a primary asset, gears its decisions towards ensuring **compatibility between economic initiative and environmental requirements**, in respect of the applicable legislation.



Reduction of energy consumption and use of qualitatively eco-sustainable energy sources

MANAGEMENT OF ENVIRONMENTAL IMPACT

Prevention of offences committed in violation of the legislative provisions governing safeguarding and protection of the environment

Use and savings of consumables, waste disposal and recycling

Main risks	Mitigating actions
Use of non-renewable natural resources, energy inefficiency and no recycling	<ul style="list-style-type: none"> • Procurement from <u>renewable sources</u>; • Efficiency drives and monitoring of consumption; • Use of recycled materials; • Separated collection and toner recovery.
Environmental safety of non-operating properties	<ul style="list-style-type: none"> • Verification of conditions of properties and regulatory compliance measures (reclamation of land, asbestos, plants).
Environmental risk in the credit process	<ul style="list-style-type: none"> • Collection of information in the qualitative part of the questionnaires for the determination of credit risk



REDUCTION OF ENERGY CONSUMPTION AND USE OF QUALITATIVELY ECO-SUSTAINABLE ENERGY SOURCES

One of the biggest environmental impacts generated by services companies today comes from energy consumption, whose use is constantly increasing due to the increasingly greater digitalisation of processes and intensive use of air conditioning, due to the increase in temperatures.

The Banco Popolare and BPM Groups have already had processes running alongside one another for many years now in this area, by employing a professional energy manager, using renewable energy and implementing energy efficiency measures.

The merger was an opportunity to reinforce structures and pool experiences and high-quality consolidated relations with suppliers. The energy management of the new Group is committed to managing all matters connected with energy requirements (monitoring of consumption, benchmarking and efficiency solutions) of the more than 2,000 branches and around 60 Group offices and buildings, plus the obligations relating to Italian Legislative Decree 102/14 which introduced the obligation for large companies to undergo energy assessments by specialised auditors.

In particular, in 2017:

- **the electricity consumed was produced almost entirely using renewable sources** with the “Guarantee of Origin” certification. Hence, the emission of 49,000 tonnes of CO₂ into the atmosphere was avoided.
- In relation to thermal consumption, 39 traditional boilers were replaced with more modern condensation models and 96 refrigeration units and high efficiency heat pumps were installed, replacing the less efficient current systems.
- The new heat pumps installed were approved by GSE (Energy Services Operator) for **8 five-year thermal account** applications which will bring a total economic benefit of around € 180,000.
- **Energy efficiency certificates** were recognised on the Verona site in Meucci, which saw the installation, in 2012, of two refrigeration units with a heat recovery system for the production of water at 45 °C.
- Remote management of the systems in around 50 branches started, allowing the company to reduce electricity and gas consumption and the number of repair works due to breakdowns.
- The ENEA (Italian National Agency for New Technologies, Energy and Sustainable Economic Development) conducted an on-site inspection at the Services Centre on viale Bezzi, Milan, in order to verify the consistency of the contents of the energy assessment with the situation of the production site. The final outcome attested to an excellent state of repair of the systems and of the equipment, and the adoption of effective management practices attentive to the themes of energy efficiency and which incorporates both the installation of equipment and the adoption of management measures.

TOTAL CONSUMPTION OF ENERGY in GJ ³⁶	2017
Electricity from <u>renewable sources</u>	534,512
Energy self-produced from photovoltaic panels	536
District heating	14,725
Total energy from <u>renewable sources</u>	549,772
Natural gas from heating	192,764
Diesel for heating	8,448
Electricity from non-renewable sources	927
Energy from condominium heating from non-renewable sources	94,467
Total energy from non-renewable sources	340,683
Total energy consumed	890,455

36. Energy consumption and the associated equivalent CO₂ emissions refer to the Group's operating properties, excluding Banca Aletti & C. (Suisse) SA and Arena Broker Srl, plus property companies with non-operating properties and companies in liquidation



DIRECT EMISSIONS OF GREENHOUSE GASES (SCOPE 1) From energy from non-renewable sources (t CO ₂ eq)	2017
Emissions from natural gas for heating	11,089
Emissions from diesel for heating	626
Total emissions (Scope 1)	14,993

INDIRECT EMISSIONS OF GREENHOUSE GASES (SCOPE 2) From energy from non-renewable sources (t CO ₂ eq)	2017
Emissions from electricity purchased	86
Emissions from condominium heating	5,427
Total emissions (Scope 2)	5,513

USE AND SAVINGS OF CONSUMABLES, WASTE DISPOSAL AND RECYCLING

Paper and toner represent the main materials used. In 2017, the measures targeted at reducing their consumption implemented by the companies of origin did not get up to full speed throughout the entire Group due to the operating and IT integration still in progress. It is predicted that the company will aim to implement some of the best practices already in use throughout the entire Group, such as:

- remote monitoring of printers and configuration of double-sided printing option;
- development of digitalisation in both the commercial domain and for internal processes;
- automatic management of toner refills with the objective of optimising consumption.

Total paper consumption amounts to roughly 3,200 tonnes and takes account not only of the types used in office and branch activities, but also printouts, including those produced under an outsourcing arrangement, advertising material, printing of reports and subscriptions to magazines and newspapers. A total of 78% of the paper used by the Group is of the certified origin type: FSC (Forest Stewardship Council) or PEFC (Programme for the Endorsement of Forest Certification). These certifications guarantee that the wood the paper is made from comes from forests that are responsibly managed according to rigorous social,

environmental and economic standards. In particular, in 2017, the Group decided to use certified paper for 100% of its A4 sheets, which represent the main type of paper used. As regards toners used, 84% of these are "regenerated".

In this first year post-merger, the appropriate initiatives were implemented to unify and optimise the procedures for the collection and **disposal of the waste** produced within the Group's facilities, including special and hazardous waste, in compliance with all the relevant

CONSUMPTION OF MATERIAL (in tonnes) ³⁷	2017
Total paper consumed	3,236
- of which A4 paper	2,152
- of which paper under outsourcing arrangement	918
Total toners used	111
- of which regenerated toners	93

37. For data on paper and toners, Banca Aletti & C. (Suisse) SA, Arena Broker Srl and Tecmarket Servizi SpA are excluded.

provisions. The main waste produced is the paper normally used in office activities, but also plastic material, cartridges, toners and printer ribbons.

In addition to the correct transfer, it is equally important to **greatly reduce the quantities of waste** produced with practical initiatives that not only generate a benefit for the company but can always be replicated to promote good practices and raise awareness of the importance of protecting the environment. In particular, in 2017:

- around 84% of toner cartridges are of the "regenerated" type, an affordable, effective alternative and, above all, with a positive impact, given that it minimises the increase in the number of ink tanks, avoiding the subsequent repercussions on the environment also due to complex disposal procedures.
- the YOUECOBOX initiative was strengthened for the **collection of "out-of-use safety devices, to kick-start a recycling process** in order to reduce the impacts caused by technological obsolescence, also in compliance with Italian Legislative Decree 49/2014, which involves all the interested parties so that WEEE (Waste electrical and electronic equipment) is managed correctly at end of life.



In relation to the digital economy, the relative production of electronic waste, in fact, represents one of biggest new criticalities to be managed and, thanks to the synergies between the different company structures, 150,000 safety devices were collected. The recycling chain was expanded in 2017 also to a central facility for the collection of company badges earmarked for the recovery of components: at year-end, 5,000 items were collected.

The following initiatives also continued:

- recovery of surplus food from catering and events, through collaboration with Banco Alimentare (Food Bank);
- donations of computers no longer suitable for the company, but in excellent condition (note the transfer of 75 pcs, reconditioned by the Group's IT engineers and donated to VCO Formazione, a training agency operating in the area which meets professional growth and employment needs);

- collection at company cafeterias in Milan, through automatic ecological compactors, of polypropylene glasses which made it possible, in 2017, to recover around 4,500 kg of plastic packaging, with a notable advantage for the environment given that, in addition to the reduction of bulky objects, the material is ground and re-used several times.

PREVENTION OF OFFENCES COMMITTED IN VIOLATION OF THE LEGISLATIVE AND PROTECTION OF THE ENVIRONMENT

In this area, special attention is paid to the **management of non-operating properties**, which mainly derive from loan collection and leases not honoured. At the end of 2017, the Group was the owner of more than 4,300 non-operating property units (garages, land, apartments, buildings, warehouses, etc.).

For these properties, the re-appropriation process is based on a series of general principles.

- Identify the responsibility and activity within the competence of each player in the process:
 - render ownership of the property by the company effective;
 - implement all the most suitable measures to ensure the safety of the property depending on the characteristics and its location.
- Identify the controls targeted at minimising the operating-management-legal risks connected with management by guaranteeing constant monitoring:
 - analysis of expert due diligence;
 - implement all the necessary measures for rectifying any non-conformities that prejudice the final sale.

- Manage the property from an administrative perspective and ensure the performance of the transactions regarding condominiums, rental agreements, tax obligations.
- Ensure the sale of the recovered property by directly overseeing the negotiations with the interested buyers or via specialised agencies.

The responsibilities attributed and the planned activities are carried out in compliance with the applicable provisions and regulations and in respect of the principles of correctness and transparency in relations with third parties.

For all property companies that manage these properties, model 231 has been adopted which takes account of the unique characteristics of the activity. The new companies, established or acquired on the basis of "datio in solutum" (giving-in-payment law), customise the model within a few months of their acquisition or establishment.

PROVISIONS GOVERNING SAFEGUARDING

In relation to indirect environmental impacts, the commitment required by the ongoing integration process has not allowed the development of specific policies. Nonetheless, note should be taken of **the attention focused on environmental issues in the assessment of credit risk**. The environmental information relating to the financed companies is collected in the qualitative part of the questionnaire for the determination of the credit rating. In particular, the company's behaviour relating to the evaluation of specific environmental/regulatory risk factors is registered, in order to determine the relevance of their impact on the company itself, the actions implemented to prevent and/or mitigate any risks connected with its activities (such as, for example, identification of an individual responsible for environmental issues, personnel training courses on workplace health and safety etc.). The questionnaires are consulted as part of the granting proposal and are at the disposition of the decision-making body. They are filled in annually regardless of any granting of new credit facilities.



RECOGNITIONS OBTAINED IN 2017



21 February 2017 - AIFn Prize "Cerchio d'Oro dell'innovazione finanziaria (Italian golden circle award for financial innovation)

1st place for Webank - Engagement and gaming category for "Scopri che investitore sei" (Find out what investor you are).

An easy to use and flexible tool that, thanks to a behavioural test, allows investors to orient their decisions by verifying the real risk appetite with respect to their self-perception.

1st place for per BancoBPM - HR for You & Us category

IT portal that integrates, in a single system, all the necessary information for employees' professional pathway in a company Special

Mention for BancoBPM - Organisation, Operations and IT category - for Clarity

a modernised Personnel Information System



21 March 2017 - ABI Prize for innovation of Banking Services - VII edition

Award to BancoBPM - "Workplace Strategy and new branch" category

for the project of redefinition of work spaces and tools at some offices of the Services Centre (MI) to improve work flexibility, the use of spaces and promote more effective communication.



6 April 2017 - "M&A AWARD" - XIII edition

Banco BPM was distinguished in the "M&A Italia" category,

which values mergers and acquisitions between companies that help raise the competitiveness of the "Italian system".



6 June 2017 - MF GLOBAL AWARDS 2017

PREMIO TRIPLA A to Aletti Gestielle SGR for the best average rating in the category "Best Management companies (Italian Mutual Funds) - Companies with at least 30 funds with an MF rating".



8 June 2017 - Positive Business Awards - III edition- organised by the Paolo Alto school

3 awards for BancoBPM in the categories "Sustainability" and "Baby Thinking Company" for:

- **Employee volunteering** with which the Bank supports and organises the active participation of its employees in the initiatives of non-profit organisations during working hours.
- the professional training project aimed at young people who study or work there with the objective of promoting their employment as soon as possible.
- the Christmas event dedicated to employees' children that offers the possibility of visiting their parents' workplace and taking part in workshops and games in a festival atmosphere and using environmentally sustainable materials and with the involvement of ABIO Italia Onlus and Società Cooperativa.

**14 June 2017 - Pay Awards 2017 - XI edition**

Cartimpronta Business Prepaid wins in the Best B2B Problem Solver category

For specific consumer-focused solutions through creative approaches to savings and incentives which are making a difference in people's lives.

**21 June 2017 - PREMIO EASY WELFARE GROUP**

Banco Bpm - recognition for the "Best family initiative",

for the possibility of also allocating the company bonus to cover the expenses of employees' children.

**5 July 2017 - TopLegal Corporate Counsel Awards - V edition**

Banco BPM - award for the Legal department of the year in the Insurance companies and Banks category

For having managed the complex and well-structured legal and regulatory boundaries of the first merger under the supervision of the ECB resulting from the reform of cooperative banks.**16 November - Financecommunity Awards 2017 - III edition**BancoBPM received awards for the management of Non-Performing Loans and for Leveraged Finance activities, as recognition for the excellence of the financial segment.**22 November - Private Banking Awards - II edition**Banca Aletti was awarded as the Best Italian Bank for "integration between the private banking and wealth management activities of Banco Popolare and BPM which gave rise to the third Italian bank in the sector".**30 November - Italian Certificate Awards - XI edition**Banca Aletti ranked in 1st place for the BEST CERTIFICATE WITH CONDITIONAL CAPITAL PROTECTION, category of the year according to the Certificates and Derivatives statistics, with COUPON PREMIUM on FTSE Mib ranked 2nd for the BEST CERTIFICATE WITH CAPITAL PROTECTION with COUPON TARGET on Eurostoxx Select Dividend 30.**December 18 - 2017 National Award for Innovation - IX edition**

2017 Innovation Day - #InnovazioneItalia: stories, ideas and people that change the world

- 2017 National Award for Innovation to Banco BPM for the project involving the redefinition of spaces called "Workplace Strategy - BPM Agile" bestowed by the President of the Chamber Boldrini for "having introduced a significant cultural change that has made it possible to establish a powerful synergy between the environment, technology and organisation".



METHODOLOGY

Reporting standard

The Consolidated Non-Financial Statement (hereinafter also "Statement") of the Banco BPM Group (hereinafter also "the Group"), drafted in compliance with articles 3 and 4 of Italian Legislative Decree 254/2016 (hereinafter also "Decree"), contains information on environmental and social issues, regarding personnel, respect for human rights and the fight against corruption, needed to ensure an understanding of the activities carried out by the Group, its performance, results and the impact generated by these. This Statement will be published annually and is drafted in accordance with the Decree and according to the "[Sustainability Reporting Guidelines](#)", version G4, defined in 2013 by the [Global Reporting Initiatives](#) (GRI) and the associated GRI Sector Disclosures "Financial Services". The level of compliance with the GRI G4 Guidelines stated by the Banco BPM Group is "In accordance – core option". In order to make it easier for the reader to retrace the information in the document, the GRI Content Index is reported on pages 59-64. This Statement reflects the principle of materiality, an element set forth in the reference legislation which characterises the GRI G4 Guidelines: the subjects addressed in the Statement are those that, as a result of an analysis of materiality, described on page 15 of this document, have been considered relevant given capable of reflecting the social and environmental impacts of the Group's activities or influencing the decisions of its [stakeholders](#).

Scope of reporting

The qualitative and quantitative information contained in the Statement refer to the Group's performance for the year ended as at 31 December 2017. As set forth in art. 4 of Italian Legislative Decree 254/2016, this Statement includes the data of the parent company (Banco BPM S.p.A.) and its fully consolidated subsidiaries, with the exception of the following

companies: special purpose vehicles, companies in liquidation as at 31/12 and real estate companies that do not have significant impacts in consideration of the themes subject to reporting according to Italian Legislative Decree 254/2016.

These exclusions are not relevant for the purposes of understanding the company's activities, its results and the impact generated by these. The scope of reporting is consistent with the contents described above, with the exception of some data, where specific limitations are clearly outlined in the text and refer to situations in line with the reporting standards.

The economic-financial data reported in the Statement derive from the Report and the Consolidated Financial Statements of the Banco BPM Group as at 31 December 2017. In consideration of the fact that 2017 was the first company year of the Banco BPM Group, the Statement does not include the comparison with the data of previous years. In fact, 1 January 2017 saw the completion of the merger between the Banco Popolare and Banca Popolare di Milano Groups, creating the new Banco BPM Group, with Banco BPM SPA the Parent Company. In the years prior to the merger, the Banco Popolare and BPM Groups had already embarked on a process of reporting, by preparing their [sustainability](#) reports, however, having different perimeters from the current Group setup, the previous reports do not present data suited to a comparison with the information reported in this Statement.

With reference to the preparation of the statement of determination of the economic value generated and distributed, the ABI Guidelines were considered which, in proposing a reclassified scheme of the report drafted according to the Italian regulations for the banking sector, is considered more suitable for the purpose. This statement is an additional disclosure with respect to the fields required by the Decree.

Reporting process

The preparation of the Statement for 2017 is based on a structured reporting process which involves:

- The involvement of all company structures/departments responsible for the relevant areas and the associated non-financial data and information presented
- Their contribution was requested in the phase of collection, analysis and consolidation of the data, with the responsibility for verifying and validating the information reported in the Statement, with respect to their area of competence. In particular, the data and information included in this Statement were collected through the data collection sheets, structured accordingly to meet the requirements of Italian Legislative Decree 254/2016 and the GRI G4 Guidelines. The data contained in this Statement refer to measurable values. The use of estimates, where necessary, was indicated appropriately in the document.
- The approval of the Statement by the Board of Directors.
- The issuing of the limited audit on the Statement by the independent auditors of the Banco BPM Group, PricewaterhouseCoopers SpA, reported on pages 65-68.
- The publication of the Statement on the Group's website in order to make it transparently available to all [stakeholders](#).

Reporting principles

The process of definition of the contents of the Statement was based on the principles set out in the GRI G4 Guidelines, i.e. materiality, [stakeholder](#) inclusivity, [sustainability](#) context, completeness, comparability, accuracy, promptness, clarity, reliability/verifiability and balance.



RECONCILIATION TABLE

MATERIAL ISSUE	DECREE AREA	DEFINITION AND RELEVANCE	REFERENCE GRI ASPECT	INTERNAL IMPACTS	EXTERNAL IMPACTS
Support for enterprise and individuals	Social	Commercial policies, actions and initiatives targeted increasing the value of savings and supporting the real economy. Support for the real economy has been one of the most delicate subjects in the last few years, characterised by a liquidity and economic crisis which has called for discussions regarding the economic and social development model, particularly important issues in terms of the social and economic repercussions. The commercial service offered takes account of the different characteristics and needs, including those of the weaker customer brackets or those in temporary difficulties, and the sustainable investment products.	Product portfolio Product and service labeling Customer privacy	Banco BPM Group	Customers
Company integrity and fight against corruption	Anti-corruption	The set of policies and rules that regulate Group governance, promote and guarantee the proper actions of the organisation and its consistency with the long-term objectives. The fight against all forms of corruption and the related unlawful activities is included.	Anti-corruption	Banco BPM Group	All <u>stakeholders</u>
Development, employee involvement and industrial relations	Personnel	Growth, involvement and development of employees through training activities, professional opportunities, projects and initiatives targeted at enhancing workers' organisational, individual and family well-being. Dialogue and meetings with the Trade Unions ensure a balanced relationship between workers' interests and company objectives. Matching company objectives and values with the professional aspirations and expectations of workers represents a factor of success and risk reduction, particularly for a services company in which human capital is a fundamental asset.	Employment Occupational health and safety Training and education	Banco BPM Group	Personnel



MATERIAL ISSUE	DECREE AREA	DEFINITION AND RELEVANCE	REFERENCE GRI ASPECT	INTERNAL IMPACTS	EXTERNAL IMPACTS
Contributing to the community	Social	Support for non-profit organisations through sponsorships for social purposes, donations and the granting of company assets (e.g. office space). Non-profit organisations constitute a fundamental component of the company, given that, on the one hand, they carry out activities of huge social importance and, on the other, they are entities that are seeing significant growth throughout the country and represent an opportunity for the Bank.	Economic performance Indirect economic impacts	Banco BPM Group	Local community
Reducing environmental impact	Environment	Commitment to reduce the consumption of resources due to company activities. The activities performed by the Bank may have an impact on the natural resources, and climate changes may constitute elements of risk for both the Bank and <u>sustainability</u> in general.	Materials Energy Emissions	Banco BPM Group	Local community
Relations with suppliers	Social	Selection of suppliers from companies and professionals that meet the necessary integrity, professionalism, technical and reputational requirements.	Purchasing procedures	Banco BPM Group	Suppliers



GRI CONTENT INDEX

Standard Disclosure	Description of the indicator	Page number (or direct reference)	Omissions
GENERAL STANDARD DISCLOSURES			
STRATEGY AND ANALYSIS			
G4-1	Declaration of the President and the Managing Director	1	
G4-2	Main impacts, risks and opportunities	12-13, 19, 31, 40, 43, 49-50	
PROFILE OF THE ORGANISATION			
G4-3	Name of the organisation	"Cover", 1	
G4-4	Primary brands, products, and services	6, 21-26	
G4-5	Organization's headquarters	Third cover	
G4-6	Countries of operations	10	
G4-7	Ownership structure and legal form	6-7	
G4-8	Markets served	10	
G4-9	Scale of the organisation	7, 10, 14	
G4-10	Number of employees by contract type, region and gender	31; Number of employees by contract type: 23,126 open-ended contracts (Men 12,874, Women: 10,252), 5 fixed-term contracts (Men: 4, Women: 1) 132 apprenticeships (Men: 66, Women: 66); Total workforce numbers: Employees 23,263 (Men: 12,944, Women: 10,319), 6 other collaborators (Men: 6, Women: 0) and trainees/apprentices (Men: 3, Women: 0)	
G4-11	Percentage of total employees covered by collective bargaining agreements	All employees of Group companies are covered by national collective contracts	



Standard Disclosure	Description of the indicator	Page number (or direct reference)	Omissions
G4-12	Description of the supply chain (activity, products, number of suppliers, suppliers broken down by geographical area, value of the product/service ordered)	48-49	
G4-13	Significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain	1, 6, 56	
G4-14	Method of application of the principle or prudential approach	12-13, 19, 31, 40, 43, 49-50	
G4-15	Adoption of external economic, social and environmental codes and principles	15	
G4-16	Membership of national or international support associations and organisations	46, 54-5	
MATERIAL ISSUES AND BOUNDARY OF THE REPORT			
G4-17	List of entities included in the consolidated financial statements and those not included in the <u>sustainability</u> report	56	
G4-18	Process for defining content	15, 56	
G4-19	Material aspects identified	15-16, Reconciliation table	
G4-20	For each material aspect report the associated internal boundary of the organisation	Reconciliation table	
G4-21	For each material aspect report the associated boundary outside the organisation	Reconciliation table	
G4-22	Explanation of the effects of changes in the information included in the previous reports and the associated reasons	1, 56	
G4-23	Significant changes with respect to the previous report	1, 56	
STAKEHOLDER ENGAGEMENT			
G4-24	List of <u>stakeholders</u> involved	5, Reconciliation table	
G4-25	Process of identifying and selecting the <u>stakeholders</u> with whom to engage	26-28, 34, 37	
G4-26	Approach to <u>stakeholder</u> engagement	26-28, 34, 37	
G4-27	Key and critical aspects raised through <u>stakeholder</u> engagement and the associated actions (<u>stakeholder</u> engagement)	26-28, 34, 37	



Standard Disclosure	Description of the indicator	Page number (or direct reference)	Omissions
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G4-28	Reporting period	56	
G4-29	Date of publication of the previous report	1, 56	
G4-30	Reporting frequency	56	
G4-31	Contacts and addresses for information on the report	Second cover	
G4-32	GRI content index and choice of "in accordance" option	56, 59-64	
G4-33	External certification	65-68	
GOVERNANCE			
G4-34	Governance structure of the organisation, including the committees of the highest governance body. Identify any committees responsible for decision-making on economic, environmental and social impacts	7-9	
ETHICS AND INTEGRITY			
G4-56	Organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics	15, 19, 39-41	
G4-58	Description of the mechanism for the communication of unethical or illegitimate behaviour	41	
SPECIFIC STANDARD DISCLOSURES			
CATEGORY: ECONOMIC PERFORMANCE			
Aspect: Economic performance			
G4-DMA	Disclosure on Management Approach	10, 14, 42-43	
G4-EC1	Direct economic value generated and distributed	15, 43	
Aspect: Indirect economic impacts			
G4-DMA	Disclosure on Management Approach	42-47	
G4-EC7	Development and impact of infrastructure investments and services supported	42-43, 45	



Standard Disclosure	Description of the indicator	Page number (or direct reference)	Omissions
Aspect: Purchasing procedures			
G4-DMA	Disclosure on Management Approach	48-49	
G4-EC9	Proportion of spending on local suppliers at significant locations of operation	49	
CATEGORY: ECONOMIC PERFORMANCE			
Aspect: Materials			
G4-DMA	Disclosure on Management Approach	50, 52-53	
G4-EN1	Materials used by weight or volume	52	
G4-EN2	Percentage of materials used that are recycled input materials	52	
Aspect: Energy			
G4-DMA	Disclosure on Management Approach	50-51	
G4-EN3	Energy consumption within the organization	51	
Aspect: Emissions			
G4-DMA	Disclosure on Management Approach	51-52	
G4-EN15	Direct greenhouse gas (Ghg) emissions (Scope 1)	52	In 2017, the emissions of direct greenhouse gases relating to work journeys are not available.
G4-EN16	Energy indirect greenhouse gas (Ghg) emissions (Scope 2)	52	
G4-EN19	Reduction of greenhouse gas (Ghg) emissions	51	



Standard Disclosure	Description of the indicator	Page number (or direct reference)	Omissions
CATEGORY: SOCIAL PERFORMANCE			
SUB-CATEGORY: LABOR PRACTICES AND DECENT WORK			
Aspect: Employment			
G4-DMA	Disclosure on Management Approach	30, 32	
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	32; Total hires by gender: 80 men, 81 women; by age bracket <30 (131), 30<x<50 (22), >50 (8); Total terminations by gender: 944 men, 562 women; by age bracket: <30 (28), 30<x<50 (143), >50 (1,335); Hire rate: 0.69; Termination rate 6.47	
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	35	
Aspect: Occupational health and safety			
G4-DMA	Disclosure on Management Approach	35-36	
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	36; Total accidents: 295 (Men: 132, Women: 163); Work days lost: 7,953 (Men: 3,637, Women: 4,316)	
Aspect: Training and Education			
G4-DMA	Disclosure on Management Approach	31, 33, 37	
G4-LA9	Average hours of training per year per employee by gender, and by employee category	33	
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	37	
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G4-DMA	Disclosure on Management Approach	38	



Standard Disclosure	Description of the indicator	Page number (or direct reference)	Omissions
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	38, Total number of employees belonging to protected and disabled categories: 1,542 (Men: 876, Women: 666)	
Aspect: Equal Pay for Women and Men			
G4-DMA	Disclosure on Management Approach	38	
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	38	
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Aspect: Anti-corruption			
G4-DMA	Disclosure on Management Approach	39-40	
G4-SO4	Communication and training on anti-corruption policies and procedures	41	
G4-SO5	Confirmed incidents of corruption and actions taken	41	
SUB-CATEGORY: PRODUCT RESPONSIBILITY			
Aspect: Product and service labeling			
G4-DMA	Disclosure on Management Approach	18-19, 27, 46	
G4-PR5	Results of surveys measuring customer satisfaction	26-27	
Aspect: Customer privacy			
G4-DMA	Disclosure on Management Approach	29	
G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	29	
INDICATORS OF "G4 SECTOR DISCLOSURES" RELATING TO "FINANCIAL SERVICES"			
Aspect: Product portfolio			
G4-DMA	Disclosure on Management Approach	18-29	
G4-FS6	Percentage of the portfolio for business lines by specific region, size (e.g. Micro/sme/large) and by sector	19-20	
G4-FS7	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose	27	



Independent auditor's report on the consolidated non-financial statement
pursuant to article 3, paragraph 10, of Legislative Decree No. 254/2016 and article 5 of CONSOB Regulation No. 20267

To the Board of Directors of Banco BPM SpA

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016 (the "Decree") and article 5 of CONSOB Regulation No. 20267, we have performed a limited assurance engagement on the consolidated non-financial statement of Banco BPM SpA and its subsidiaries (hereafter the "Group") for the year ended 31 December 2017 prepared in accordance with article 4 of the Decree and approved by the Board of Directors on 13 March 2018 (hereafter the "NFS").

Responsibility of the Directors and of the Board of Statutory Auditors for the NFS

Directors are responsible for the preparation of the NFS in accordance with article 3 and 4 of the Decree and with the "Sustainability Reporting Guidelines", G4 version, defined in 2013 by the GRI - Global Reporting Initiative (hereafter the "GRI G4 Guidelines"), identified by them as the reporting standard.

Directors are responsible, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of a NFS that is free from material misstatement, whether due to fraud or error.

Directors are responsible for identifying the content of the NFS, within the matters mentioned in article 3, paragraph 1, of the Decree, considering the activities and characteristics of the Group and to the extent necessary to ensure an understanding of the Group's activities, its performance, its results and related impacts.

Directors are responsible for defining the business and organisational model of the Group and, with reference to the matters identified and reported in the NFS, for the policies adopted by the Group and for the identification and management of risks generated and/or faced by the Group.

The Board of Statutory Auditors is responsible for overseeing, in the terms prescribed by law, compliance with the Decree.

PricewaterhouseCoopers SpA

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Auditor's Independence and Quality Control

We are independent in accordance with the principles of ethics and independence set out in the Code of Ethics for Professional Accountants published by the International Ethics Standards Board for Accountants, which are based on the fundamental principles of integrity, objectivity, competence and professional diligence, confidentiality and professional behaviour. Our audit firm adopts International Standard on Quality Control 1 (ISQC Italy 1) and, accordingly, maintains an overall quality control system which includes processes and procedures for compliance with ethical and professional principles and with applicable laws and regulations.

Auditor's responsibilities

We are responsible for expressing a conclusion, on the basis of the work performed, regarding the compliance of the NFS with the Decree and with the GRI G4 Guidelines. We conducted our engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) – Assurance Engagements Other than Audits or Reviews of Historical Financial Information (hereafter “ISAE 3000 Revised”), issued by the International Auditing and Assurance Standards Board (IAASB) for limited assurance engagements. The standard requires that we plan and apply procedures in order to obtain limited assurance that the NFS is free of material misstatement. The procedures performed in a limited assurance engagement are less in scope than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised, and, therefore, do not provide us with a sufficient level of assurance that we have become aware of all significant facts and circumstances that might be identified in a reasonable assurance engagement.

The procedures performed on the NFS were based on our professional judgement and consisted in interviews, primarily of company personnel responsible for the preparation of the information presented in the NFS, analyses of documents, recalculations and other procedures designed to obtain evidence considered useful.

In particular, we performed the following procedures:

1. analysis of the relevant matters reported in the NFS relating to the activities and characteristics of the company, in order to assess the reasonableness of the selection process used, in accordance with article 3 of the Decree and the with the reporting standard adopted;
2. analysis and assessment of the criteria used to identify the consolidation area, in order to assess their compliance with the Decree;
3. comparison of the financial information reported in the NFS with the information reported in the Banco BPM Group's consolidated financial statements;
4. understanding of the following matters:
 - business and organisational model of the Group, with reference to the management of the matters specified by article 3 of the Decree;





- policies adopted by the Group with reference to the matters specified in article 3 of the Decree, actual results and related key performance indicators;
- main risks, generated and/or faced by the Group, with reference to the matters specified in article 3 of the Decree.

With reference to those matters, we compared the information obtained with the information presented in the NFS and carried out the procedures described under point 5 a) below;

5. understanding of the processes underlying the preparation, collection and management of the significant qualitative and quantitative information included in the NFS.
In particular, we held meetings and interviews with the management of Banco BPM SpA and with the personnel of Bipielle Real Estate SpA, BP Property Management Soc. Consortile a r.l., BRF Property SpA, and we performed limited analyses of documentary evidence, to gather information about the processes and procedures for the collection, consolidation, processing and submission of the non-financial information to the function responsible for the preparation of the NFS.

Moreover, for material information, considering the activities and characteristics of the Group:

- at a Banco BPM SpA, Bipielle Real Estate SpA, BP Property Management Soc. Consortile a r.l., BRF Property SpA level,
 - a) with reference to the qualitative information included in the NFS, and in particular to the business model, the policies adopted and the main risks, we carried out interviews and acquired supporting documentation to verify their consistency with available evidence;
 - b) with reference to quantitative information, we performed analytical procedures as well as limited tests, in order to assess, on a sample basis, the accuracy of consolidation of the information;
- for the following companies, Banca Popolare di Milano SpA, Aletri & C. Banca di Investimento Mobiliare SpA, Società Gestione Servizi BP Soc. Consortile p. az., which were selected on the basis of their activities, their contribution to the performance indicators at a consolidated level, we gathered supporting documentation regarding the correct application of the procedures and calculation methods used for the key performance indicators.

Conclusions

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of Banco BPM group as of 31 December 2017 has not been prepared, in all material respects, in compliance with articles 3 and 4 of the Decree and with the GRI G4 Guidelines.



***Other aspects***

As explained in “Methodology”, taking into account that the group was established on 1 January 2017, no comparative data for the financial year ended 31 December 2016 was presented in the NFS; therefore, there are no comparative data to be subjected to assurance procedures.

Milan, 15 March 2018

PricewaterhouseCoopers SpA

Signed by

Pierfrancesco Anglani
(Partner)

Paolo Bersani
(Authorised signatory)

This report has been translated from the Italian original solely for the convenience of international readers.





GLOSSARY

Advanced analytics: techniques that make it possible to understand consumer behaviours and preferences by analysing huge quantities of data.

AIRB (Advanced Internal Rating Based): risk assessment models that banks use internally on their debtors.

Asset management: management of the company's material and intangible resources.

Bancassurance: sale of insurance products through the bank's distribution network.

Big Data: large data sets that require specific technologies and analytical methods for the extraction of value.

CO2: carbon dioxide.

Career day: event to bring together labour supply/demand, in particular for university students and young new graduates in search of a job.

Cash pooling: the virtual or actual centralisation of all of a group's financial liquid funds within a single company to improve company treasury management.

Common Equity Tier 1 ratio: this is the ratio between tier 1 equity and risk weighted assets and represents the main parameter for evaluating the bank's stability.

Commercial banking: expression used to draw a distinction between commercial banks and "business or investment banks" to underscore a difference that, in the course of a significant portion of the twentieth century, has characterised the national and international banking system.

Corporate: customer segment comprising large businesses.

Cost/income: this is one of the main indicators of the bank's operational efficiency: the lower the value expressed, the higher the efficiency.

European Central Bank: the ECB, with head office in Frankfurt, Germany, implements monetary policies for countries forming part of the single European currency and has the task of guaranteeing the stability of prices in the "Eurozone". The institute also carries out banking supervision processes for major bank groups in the Eurozone.

Non-performing loans (NPL): bank loans exposed to potential impairment and therefore associated with a high level of risk.

Thermal Account: incentive mechanism meant to promote interventions to improve the energy efficiency of existing buildings and the production of energy from renewable sources.



Crowdfunding: Fundraising for the most part online in which numerous groups of people support a shared project or an innovative idea by making small contributions.

Employability: form of labour adaptability which makes it possible to identify and take advantage of career opportunities.

Employer branding: marketing activity which contributes to improving the brand in general.

Energy Manager: a professional engaged to manage a company's energy decisions.

Fintech: economic sector including companies that combine a financial spirit with technological innovation.

Giga joule (GJ): equivalent of a billion joules, unit of measurement of energy, work and heat.

Global Reporting Initiative(GRI): international guidelines for the drafting of a Sustainability Report, which provides economic, environmental and social information on the company that produces it using performance indicators. Currently, the GRI G4 guidelines are used.

Identity Management: integrated systems of technologies, criteria and procedures capable of facilitating and controlling user access to critical applications and data, while also protecting personal data from unauthorised access.

Investment banking: financial institutions that support private individuals, businesses or governments in raising and investing capital by subscribing the acquisition of financial instruments.

Renewable sources: natural resources that are regenerated at least as quickly as they are consumed.



Forbearance: changes made to the original contractual conditions of the credit line to meet customer requirements and needs.

Mid Cap: medium-sized company (between 250 and 3,000 employees).

MIFID II (Markets in Financial Instruments Directive): directive on markets and financial instruments established by the EU legislature to guarantee greater protection to investors and transparency in the financial markets.

Non-operating property: real estate that cannot be used by the company to perform its business activities recognisable as assets.

NEET (Not in Education, Employment or Training): population between 15 and 29 years of age that are neither employed, receiving training or in education.

Operating property: real estate used by the company to perform its business activities.

Private banking: advanced consultancy model dedicated to the personalised management of substantial assets.

ROE (Return On Equity): indicator measuring the profitability of a bank that is calculated by dividing net profit by shareholders' equity.

SME: small and medium enterprise (<250 employees).



Energy Efficiency Certificates (EEC) or (white certificates): certificates that certify the energy savings achieved through specific energy efficiency interventions which, by providing an economic contribution, incentivise the reduction of energy consumption.

ICT Systems: (Information and Communication Technologies) Technologies regarding integrated telecommunications, computer and audio-video technology systems and the relative software, allowing users

Smart working: new approach to the organisation of work which, through a combination of flexibility, autonomy and collaboration, aims to achieve results by optimising work instruments and environments for employees.

Soft Skill: characteristics that are not technical or cognitive and which regard behaviour and relationship modes that characterise us and through which we interact in working environments.

Stakeholder: parties that have a particular interest in the existence of a business.

Sustainability: ability to involve the main stakeholders and include their social initiatives in company policies in order to preserve the business in the mid- to long-term.

Sustainability Reporting Guidelines: guidelines for the preparation of the Sustainability Report.

Team building: in human resources, a series of activities (recreational, experiential or wellness-related) geared towards the training of a group of people and the development of team spirit.

Wealth Management: service offered by intermediaries to the public, for the management of assets. In this sense, it overlaps with and expands private banking services.

Welfare: series of initiatives that an organisation can introduce to improve the quality of life of its employees inside and outside the company.

Whistleblowing: the possibility of reporting actions or facts that may constitute a violation of banking industry regulations and that can damage customers, colleagues, shareholders, the public and the company reputation.

Workshop: seminar, working group.

Work life balance: flexibility and the promotion of the correct balance between the work and private life of employees.

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